



COUNCIL STAFF REPORT

CITY COUNCIL of SALT LAKE CITY

TO: City Council Members

FROM: Austin Kimmel
Public Policy Analyst

DATE: December 10, 2024

RE: ORDINANCE: ECONOMIC DEVELOPMENT LOAN FUND LOAN TO FRONTIER FRUIT, LLC, AT 1388 SOUTH 300 WEST

Item Schedule:

Briefing: December 10, 2024

Public Hearing: N/A

Potential Action: December 10, 2024

ISSUE AT-A-GLANCE

The Council will consider approving a loan from the City's Economic Development Loan Fund (EDLF) to a business called Frontier Fruit, LLC, at 1388 South 300 West. Frontier Fruit, LLC is a taproom offering craft beers and artisanal spirits. The City's Economic Development Loan Committee recommends the Council approve a **\$350,000 loan at a 9.50% interest rate over seven years**. This loan will assist in the creation of 19 new jobs in the next year and the retention of 11 existing jobs. Funds will also pay for machinery & equipment, furniture & fixtures, leasehold improvements, and contingencies.

The interest rate reflects the 8.50% prime rate at the time of the application (March 20, 2024) plus the standard EDLF four percentage points. The project did qualify for a three percentage-point reduction based on location within a priority area (State Street RDA Project Area), with low to moderate income, and sustainability (see section B below).

The business is considered a startup business, which is typically limited to a maximum loan amount of \$100,000. However, under current EDLF loan criteria, "the Loan Committee may approve exceptions if the personal guarantor's ownership or equivalent in a comparable industry exceeds 3 years." In this case, the business owner has 15 years of experience in the industry. Previous loans over \$100,000 for startup businesses have been approved for the same exception cited in this case: one in 2021 and another earlier this year.

Council Members may recall approving a loan for another business at this address in June 2024: Shades of Pale, Inc. The businesses are separate entities that share a retail space at a new commercial site known as The Engine Block. The business owner of Frontier Fruit, LLC had previous connections to Shades of Pale, Inc., but divested ownership at the end of 2023 and founded Frontier Fruit, LLC at the beginning of 2024.

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Council staff reminder: EDLF loans are now scheduled for a vote on the same day as the briefing, so this is scheduled for action on the December 10 formal meeting agenda.

Goal of the briefing: Consider a potential \$350,000 loan from the Economic Development Loan Fund to Frontier Fruit, LLC.

ADDITIONAL AND BACKGROUND INFORMATION

A. **Interest Rates.** For context, the nationwide median rates for urban small business commercial and industrial loans in the second quarter of 2024 (the most recent data available) were 7.77% for fixed-rate loans and 8.88% for variable rate loans, according to the most recent U.S. Federal Reserve *Small Business Lending Survey**. In the second quarter of 2022, these rates were 4.50% and 5.55% respectively. Interest rates for EDLF loans consider an assessment of the risk level of different applicants, among other factors, and include potential interest rate reductions. Interest rates have ranged from 7.25% for nearly all 2022 EDLF loans to an average of 9.55% in 2023 and 2024.

**Source: Small Business Lending Survey, New Small Business Lending Declines as Credit Standards Continue to Tighten. Consulted on October 29, 2024, at <https://www.kansascityfed.org/surveys/small-business-lending-survey/new-small-business-lending-declines-as-credit-standards-continue-to-tighten/>.*

B. **Interest Rate Reductions.** The bases for potential reductions are as follows:

1. **Location within a priority area:** RDA Project Area; Opportunity Zone; West of I-15; or Neighborhood Business Improvement Program (NBIP, previously known as Façade Improvement) target area.
2. **Socially and Economically Disadvantaged Individuals (SEDI)-Owned Businesses:** 51% of the business is owned by at least one SEDI individual.
3. **Low Income Business Owner:** Income does not exceed 80% of Salt Lake County average median income (AMI) as defined by the U.S. Department of Housing and Urban Development (HUD).
4. **Sustainability:** Either,
 - a. Membership in SLC Green’s [E2 Business Program](#); or
 - b. Loan proceeds will be used for the purchase of electric vehicles, electric vehicle charging stations and infrastructure, renewable energy including but not limited to wind and solar, heat pumps, high efficiency equipment, and/or energy efficiency.

The interest rate reductions applied to this application are detailed below:

Frontier Fruit, LLC
8.50% prime rate
+ 4% ELDF charge
– 1% for location within a priority area
– 1% for low to moderate income
– 1% for sustainability

9.50% final interest rate

C. **Program.** The EDLF is administered by the Department of Economic Development, which is charged with maintaining the corpus of the EDLF in a manner sufficient to perpetuate the program's goals. Each loan application is pre-screened, and an underwriting analysis and economic impact statement are completed

before an application may be recommended for Loan Committee (see below) review. Information on successful applications is transmitted to the Council to consider for final approval.

- D. **Available balance and amount of outstanding loans.** The Department reported that the Fund's available balance was approximately \$8,200,000 on September 30, 2024, and outstanding loans totaled \$4,597,617.49 on October 31.
- E. **EDLF Committee Membership.** The Department of Economic Development lists nine members of the EDLF Committee as follows:

City Employees

Finance Director, Community and
Neighborhoods Department
Representative of the Mayor's Office
Salt Lake City employee at large
Representative of the Division of Housing
Stability
Director, Department of Economic
Development

Community Volunteers

Salt Lake City Business Advisory Board (BAB)
member
Banker
Community lender
Business mentor

POLICY QUESTIONS

1. The Council may wish to have a policy discussion with the Administration about interest rates charged by the City from this and other loan funds and whether it makes sense to reevaluate how interest rates are determined for lenders, especially since the City typically offers loans as a lender-of-last-resort.
2. The Council may wish to ask the Administration whether the EDLF Committee considered any other unique information about this business that would help Council Members evaluate how this application compares to others. For example, are risk factors evaluated for each company, like outstanding loans, years in business, etc.?
3. What outreach does the Department do to ensure a diverse pool of businesses successfully applies to the EDLF? Are applications from diverse owners, particularly those whose businesses are located on the Westside, offered additional support through the application process? Does EDLF staff have ideas for improving access that would benefit from program changes or additional funding?
4. The Council may wish to request a more general update on EDLF use and processes. This could include the number of applications, review criteria used, loan program goals, etc.