



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper
Margaret McCahan

SUBJECT: SEE BELOW.

DATE: February 7, 2019

Approved

Date

2/7/19

SUBJECT: BUDGET ACTIONS RELATED TO A LOAN ASSISTANCE PROGRAM FOR FEDERAL WORKERS AT THE NORMAN Y. MINETA SAN JOSÉ INTERNATIONAL AIRPORT

RECOMMENDATION

Adopt the following 2018-2019 Appropriation Ordinance amendments in the General Fund:

- (a) Establish a Federal Worker Loan Assistance Program Guaranty Reserve to the Finance Department in the amount of \$500,000.
- (b) Decrease the Budget Stabilization Reserve by \$500,000.

OUTCOME

Adoption of the recommended budget actions will set aside funding for a loan guaranty in connection with the loan assistance program for the federal workers at the Norman Y. Mineta San José International Airport (“Airport”), referred to herein as the “Loan Program.” The proposed agreement with Technology Credit Union (“TechCU”) for the Loan Program requires the City to act as a guarantor for any claims TechCU might have against the City for loans made by TechCU using TechCU funds.

Therefore, appropriation actions are recommended which would set aside \$500,000 (which represents a default rate of 10% on a \$5,000,000 Loan Program) as a loan guaranty reserve. Adoption of this recommendation will allow the City to move forward with the agreement with TechCU for the Loan Program.

BACKGROUND

A federal government shutdown began on December 22, 2018, during which many federal workers were no longer being paid. There are an estimated 500 impacted federal workers at the Airport from three primary federal agencies: the Federal Aviation Administration (FAA), Customs and Border Protection (CBP), and Transportation Security Administration (TSA). The TSA has 400 of the 500 federal employees and approximately 48% live in San José. The federal agencies and the Airport work together to ensure a safe and seamless processing of people and aircraft.

As a direct result of the shutdown impacts on federal employees who work at the Airport, the San José City Council on January 15, 2019 directed the City Manager to take all action necessary to create a short-term loan program for these employees. On January 24, 2019, the City Council authorized the City Manager or his authorized designees to negotiate and execute one or more agreements with Tech CU and to take any other necessary actions to service and administer a loan assistance program to all federal employees assigned to the Norman Y. Mineta San José International Airport. The memorandum and presentation can be found at:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=3843545&GUID=57DE41A6-30B1-45BE-8DF5-5638F3085A2C&Options=&Search>.

The key provisions of the Loan Program include:

- Interest free loans to all federal workers at the Airport
- Amount of loans will not exceed take home pay
- Loans are interest free during the shutdown period and will begin to accrue interest at 12% if not repaid within 14 days of receipt of federal backpay
- No fees will be charged to federal workers for opening or servicing these loans if repaid within the terms of the loan agreement
- Loans will not require a credit check
- City will become a business member of the TechCU

Loans will be cash collateralized with a deposit of \$5,000,000 upon initiation of the Loan Program by the City (referred to as the Cash Collateral Fund Deposit). As noted in the Memoranda to the City Council for the January 24, 2019 Agenda, this deposit is necessary since TechCU is not running credit checks or providing any form of underwriting on the loans. Without the cash security, TechCU would need to establish a loan loss provision and it would no longer be a viable loan program since it would require review and approval of appropriate regulators thereby significantly increasing the cost of the Program and implementation time. The Cash Collateral Fund Deposit will be funded up front to partially offset the costs for TechCU to service, fund and collect on the loans. TechCU is not charging a fee to provide these services. In addition, the City is required to fund the Loan Program Fund Deposit Account up to the maximum amount of the loans disbursed by Credit Union from Credit Union funds (\$5,000,000). Together, the Cash Collateral Deposit Fund and Loan Program Deposit Fund are referred to as the Deposit Accounts.

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On January 25, 2019, the day after this item was approved by the City Council, the President announced that a deal had been reached on legislation that would reopen the government through February 15, 2019. Nevertheless, the possibility still exists that another government shutdown might occur after February 15. In the event another government shutdown does occur, the City and TechCU desire to have an agreement in place in order to proceed forward with the Loan Program as discussed above and previously approved and have been working together to that end over the past several days.

ANALYSIS

As negotiations continued with TechCU on the development of the Loan Program, the City learned that TechCU requires the City to act as a guarantor or backstop for any TechCU funds disbursed in connection with the Loan Program in the event the Deposit Accounts discussed above are otherwise unavailable for reimbursement to TechCU. Based on conversations with TechCU, it is our understanding that this is required in all commercial loans and is not unique to the City, and is even required when a loan program is fully collateralized. Accordingly, in the event the Deposit Accounts are unavailable to the Credit Unit for reimbursement for any reason, the City would need to make TechCU whole from funds other than the monies on deposit in the two Deposit Accounts. Accordingly, even though the possibility is remote that the funds on deposit would not be available for reimbursement to the Credit Union, the proposed agreement with TechCU for the Loan Program requires the City to act as a guarantor separate and apart from the Cash Collateral Fund Deposit and Loan Program Fund Deposit for any claims for repayment TechCU might have against the City for loans made by TechCU using TechCU funds. Therefore, an appropriation is recommended which would set aside \$500,000 (which represents a default rate of 10% on a \$5,000,000 Loan Program) as a Loan Guaranty Reserve.

While it is anticipated that the agreement with TechCU for the servicing and administering of the Loan Program will be executed shortly, the actual Loan Program will not be initiated unless and until the City elects to move forward with the Loan Program should another government shutdown occur. Accordingly, no deposits into either the Cash Collateral Fund Deposit Account or the Loan Program Fund Deposit Account will be made unless and until the City decides to proceed forward with the Loan Program. The Guaranty Reserve of \$500,000 is not deposited with TechCU and is just that, an earmarked reserve within the City, which is set aside in the event the Deposit Accounts are unavailable, for any reason, however remote, to reimburse TechCU for loans and collection costs paid by TechCU in connection with the Loan Program.

EVALUATION AND FOLLOW-UP

Staff will provide an Information Memorandum updating the City Council on the status of the Program should it be implemented.

PUBLIC OUTREACH

This memorandum will be posted on the City Council's Agenda website for the February 12, 2019 City Council.

COORDINATION

This memo has been coordinated with the Airport Department and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

There is no Commission input on this item.

COST SUMMARY/IMPLICATIONS

The recommended budget actions establish a Federal Worker Loan Assistance Program Guaranty Reserve in the amount of \$500,000. The proposed agreement with TechCU for the Loan Program requires the City to act as a guarantor for any claims TechCU might have against the City for loans made by TechCU using TechCU funds. The proposed amount represents a potential 10% loan default on a \$5.0 million loan program.

With this action, the total funding associated with the Loan Program would increase from \$10.0 million to \$10.5 million, including \$5.0 million for a Loan Program Fund Deposit and \$5.0 million for a Cash Collateral Fund Deposit that are budgeted under the Federal Worker Loan Assistance Program appropriation, and \$500,000 budgeted to a Federal Worker Loan Assistance Program Guaranty Reserve. Under the no interest short-term loan program, federal employees at the Airport would be able to borrow amounts up to their take home pay that is not being received during the federal government shutdown. These loans would be repaid within fourteen (14) days after the impacted federal employees receive their back pay.

As discussed above, the President announced on January 25, 2019, that a deal had been reached on legislation that would reopen the government through February 15, 2019. Given the short-term nature of this deal, the possibility still exists that another government shutdown might occur after February 15. The recommended actions will enable the City and TechCU to have an agreement in place to proceed forward with the Loan Program if another shutdown occurs. The actual Loan Program will not be initiated unless and until the City elects to move forward with the Loan Program should another government shutdown occur. Once this loan program is determined to not be necessary, the funds budgeted for this program (Federal Worker Loan Assistance Program Guaranty Reserve, the Loan Program Fund Deposit, and the Cash Collateral Fund Deposit) will be restored to the Budget Stabilization Reserve.

BUDGET REFERENCE

Fund #	Appn #	Appn Name	Total Current Appn.	Rec. Budget Action	2018-2019 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	8399	Budget Stabilization Reserve	\$7,000,000	(\$500,000)	IX-58	01/24/2019, Ord. 30212
001	NEW	Federal Worker Loan Assistance Program Guaranty Reserve	N/A	\$500,000	N/A	N/A

CEQA

Not a Project, File No. PP17-003 Agreements/Contracts that require no physical changes to the environment.

/s/
JULIA H. COOPER
Finance Director


MARGARET MCCAHAN
Budget Director

For questions, please contact Julia Cooper, Director of Finance, at 408-535-7011.