

NYS Urban Development Corporation Meeting

Via Teleconference

Friday, 5/29/2020

11:00 AM - 12:00 PM ET

I. For Consideration

A. Statewide – NY Forward Loan Fund - Empire State Economic Development Fund – Loan Loss Reserve (Working Capital Grant)

Findings and Determinations Pursuant to Sections 16-m and 10(g) of the Act; Authorization to Make a Grant for a Loan Loss Reserve Account; and Authorization to Take Related Actions

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FOR CONSIDERATION

May 29, 2020

TO: The Directors

FROM: Eric J. Gertler

SUBJECT: Statewide – NY Forward Loan Fund - Empire State Economic Development Fund – Loan Loss Reserve (Working Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10(g) of the Act; Authorization to Make a Grant for a Loan Loss Reserve Account; and Authorization to Take Related Actions

I. Project Summary

Recipient(s): NY Forward Loan Fund Trust – Administered by LISC Fund Management

ESD Investment: A grant of up to \$15,000,000 to fund a loan loss reserve account. Such loan loss reserve will assist COVID-19 recovery efforts by supporting working capital loans for historically underserved businesses and nonprofits.

Project Locations: Statewide

Proposed Projects: A Statewide effort to encourage increased lending to small businesses as they attempt to reopen and recover from the unprecedented COVID-19 health and economic crisis with a State supported loan loss reserve Account.

Regional Councils: The New York Regional Councils have been made aware of this item. The Regional Councils support the NY Forward Loan Fund for COVID-19 recovery financial assistance.

II. Project Description

A. Background

COVID-19, which has been designated a global pandemic by the World Health Organization, is having a devastating impact on the State's economy. As the State and the country try to stem the spread of the virus and contain the outbreak, normal life in the State has rapidly grinded to a halt and with it much of the economy. The economic impact of COVID-19-related to social

distancing policies has been immediate and unprecedented. The hardest hit segments of the US economy have been small businesses and nonprofits that act as our economy's backbone and employ 74 million Americans and in the State employ over 4.3 million New Yorkers. Small businesses and nonprofits will need assistance to restart and reopen during what will likely be a long and uneven economic recovery. Small businesses and nonprofits with less than twenty employees, especially many located in low income and rural communities and led by people of color, do not often benefit from top-down policies and relief efforts. It takes tailored resources, such as capital, information, services, from trusted partners to support them.

The Community Development Financial Institution ("CDFI") industry has operated for more than 40 years to serve these businesses and nonprofits with capital and advisory services. These CDFIs were established to meet the unique needs of historically disenfranchised communities and are mandated by the Treasury Department to make at least 60% of their investments or loans in designated low-income communities (most sit high above that threshold). They are on the front lines of this crisis and are often the first touchpoint for a struggling local business owner or nonprofit leader seeking help.

The NY Forward Loan Fund (the "NY Fund") was created to equip CDFIs across the State with the capital and liquidity that they need to respond to this economic crisis. CDFIs have been designed to provide targeted support for the businesses that are the heart of every community across the State that, most importantly, create income and wealth stability and opportunity for millions of New Yorkers and their families.

The NY Fund is a place-based loan facility created to address the capital needs of historically disenfranchised communities as they attempt to reopen and recover from the unprecedented COVID-19 health and economic crisis. This effort will target the 486,981 small businesses with fewer than 20 employees and the 25,440 nonprofits across the State.

The loans are not meant to act as a revenue substitute and are not structured like U.S. Small Business Administration Paycheck Protection Program or Economic Injury Disaster Loans. The loans are timed and structured to support small businesses and nonprofits that have a path to reopening and have upfront expenses required to safely reopen (e.g., inventory, marketing, refitting for new social distancing guidelines) and/or see uncertainty in revenues given the slow pace in which we will return to "normal."

To encourage bank and foundation participation, ESD will provide loan loss reserve account to support working capital loans by the CDFIs to small business and nonprofits. In addition, New York State Division of Homes and Community Renewal ("HCR") will also be providing funding to NY Fund to support loans to small landlords that have also been affected by COVID-19 crisis.

B. The Grant

The NY Fund will enable traditional lenders to support CDFIs who will make working capital loans to small businesses, nonprofits, and small landlords that are experiencing distress due to the COVID-19 stay-at-home and NY Pause orders and the subsequent economic downturn. In particular, the NY Fund will focus lending on small businesses and nonprofits that are owned by minority and/or women and located in low-to-moderate income and rural communities.

The NY Fund will target borrowers that are: (1) small businesses with less than 20 employees and have gross revenues of less than of \$3 Million and (2) nonprofits with less than 20 employees, have annual operating budget of less than \$3 million and are 501(c)(3) direct services nonprofits. The NY Fund will have a goal that at least 60% of the loans will support minority and/or women owned businesses that have traditionally been underbanked or have difficulty accessing capital. New York State has approximately 486,981 small businesses which employ less than 20 employees. This represents 91% of the small businesses in the State. There are more than 25,440 nonprofit entities in the State.

The proposed structure of the NY Fund is to capitalize five CDFIs; Accion East, Community Preservation Corporation, National Development Council, Pursuit and TruFund, to make loans to the target borrowers. Financial assistance from ESD and HCR will be provided to the Special Purpose Vehicle (SPV) for loan loss reserve accounts. The ESD grant of up to \$15,000,000 will be used as loan loss reserve account, as needed and upon approval by ESD, by the SPV for CDFI working capital loans to small businesses and nonprofit organizations and up to \$10,000,000 from HCR will be used as loss reserve account, as needed and upon approval by HCR, by the SPV for CDFI loans to small landlords. Foundations, philanthropies and private individuals would provide the next layer of loss capital to the SPV; and Banks, in the form of senior debt, would provide liquidity to the CDFIs through the SPV.

The proposed terms of NYS Forward Loans would be:

Product Terms	
Interest Rate	For small businesses and landlords: Annual fixed interest rate of 3% For nonprofits: Annual fixed interest of 2%
Repayment Term	60-month term <ul style="list-style-type: none">• 0-12 months: interest only payments, paid monthly; and• 13-60 months: interest and principal payments with straight line amortization, paid monthly.
Prepayment	Borrower may prepay the loan without penalty.

Loan Amount	<p>For small businesses, lesser of (a) \$100,000 or (b) up to 100% of average monthly revenues for a 3-month period prior to the COVID-19 outbreak; the 3-month period can be any 3-month period from 2019 or January to March 2020.</p> <p>For small landlords, lesser of (a) \$100,000 or (b) projected reduction in 3 months net operating income based on actual reductions for the month of April 2020.</p> <p>For nonprofits, lesser of (a) \$100,000 or (b) up to 100% of average monthly expenses for a 3-month period prior to the COVID-19 outbreak; the 3-month period can be any 3-month period from 2019 or January to March 2020.</p>
Loan Proceeds	<p>Working capital including payroll, operating and emergency maintenance, property taxes, utilities, rent, supplies, etc.</p> <p>Refinancing of an existing loan from a CDFI is not permitted.</p> <p>Loan Applicant will be required to detail anticipated use of funds when they apply.</p>
Other	<p>Borrower has not received U.S. Small Business Administration Paycheck Protection Program or Economic Injury Disaster Loan.</p>

Access to affordable and flexible credit, particularly during this time of economic uncertainty, is central to these firms' survival. By providing access to capital and technical support to underserved entrepreneurs across the State, the NY Fund aims to equip businesses with the tools that they need to reopen and rebuild operations after almost months of an unprecedented shutdown, public health crisis, and economic stagnation.

ESD Project No.: 133,858

Project Team:	Origination	Rafael Salaberrios
	Project Management	Beverly Bobb
	Legal	Antovk Pidedjian
	Contractor & Supplier Diversity	Alejandra Villanueva
	Environmental	Soo Kang

C. Financial Terms and Conditions

1. The total ESD loan loss reserve account level of up to \$15,000,000 for the Program has been calculated to leverage up to \$150 Million in private loan capital.
2. ESD will provide up to \$15,000,000 towards a loan loss reserve account to support the working capital loans provided by the NY Forward Loan Fund. This reserve would be requested based upon loan losses by participating CDFIs due to loans made as part of the Program. In the event of loan defaults in the portfolios of the participating CDFIs, the Grantee will submit to ESD a reserve funding request, together with supporting documentation of loan loss reserve expenses actually incurred to date; and other required documentation satisfying the conditions set forth herein. ESD will disburse funds to the Grantee, assuming that all project approvals have been completed and funds are available.
3. ESD may reallocate the project funds from another form of assistance for this project if ESD determines that the reallocation of the assistance would better serve the needs of the NY Fund and the State. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.

III. Statutory Basis

Empire State Economic Development Fund

EDF is authorized pursuant to 16-m of the Act.

1. The proposed project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the state or would enhance or help to maintain the economic viability of small businesses.

As a result of this Program, small business that are experiencing economic distress due to the COVID-19 stay-at-home and NY Pause orders will be able to apply for working capital loans and continue their operations and retain employment in New York State.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

The loss incurred by small businesses in the affected communities is extensive. The NY Fund will enable traditional lenders to support CDFIS who will make working capital loans to small businesses, and nonprofits, that are experiencing economic distress due to the COVID-19 stay-at-home and NY Pause orders.

3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.

For a relatively modest investment by the State, the Program is expected to prevent small businesses from shutting down or not reopening or downsizing in the face of extensive losses.

4. The requirements of Section 10(g) of the Act are satisfied.

No residential relocation is required because there are no families or individuals residing on the site.

IV. Environmental Review

ESD staff has determined that the authorization of funding for a loan loss reserve account constitutes a Type II action as defined by the New York State Environmental Quality Review Act and the implementing regulations of the New York State Department of Environmental Conservation. No further environmental review is required in connection with this authorization.

V. Non-Discrimination and Contractor & Supplier Diversity

Pursuant to New York State Executive Law Articles 15-A and 17-B, ESD recognizes its obligation under the law to promote opportunities for maximum feasible participation of certified minority- and women-owned business enterprises ("MWBEs") and service-disabled veteran-owned businesses ("SDVOBs") in the performance of ESD projects. The Office of Contractor and Supplier Diversity has reviewed the project and, due to the emergency response needed for this unprecedented event and the activities to be covered, has determined that MWBE and SDVOB participation goals need not be applied to this project. However, ESD encourages grantees to use MWBEs and SDVOBs where possible.

VI. ESD Employment Enforcement Policy

ESD's Employment Enforcement Policy will not apply since the project will not directly create or retain jobs

VII. ESD Financial Assistance Subject to Availability of Funds and Additional Approval

The provision of ESD financial assistance is contingent upon the availability of funds and the approval of the State Division of the Budget.

VIII. Additional Submissions to Directors

Resolutions

May 29, 2020

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT - Statewide – NY Forward Loan Fund - Empire State Economic Development Fund – Loan Loss Reserve (Working Capital Grant) - Findings and Determinations Pursuant to Sections 16-m and 10(g) of the Act; Authorization to Make a Grant for a Loan Loss Reserve Account; and Authorization to Take Related Actions

RESOLVED, that on the basis of the materials presented to this meeting, a copy of which is hereby ordered filed with the records of the Corporation, relating to the to a grant for a loan loss reserve account to be used in support of NY Forward Loan Fund for working capital loans to small businesses and nonprofits (the “Project”), the Corporation hereby determines pursuant to Sections 16-m and 10(g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that

1. As a result of this Program, small business that are experiencing economic distress due to the COVID-19 stay-at-home and NY Pause orders will be able to apply for working capital loans and continue their operations and retain employment in New York State.
2. The loss incurred by small businesses in the affected communities is extensive. The NY Fund will enable traditional lenders to support CDFIS who will make working capital loans to small businesses, and nonprofits, that are experiencing economic distress due to the COVID-19 stay-at-home and NY Pause orders.
3. For a relatively modest investment by the State, the Program is expected to prevent small businesses from shutting down or not reopening or downsizing in the face of extensive losses.
4. No residential relocation is required because there are no families or individuals residing on the site.

RESOLVED, that the President and Chief Executive Officer Designate or his designee(s) be, and each of them hereby is, authorized to make a grant to the Project for a total amount not to exceed Fifteen Million (\$15,000,000) for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the President and Chief Executive Officer Designate or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

RESOLVED, that the President and Chief Executive Officer Designate or his designee(s) be, subsequent to the making of the grant, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the assistance as he or she may deem necessary or appropriate in its administration; and be it further

RESOLVED, that the provision of ESD financial assistance is expressly contingent upon: (1) the approval of the Public Authorities Control Board, if applicable, and (2) receipt of all other applicable approvals; and be it further

RESOLVED, that the President and Chief Executive Officer Designate or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of ESD to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions.

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