C-8

EVIDENCE- BASED INTERVENTIONS FOR CRIMINAL JUSTICE REFORM STUDY REQUIRED BY SALT LAKE COUNTY, UTAH - CODE OF ORDINANCES, CHAPTER 3.71, "COUNTY PARTICIPATION IN AND APPROPRIATION TO A PRIVATE ENTERPRISE PROJECT"

This report updates two earlier Salt Lake County Council studies dated March 2016, and December 2016. Copies of these studies, and the associated resolutions adopted by the Council, are available on-line at http://slco.org/council/pay-for-success-reports/.

Salt Lake County has prepared this study pursuant to Utah Code Annotated § 17-50-303 and Salt Lake County Code of Ordinances § 3.71. These provisions require that the County prepare and make available to the public a study to determine: (a) the value receive by the County in return for funds appropriated in aid of a private enterprise project; (b) the purpose for the appropriation; and (c) whether the appropriation is necessary and appropriate to accomplish the County's policy objectives.

Copies of this study are available for public review and comment in the Salt Lake County offices of the Council, the Mayor, or the Clerk; an electronic version is available at www.slco.org/council/pay-for-successs-reports. In order that the Salt Lake County Council may receive public comment on the information contained herein, **a public hearing will occur on December 5, 2017, at 4:00 pm.**

OVERVIEW

Salt Lake County has two Pay for Success (PFS) projects underway. The first centers on reducing jail and prison recidivism, and the second addresses persistent homelessness. The County selected First Step House to manage the criminal justice reduce-recidivism program. Using the evidence-based **REACH** program, this PFS initiative will serve approximately 225 formerly incarcerated adult males. The Road Home won the contract to address persistent homelessness. Using the Houses Not Jail **(HNJ)** program, the Road Home will help address homelessness by providing Rapid Rehousing services to approximately 315 individuals. (Please see pages five and seven for more details regarding these programs.)

Both PFS initiatives will complete the pilot phase of their programs at the end of this year. Starting in January 2018, PFS investors will finance the ongoing operational costs for each program. The County will reimburse the investors but only if the milestones and success outcomes are realized.

In the 2016 budget, the County Council appropriated $3 million and indicated its commitment to appropriate $11.5 million over the course of four years to finance PFS results. A second PFS appropriation occurred this year for $3 million. The Council is now considering the Mayor's recommendation to appropriate an additional $5.5 million before the end of 2017, which would complete the county's PFS funding commitment of $11.5 million.

All PFS appropriations are in an off-budget escrow account that is controlled and managed by the county. The investment earnings from this account will provide an income stream for the next six-plus years. The policy makers may allow those investment earnings to accumulate until the end of the PFS initiatives, or periodically elect to draw down the earnings. Assuming short-term interest rates will continue to increase, projected investments earnings in 2018 will total $250-to-$290 thousand.

Table A indicates the timing and amount of County payments that will occur over the next seven years. The success payments will only occur if the milestones specified in the respective contracts are satisfied. If the recidivism program is successful in meeting the milestones, then the participants will realize—as compared to the control group—over 220 fewer arrests and spend nearly 27 thousand fewer days in jail or prison. At that "impact level" of success, the County will reimburse up to $5.95 million of expenses. Similarly, the homeless initiative should generate 1,500 more stable housing months for its participants—relative to its control group. At that level of success, the County's **HNJ** reimbursements will total $5.55 million.

TABLE A. Projected PFS Payments: 2018-2024 ($ in Thousands) County's Total Payments Capped At $11.5 Million.

Year	REACH	HNJ	SUM
2018	$0	$0	$0
2019	$292.7	$12.9	$305.6
2020	$207.3	$104.9	$312.2
2021	$0	$154.5	$154.5
2022	$4,016.4	$2,787.0	$6,803.4
2023	$48.2	$73.1	$121.3
Wind Up	$1,385.4	$2,417.6	$3,803.0
TOTAL	$5,950.0	$5,550.0	$11,500.0

A. THE VALUE THE COUNTY WILL RECEIVE IN RETURN FOR FUNDS APPROPRIATED IN AID OF A PRIVATE ENTERPRISE PROJECT.

Salt Lake County Ordinance § 3.71 requires that the County determine the value it will receive in return for funds appropriated in aid of a private enterprise project. The ordinance also identifies criteria by which the County will determine the value received, including tangible and intangible benefits; expenditures saved; expenses forgone; and other "comforts or conveniences to county residents."

Tangible benefits to the County include job creation, the services these jobs provide, and the economic multiplier effect generated. Successful interventions will have a strong employment outcome for the program participants. The goals for individuals who successfully complete the PFS programs include the following: job creation, an increase in taxes paid, and an increase in the local demand for goods and services. To the extent that these programs are successful, there will be less demand for jail beds, and there will be a decrease in ancillary costs associated with arrests, bookings, detoxification, and emergency room services. To the extent that PFS programs are successful, they will decrease the societal costs of criminal activity.

The intangible benefits to the County are public health and safety externalities that are difficult to quantify. The programs seek to overcome the challenges of meeting the needs of high-risk individuals repeatedly arrested for behaviors related to their mental health, substance abuse, and homelessness. The programs also seek to reduce the financial and social impacts on the families of incarcerated or homeless individuals. Other intangible benefits include improvements in safety, and enhanced peace and order for the citizens and businesses in areas with high criminal activity as well as those negatively impacted by the current homelessness crisis.

A third benefit is the knowledge that Salt Lake County and the nation will gain from the evaluations of the PFS programs. Both programs include a Randomized Control Trial, the highest level of independent evaluation available. This is a rare occurrence in the social sector as this level of rigor is more commonly associated with scientific and medical studies. The model includes deep capacity building for two of the region's critical service providers: the Road Home and First Step House. Successful PFS programs will allow the County and others across the United States to initiate validated programs with evidenced-based effectiveness and reduce future funding levels for programs that do not produce validated results.

B. THE PURPOSE FOR THE APPROPRIATION

The PFS funding model uses the capital of private enterprises, including banks, private foundations and Community Development Financial Institutions (CDFIs), to provide a nonprofit service vendor with upfront capital to tackle critical social problems. The government sets clear and measurable outcomes for the providers. A rigorous, independent evaluation determines if the outcomes are satisfied. This is what makes PFS unique. To the extent agreed upon outcomes are met, the County will reimburse the private foundations and banks. If the metrics are not satisfied, the County does not re-pay the lenders.

By tapping private funding to cover the costs of new, innovative-but-as-yet-unproven social programs, PFS shifts performance risk towards private funders. To the extent that the projects are successful, the County will reimburse the private investors for their project expenses plus interest and sometimes a modest profit. If the private expenditures do not produce the prescribed PFS results, the private capital is at risk. The County only reimburses the investors to the extent that the programs achieve the desired results, as determined by the randomized control trial and the contract requirements. Any remaining escrowed funds will return to the County's General Fund. The County Council and the Mayor will determine the highest-and-best use of returned funds through the normal budget processes.

Table B sets forth the estimated budget for the two private enterprise projects.

TABLE B. PFS Budget as of October 2016				
Criminal Justice "**REACH**" program at First Step House				
Services	$	5,180,190		Services provided to 225 individuals, includes evaluation
Project Costs	$	647,500		Includes program management, legal, and other PFS overhead
Interest Costs	$	443,897		2% interest rate for Impact Lenders and 5% interest rate for Senior Lenders over 5 year period. Amount may change subject to final mix of senior/junior lenders.
Subtotal	$	6,271,587		
Homelessness "**HNJ**" program at The Road Home				
Services	$	4,664,037		Services provided to 315 individuals, includes evaluation
Project Costs	$	647,500		Includes program management, legal, and other PFS overhead
Interest Costs	$	371,078		2% interest rate for Impact Lenders and 5% interest rate for Senior Lenders over 5 year period. Amount may change subject to final mix of senior/junior lenders.
Subtotal	$	5,682,615		

Total Combined Costs				
Services	$	9,844,227		
Project Costs	$	1,295,000		
Interest Costs	$	814,975		
Total	$	11,954,202		**County Success Payments capped at $11.5 million.** Non-recoverable private philanthropy will account for some of the difference.

C. THE APPROPRIATION IS NECESSARY AND APPROPRIATE TO ACCOMPLISH SALT LAKE COUNTY'S POLICY OBJECTIVES.

In the two earlier PFS studies, the County identified and described two core goals: 1) serve high-cost individuals more effectively and with greater cost efficiency and 2) address system gaps. The County's desired outcomes are reiterated below.

1. Criminal Justice: The REACH Program

Population Served and Program

The **REACH** program, an acronym that stands for Recovery, Engagement, Assessment, Career and Housing, will serve approximately 225 formerly incarcerated adult males who are at high risk of reengaging in criminal behavior. Participation in the program will be restricted to formerly incarcerated individuals who have finished serving sentenced jail time, have moderate-to-severe substance use disorders, and are supervised by Adult Probation and Parole (AP&P). **REACH** treats those who have co-occurring mental health disorders; however, **REACH** excludes individuals with extreme mental health conditions.

REACH applies evidence-based principles to reduce recidivism and includes services and treatments to address criminogenic needs and non-criminogenic needs. Non-criminogenic needs include ongoing recovery support and, as appropriate, housing assistance. Criminogenic needs include static and dynamic risk factors. **REACH** targets dynamic risk factors--such as family problems, employment, substance abuse, and self-sufficiency.

REACH Program Metrics and Success Outcomes

The primary success metrics for the REACH program are reductions in both the number of arrests and days incarcerated. Historical county data indicate that, over four years, 74% of this male, high-risk, high-need population will be re-arrested. On average, they will be arrested 2.8 times and spend 336 days incarcerated. **REACH** will also measure participant engagement in treatment, as determined by the number of hours of services received within a specified timeframe, and each participant's employment gains. The following table provides details on

REACH's four payable success metrics.

Metric	Definition/ Description	Measurement Details	Why?	Target Success Rates + Details	Success Payment
Arrests	Reduction in statewide arrests.	Comparative, measured using jail and prison data; evaluated 4 years post-randomization.	The target population has a high risk of reoffending. Project analysis indicates this population has a high risk of multiple re-offenses.	The REACH program expects to reduce 4-year arrests for enrolled participants by 35%, from 2.8 to 1.8 arrests. This impact translates to a nearly 30% reduction for everyone referred to the program.	$250/arrest avoided
Days Incarcerated	Reduction in days incarcerated in Salt Lake County jail and Utah State prisons	Comparative, measured using jail and prison data; evaluated 4 years post-randomization.	Each jail day costs about $95 – without regard to police and court costs associated with arrest and adjudication.	The REACH program expects to reduce 4-year incarcerated days for enrolled participants by 35%, from 336 days to 218 days. This impact translates to a nearly 30% reduction for everyone referred to the program.	$200/day avoided
Employment Quarters	Improvement in number of employment quarters, defined as an individual having earned at least $850	Comparative, measured using Department of Workforce Services wage data; evaluated 2 years beginning quarter post-randomization.	Employment is a criminogenic need and a priority of Salt Lake County.	The REACH program estimates that it can improve employment quarters on enrolled participants by 25%.	$450/quarter employed
Treatment Engagement	Number of individuals engaging in 200 hours of treatment within 6 months of enrollment	Absolute metric measured using REACH data; evaluated 6 months post enrollment.	Research suggests that 200 hours of treatment provides substantial reductions in recidivism for high-risk offenders.	The REACH program estimates that about two-thirds of individuals enrolled will engage in 200 hours of treatment within 6 months.	$5,800 per person (total payments capped at $500,000)

2. Homelessness: Homes Not Jail Program (HNJ)

Population Served and Program

The goal of the Homes not Jail (**HNJ**) program is to provide services to improve the housing stability, criminal justice outcomes, and behavioral health outcomes of the persistently homeless. The persistently homeless are those who have spent between 90 and 364 days over the previous year in emergency shelters, on the streets, or otherwise tracked as being homeless.

Analysis of this population demonstrates that without new and enhanced program support and intervention the persistently homeless are at clear risk of becoming chronically homeless. These individuals are highly unlikely to receive public services for several reasons:

- Because they do not meet the strict federal definition of chronically homeless, they are unlikely to receive any of the limited permanent supportive housing units available in Salt Lake County.
- Due to limited funding, existing programs only serve 19% of the persistently homeless.
- The waitlist for County and City Housing Authority programs stretches six years.

Currently, the chronically homeless population consumes all of the County's 1,929 permanent supportive housing beds. The Community Triage Group in Salt Lake County is responsible for identifying open permanent supportive housing beds and then assigning them to the most vulnerable individuals experiencing chronic homelessness. If permanent supportive housing were expanded and used for the persistently homeless population, the cost would be prohibitive. Given that there are more than 1,000 persistently homeless individuals in the County, the increase in funding to address the problem would exceed 50 percent. While the State and the County are working to build more housing units, locations are limited and these units require large investments of time, resources and infrastructure. Additionally, these persistently homeless individuals may not need permanent housing. Because they are not chronically homeless, it is less likely that this population has disabling conditions such as serious physical and behavioral health issues.

As a result, the County and its partners will use a Rapid Rehousing (RRH) approach to serve persistently homeless individuals through the HNJ program. Several studies have indicated that individuals in RRH programs are less likely to return to homelessness and that it is more cost-effective than remaining in emergency shelters. As a result, several federal agencies have increased their support and available resources for RRH as a promising and innovative program model to improve housing stability. The **HNJ** project will more rigorously evaluate the effectiveness of RRH in improving housing and criminal justice outcomes as a lower-cost alternative for the persistently homeless population.

RRH reconnects individuals with housing as quickly as possible, and provides limited rent and move-in assistance as well as case management in order to achieve housing stability. The duration of financial assistance for housing usually ranges from four-to-six months in order to stabilize an individual. The **HNJ** program has three phases that incorporate core components of the RRH model: 1) engagement, (2) housing search and placement in appropriate, stable accommodations for long-term self- sufficiency, and (3) case management and rental and move-in assistance. During each of the three phases **HNJ** staff provides: (1) Comprehensive housing assistance that includes locating housing; (2) Rental and move-in assistance; and (3) Wrap-around services that focus on creating a case management plan to address an individual's health, income and employment needs.

Immediately after an individual enters-- through a randomized selection process -- into the **HNJ** program, a case manager will begin engagement with the individual, helping to guide him or her through the housing-access phase and provide information and education about the program. During this period, individuals may remain in shelter beds specifically designated for **HNJ** participants. The primary focus of this phase, which lasts up to 14 days, is to introduce the individual to the program and to **HNJ** staff and to conduct behavioral health assessments.

Once engaged, the next step is to help the individual find housing. During this phase, the individual will have close and persistent contact with **HNJ** staff. All staff members are trained in Critical Time Intervention as well as Trauma Informed Case-and-Motivational Interviewing. The training and persistent contact is designed to identify the participants' needs during the transition, and to ensure the individual is motivated and ready to transition to long-term housing. The services in this phase, which are anticipated to take an average of one month, include: Housing Assistance, Wrap-around Case Management Services, Development of a Case Management Plan, and Interim Group Services

The Road Home anticipates the average duration of rental assistance will be 4.7 months. Throughout this time, participants will remain engaged with the **HNJ** program through case management and rental assistance.

The majority of participants will graduate out of rental subsidy and case management services simultaneously, but some individuals may maintain case management after rental assistance ends. This will help them resolve other issues related to housing stability.

Several program partners are a part of the program:

- Volunteers of America (VOA) will hire a Behavioral Health Clinician for the project. VOA provides programs including adult detoxification, mental health counseling, and housing services.

- 4th Street Clinic, the Cornerstone Clinic, Valley Behavioral Health and other Salt Lake County behavioral health providers will provide behavioral health services for program participants who need more-intensive interventions.

- The Department of Workforce Services and Advantage Services will provide supportive employment services and job training classes. Advantage Services is a non-profit employment agency that hires people with disabilities who are experiencing homelessness. These individuals, once trained, fulfill contract services. Advantage Services also provides job training classes and supportive employment services.

HNJ Program Metrics and Success Outcomes

A central consideration in measuring the effectiveness of RRH is data availability: if an individual graduates from a RRH program to unsubsidized housing, it is a challenge to track outcomes. The **HNJ** metrics will exist well beyond graduation from the program. Participants' behavioral health enrollment measurements help determine whether the innovative methods to reduce barriers and to provide access to assessment and treatment in **HNJ** are effective. The following table identifies the four payments metrics that apply to **HNJ.**

Metric	Definition/ Description	Measurement Details	Why?	Target Success Rates + Details	Success Payment
Months without any Shelter or Jail	Number of months in which an individual does not reside in any emergency shelter in the State or in the Salt Lake County jail.	Comparative metric measured using State HMIS and Salt Lake County jail data; evaluated 2 years.	A proxy for whether someone has successfully stabilized and remained out of jail in the longer term because of the PFS program. A single day of shelter or jail therefore disqualifies a given month of success.	The HNJ program estimates it can improve months without shelter/jail for placed participants by 30%, from 16 months to 21 months.	$3,500/month
Graduations to Permanent Housing Location	Number of participants who graduate to a permanent housing location (as defined by HUD).	Absolute metric measured using locations reported and verified by case managers using Housing Stabilization	The graduation outcome complements the months without shelter/jail outcome to track participants' housing situation at graduation.	The HNJ program estimates that 80% of placed participants will graduate to a permanent housing	$2,300/ graduation (capped at $500,000 in total payments)

		Guide; evaluated at program completion.		location.	
Mental Health Service Enrollments	Number of enrollments into mental health services.	Comparative metric measured using Salt Lake County Behavioral Health Services UWITs database; each enrollee will be observed for two years.	Many individuals experiencing persistent homelessness do not stay engaged long enough to make it to the end of the waiting list for behavioral health services. This outcome will monitor if housing and case management services help participants stay engaged.	The HNJ program estimates it can improve mental health enrollments for placed participants by 100%, from 12% to 24%.	$5,000/ enrollment
Substance Abuse Disorder Service Enrollments	Number of enrollments into substance abuse services (excluding detox) after randomization.	Comparative metric measured using Salt Lake County Behavioral Health Services UWITs database; each enrollee will be observed for two years.	Many individuals experiencing persistent homelessness do not stay engaged long enough to make it to the end of the waiting list for behavioral health services. This outcome will monitor if housing and case management services help participants stay engaged.	The HNJ program estimates it can improve mental health enrollments for placed participants by 100%, from 10% to 20%.	$5,000/ enrollment

CONCLUSION

The County Council has committed to appropriate $11.5 million over the four years ending December 2019 for the PFS programs. The Mayor recommends satisfying the $11.5 million commitment by appropriating an additional $5.5 million this year. The Council has already appropriated $6 million in support of its commitment to continue to make a positive and measurable impact in the criminal justice reform areas of recidivism and homelessness. By tapping private funds to cover the costs of new, innovative but-as-yet unproven social programs, PFS shifts performance risk towards private funders. If the projects are successful, as measured against the randomized control groups, the County will reimburse the private investors for their project expenses plus interest and sometimes a modest profit. The PFS contract caps Salt Lake County expenditures for **REACH** and **HNJ** at $5.95 million and $5.55 million, respectively. Success payments will only occur after an independent evaluation -- using a Randomized Control Trial and rigorous, databased, real-time analysis --determines the extent to which the outcomes specified in the PFS contracts have been satisfied. Given a successful scenario and pursuant to this study, the Council finds that Salt Lake County will receive value for its appropriations in the form of tangible and intangible benefits.

Attribution and Contact Information

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ECONOMIC DEVELOPMENT REVOLVING LOAN FUND STUDY
STUDY REQUIRED BY SALT LAKE COUNTY, UTAH – CODE OF ORDINANCES, CHAPTER 3.71, "COUNTY PARTICIPATION IN AND APPROPRIATION TO A PRIVATE ENTERPRISE PROJECT"

Salt Lake County is considering the Mayor's request to implement a Private Enterprise Project to spur job creation and address a gap in the market regarding financing for small and medium enterprises (SMEs). Salt Lake County has prepared this study pursuant to Utah Code Annotated § 17-50-303 and Salt Lake County Code of Ordinances § 3.71. These provisions require that the County prepare and make available to the public a study to determine: (a) the value the County will receive in return for funds appropriated in aid of a private enterprise project, (b) the purpose for the appropriation, and (c) whether the appropriation is necessary and appropriate to accomplish the County's policy objectives.

Copies of this study are available for public review and comment in the Salt Lake County offices of the Council, the Mayor, or the Clerk; an electronic version is available at www.slco.org/economic-development/revolving-loan-fund/report. In order that the Salt Lake County Council may receive public comment on the information contained herein, a public hearing will occur on December 5, 2017, at 4:00 pm.

Overview

This study relates to the Economic Development Revolving Loan Fund Program, a program that has been administered by Salt Lake County (the "*County*") for the past 25 years (hereinafter the "*EDRLF Program*"). The mission and purpose of the EDRLF Program is to provide enhanced economic opportunities to low-income citizens, encourage businesses to expand employment, and promote economic development within Salt Lake County. The EDRLF is a unique financial resource which supports economic development and job creation by providing capital to promising, job-creating startups and businesses that are unable to qualify for loans from traditional financial institutions. The EDRLF Program also provides a mechanism for banks and financial institutions to support economic growth and community development while enabling them to meet their obligations under the Community Reinvestment Act (CRA).[1]

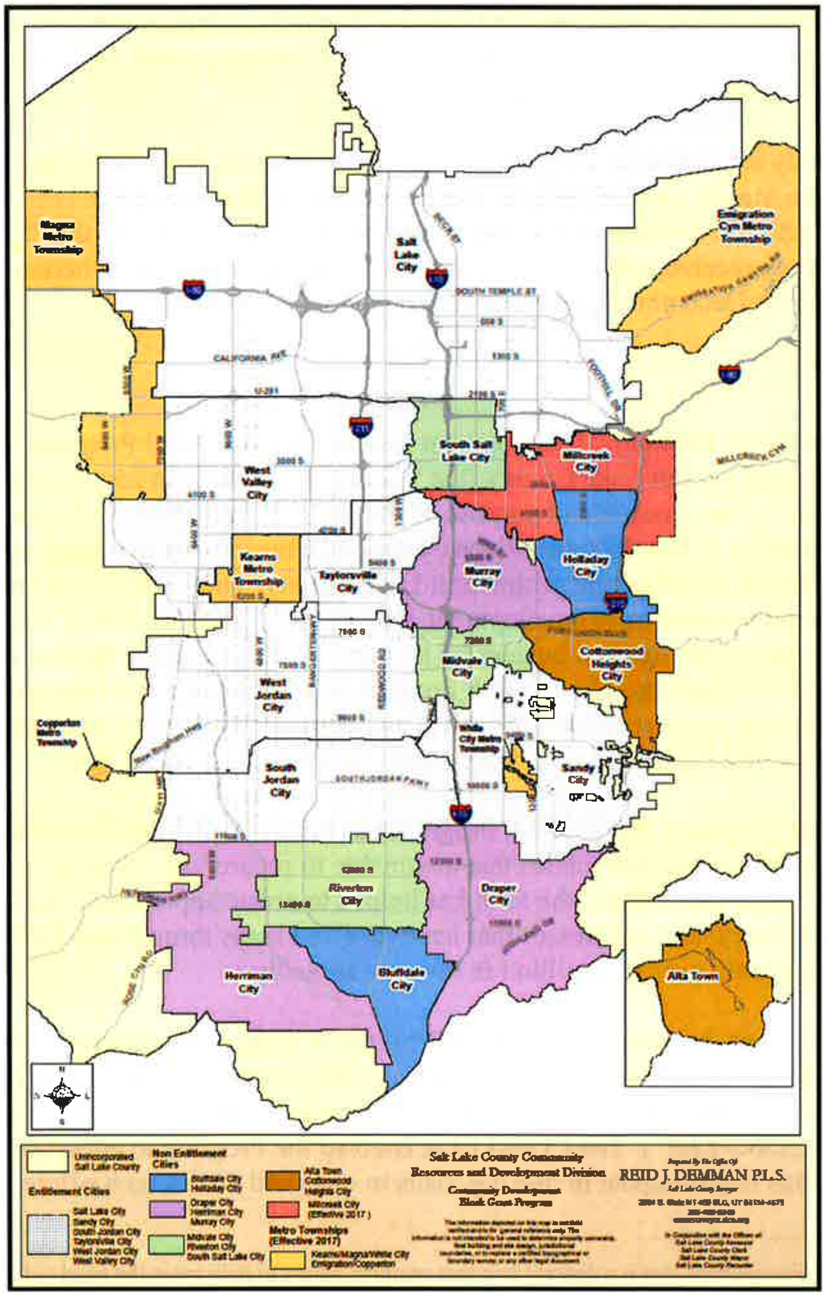
Over the course of its history, the EDRLF Program has been a useful tool for creating jobs and providing bridge financing to companies that are unable to secure loans through traditional financing means. Since 2005 alone, the fund has helped to create approximately 500 new jobs within Salt Lake County, and businesses that have received loans through the EDRLF Program are estimated to generate over $17 million in revenue annually.

Despite these successes, however, the EDRLF Program is limited in its current form. The largest limitation stems from its association with Community Development Block Grant (CDBG) funding. Initially, the Fund seeded its loan loss reserve with $400,000 of CDBG funding (hereinafter the "*CDBG LLR*"). The CDBG LLR enabled the Program to attract banks and financial institutions to participate in making loans to qualified SMEs, as it offered a level of

[1] The Community Reinvestment Act is a federal law that requires banks to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.

protection against loan defaults. However, the County's use of CDBG funds to seed the CDBG LLR limited the geographic application of the program. According to CDBG requirements, only businesses residing in certain areas of Salt Lake County, known as Urban County Eligible Areas, are eligible to receive a loan from the EDRLF Program. The map shown in Figure 1, below, identifies substantial geographic areas of the county (in white) where EDRLF Program loans are not able to be made due to CDBG restrictions (hereinafter the "*Remaining Areas*"). It is estimated that more than half of Salt Lake County's population and businesses reside in these areas and are therefore ineligible for financing through the EDRLF.

Figure 1. Community Development Block Grant Eligibility Areas



The County now desires to establish a new loan loss reserve with general county funds (a "*Non-CDBG LLR*") to expand the EDRLF Program and complement the current CDBG LLR. This will allow the EDRLF Program to make loans to businesses residing in the Remaining Areas, which the County anticipates will increase the Program's impact on job creation and the local economy. By using non-CDBG dollars to fund a separate, Non-CDBG LLR, the EDRLF will be able to offer loans to businesses throughout Salt Lake County (whether located inside or outside Urban County Eligible Areas), furthering the Program's mission to stimulate job growth and support economic development within Salt Lake County.

Access to finance is vitally important to small business growth and, in turn, leads to job creation and retention. Small business funds like the EDRLF not only provide resources to finance current operations, but also afford business owners the capital necessary to expand their businesses. An analysis by the National Small Business Association (NSBA), which examined data from 1993 through 2016, found a correlation between small business owners' ability to hire and their ability to access credit.[2] This same study found that, while not the only cause, the inability to secure financing may have led 16 percent of small businesses to reduce the number of employees and approximately 10 percent of small businesses to reduce employee benefits. Inability to secure financing was also a case of an additional 10 percent of small businesses' inability to increase store inventory to meet existing demand.[3] Finally, the NSBA found that businesses with fewer than 10 employees were three times more likely to create jobs if they were able to receive a loan. Combined, this data suggests that the ability to access financing plays a critical role in allowing small businesses to grow and contribute to the growth of the economy.[4]

A. Measuring the Net Value Received by the County for Money or Resources Appropriated to the Private Enterprise Project

County Ordinance 3.71 requires that the County determine the value it will receive in return for funds appropriated in aid of a private enterprise project. The ordinance also identifies criteria by which the County will determine the value received, including tangible and intangible benefits; expenditures saved; expenses forgone; and other "comforts or conveniences."

Tangible Benefits: Job Creation

Tangible benefits to the County include the creation of approximately 37 new jobs. Studies suggest that SMEs create more jobs than larger businesses.[5] Offering bridge financing to SME's, then, is a powerful means of spurring job growth within Salt Lake County. Furthermore, SMEs

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[2] Nat'l Small Bus. Association, 2016 Year-End Economic Report, available at http://www.nsba.biz/wp-content/uploads/2017/02/Year-End-Economic-Report-2016.pdf

[3] Nat'l Small Bus. Association, 2016 Year-End Economic Report, available at http://www.nsba.biz/wp-content/uploads/2017/02/Year-End-Economic-Report-2016.pdf

[4] Luz Gomez & Elaine L. Edgcomb, FIELD at the Aspen Institute, A Newly Crowded Marketplace: How For Profit Lenders are Serving Microentrepeneurs (2011), available at http://fieldus.org/publications/ForProfitLenders.pdf.

[5] Neumark, David, Brandon Wall, and Junfu Zhang. "Do Small Businesses Create More Jobs? New Evidence from the National Establishment Time Series". *National Bureau of Economic Research*. 2008. http://www.nber.org/papers/w13818.pdf; "Is Small Still Beautiful? Literature Review of Recent Empirical Evidence on the Contribution of SMEs to Employment Creation". *International Labour Organisation*. 2013. http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_216909.pdf

that receive loans through the EDRLF are required to create one new job for every $35,000 loaned, 51% of which must be filled by persons having low- or moderate- income. This metric helps ensure that jobs are created using money from these loans. The goal of the EDRLF program is to have an 8.75 to 1 loan to LLR ratio. This means that for every dollar in the LLR, the fund can lend $8.75. Using this ratio, the $150,000 appropriated for this private enterprise project (i.e. to seed the Non-CDBG LLR) could result in over $1.3 million in loans to businesses that are otherwise unable to qualify for traditional loans during the first funding cycle. At $35,000 per job, $1.3 million in loans would incentivize the creation of approximately 37 new jobs at local SMEs during the initial funding cycle. This equates to roughly one new job for every $4,000 that the County invests during the first cycle. As the initial set of loans revolve, the EDRLF Program will be able to generate more loans and create more new jobs, bringing an even greater return on investment to the County.

Intangible Benefits: Job Retention and Economic Growth

Beyond the creation of new jobs, the appropriation of $150,000 toward the EDRLF Program will also create intangible benefits for the County, such as job retention and general economic growth and development as a result of the multiplier effect.

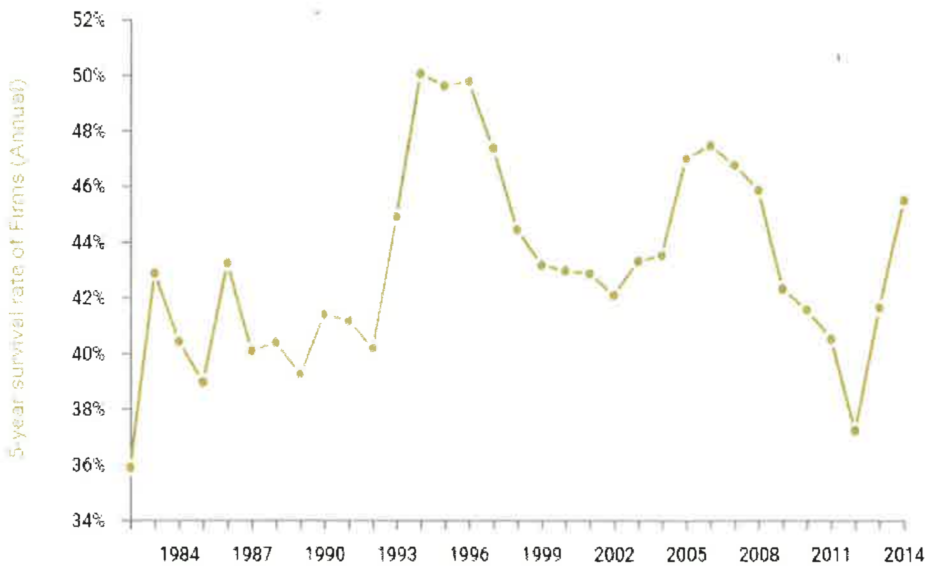
Job Retention

In addition to creating new jobs, the EDRLF Program will also help preserve existing jobs at SMEs that would be more likely to fail without access to the bridge financing provided by the EDRLF Program. The Kauffman Foundation recently ranked Utah #1 in high-growth company density (the number of fast growing companies with at least $2M in annual revenue), #2 in startup growth (the number of new employer businesses normalized by total business population), and #3 in the rate of startup growth over the last five years.[7] However, the same study also ranked Utah 47th in the five-year survival rate of firms and 49th in established small business density, indicating a high rate of turnover or businesses relocating to more favorable locations (Figure 2).

In other words, the Kauffman Foundation report ranks Utah at the top of the nation in new startups, but near the bottom in terms of startups that are still around in five years. This suggests that while Utah leads the nation in business development, more needs to be done to strengthen the entrepreneurial ecosystem. And while this data is statewide in scope, Salt Lake County houses 37% of the resident population of the state and nearly 50% of non-farm jobs. With such an outsized economic impact, it is safe to say that Salt Lake County accounts for a good portion of those startups cited. Given Salt Lake County's impact on Utah's economy, and given the need to better support SMEs within Utah, it is important that market gaps are filled. The EDRLF fills a major market gap, and it is a useful, but geographically limited, tool for SMEs. The $150,000 requested for this program would be a powerful step in better supporting the SMEs that drive the local economy.

[7] The Kauffman Entrepreneurial Index for Small States, 2016

Figure 2. Challenges in Firm Longevity across Salt Lake County and Utah



Additionally, newly created jobs and locally retained jobs have a local multiplier effect. Whenever a new job is created, there is a chance that additional jobs may also be created via increased demand for local goods and services. Several scholars have found strong evidence for the presence of the local multiplier effect. Within tradable industries, UC-Berkeley-based economist Enrico Moretti discovered that, for each additional skilled job created, 2.5 jobs were also generated in the local non-tradable goods and services sectors, and an additional unskilled job created 1 job in the local non-tradable sector.[8] Revenues from small businesses also have a large impact on local economies, with 48% of sales on average being recirculated into the local economy compared to 14% of purchases at chain and non-local stores.[9]

B. Why is the County appropriating funding to a private enterprise?

This appropriation will not go immediately or definitively to any one private enterprise. The EDRLF LLR is a reserve that works as insurance to banks in the event of loan default. The LLR is critical for bank involvement in the program. Currently there are six banks that participate in the EDRLF Program, and the hope is to enable more banks to participate in the EDRLF Program. Because the Non-CDBG LLR, to which these funds will be appropriated, will only be accessible to banks in the case of a loan default, the money does not immediately or definitively funnel to a private enterprise under the EDRLF Program.

As stated above, the current LLR was seeded with CDBG funds, which have geographical constraints. The creation of this new Non-CDBG LLR will allow the EDRLF to offer loans to businesses countywide, which will help increase the scope and the impact of the EDRLF. The EDRLF fills a gap in the market by lending to high-tech and manufacturing businesses that would not otherwise be eligible for traditional bank loans yet have a strong potential for growth

[8] Moretti, Enrico, *Local Multipliers American Economic Review*, May 2010
[9] American Independent Business Alliance, *The Multiplier Effect of Local Independent Business,* 2017

and job creation. Appropriating these funds for this program is critical to ensuring that this Program can have a greater impact throughout the valley.

Salt Lake County is growing. In order to meet the needs of current and future residents, as well as to ensure economic health, new jobs must continue to be created. As the economy thrives, local residents have increased access to opportunity as well as better health, security, and quality of life. Furthermore, as local SMEs prosper, local residents prosper, both directly and indirectly. Residents prosper directly through wages and the opportunities that full participation in the economy provide. Residents prosper indirectly through property and income taxes that are generated through SMEs, which fund schools, roads, public safety, and other amenities that further enhance quality of life.

C. The Goals of These Programs

Goal 1: Offer SMEs the capital they need to create more jobs

- The EDRLF currently has a requirement that for every $35,000 loaned, one new job should be created. This ensures that the funding offered through the program goes toward job creation. The fund has the potential to lend at a ratio of 8.75 to the LLR. This means that the $150,000 county investment could result in over $1.3 million in loans. Based on the metrics and requirements, the $150,000 investment by the county has the potential to create approximately 37 new jobs at local SMEs in its initial funding cycle. This equates to roughly one new job for every $4,000 that the county invests during the first cycle. As the initial set of loans revolve, the EDRLF Program will be able to generate more loans and create more new jobs, bringing an even greater return on investment to the County.

Goal 2: Address lending gaps for SMEs countywide in order to further economic development

- A comprehensive SME development and funding tool or program does not currently exist. Furthermore, the nature of the EDRLF is to help fund businesses that cannot receive traditional loans but have strong growth potential. These businesses represent a higher risk than banks are willing to take on in isolation. However, by partnering with other lenders and through the LLR, the risk to each bank is mitigated.
- The EDRLF program currently exists in a geographically limited state. Because the CDBG LLR was seeded with CDBG funds, the EDRLF Program, in its current state, is limited to deploying capital to certain areas. By using county funds, this geographical limitation can be overcome, and loans can be made available to SMEs countywide.

D. Rigor and Risk Reduction: Our Due Diligence Process.

The requested appropriation and investment in this Program—$150,000—is relatively small. Thus, the county is not at a sizeable risk. Furthermore, the county is currently undergoing a revision of the Master Participation Agreement (MPA) for the EDRLF. Once the MPA is completed, the county will submit an RFP that will seek funding partners in the EDRLF program. This process will ensure that the county is complying with all governing laws and policies during the procurement process. Furthermore, this will ensure that all private entities involved are qualified and have sufficient experience to consider and offer loans to applicants.

While there is risk that loans will default and the LLR will be used, by opening up loans to the entire county, loan applications will likely become more competitive and help ensure the quality of loan recipients. Furthermore, the EDRLF has a strong track record, and has rarely had to employ the LLR over its 25-year existence.[10]

Conclusion

The EDRLF is an existing program with a strong track record of success. During the past twelve years of its 25-year existence, the fund has contributed to the generation of over 500 new jobs in Salt Lake County. This success is in spite of geographic constraints that limit the fund's application throughout the county. These limitations are due to the use of CDBG funds used to seed the fund's LLR.

To increase the fund's scope and impact, $150,000 of county funding will be used to seed a second LLR—a Non-CDBG LLR. This second LLR seeded with County, rather than CDBG, funds will overcome the geographical limitations and open the EDRLF Program to businesses throughout the entire valley. Furthermore, the $150,000 appropriation will allow the program to lend an additional $1.3 million to local SMEs and generate approximately 37 new jobs.

Aside from the new jobs that will be created, the $150,000 appropriation will help ensure that local SMEs make it through the first five years by offering critical bridge loans to businesses that cannot receive loans through traditional financing means. Better filling this gap in the market will continue to foster a strong SME community, which will help ensure the prosperity of residents now and in the future.

Finally, it is anticipated that the new jobs created by the $150,000 appropriation will have a multiplier effect. Each newly created job will likely increase demand for additional goods and services, thereby creating and supporting other jobs throughout the local economy.

Attribution and Contact Information

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[10] The CDBG LLR has been employed twice over its 25-year history totaling $106,058.62. This amount, when viewed in relation to the total amount of approved loans, is hardly significant. Since 2010 alone, $3,395,000 have been loaned to fourteen companies.