



SPECIAL AGENDA: 01/24/19
FILE: 18-1869
ITEM: 2

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kip Harkness
Margaret McCahan

SUBJECT: SEE BELOW

DATE: January 23, 2019

Approved

D. D. S. L.

Date

1/23/19

**SUBJECT: ACTIONS RELATED TO FEDERAL WORKERS AT THE NORMAN Y.
MINETA SAN JOSÉ INTERNATIONAL AIRPORT**

RECOMMENDATION

- (a) Adoption of a resolution authorizing the City Manager or his authorized designees to negotiate and execute one or more agreements with Technology Credit Union (TechCU) and to take any other necessary actions in connection therewith for the servicing and administering of a loan assistance program available to all federal employees assigned to the Norman Y. Mineta San Jose International Airport in an amount not to exceed their monthly take home pay, with a loan program not to exceed \$5,000,000 and approval of 100% collateralization of the loan program in an additional amount not to exceed \$5,000,000, for a total amount not to exceed \$10,000,000.
- (b) Adopt the following 2018-2019 Appropriation Ordinance amendments in the General Fund:
 - (1) Establish a Federal Worker Loan Assistance Program City-Wide expenses appropriation to the Finance Department in the amount of \$10,000,000.
 - (2) Decrease the Budget Stabilization Reserve by \$10,000,000.
- (c) Direct staff to expeditiously implement the Federal Worker Loan Assistance Program and dedicate resources to ensure successful outreach to the federal workers at Norman Y. Mineta San Jose International Airport.

OUTCOME

Adoption of this action will authorize the City to work with TechCU to create a loan assistance program for the federal workers at the Norman Y. Mineta San José International Airport (“Airport”) as they continue to work without pay or are furloughed (“Program”). The Program would consist of the loan and other services that would help these workers cover their living expenses, such that they can continue to perform their necessary duties at the Airport.

BACKGROUND

Since the federal government shutdown that started on December 22, 2018, federal workers are no longer being paid. These federal employees are currently scrambling to find money to pay rent or a mortgage, buy groceries and gas, pay for children care, and other day-to-day living expenses. These struggles create a large burden on our federal partners and fellow neighbors who are an integral part of the seamless customer experience and continued safe and secure operations at our airport.

There are an estimated 500 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 FAA provides air traffic control and technical support for the safe sequencing of aircraft landings and departures, as well as for the operation and maintenance of critical navigational equipment. The FAA also has certification inspectors to ensure aircraft and flight crews are in compliance with the applicable safety laws. CBP officers provide the processing of international flights and passengers into the United States. The TSA provides a wide range of security operations with employees that serve in the capacity of checkpoint screening personnel, canine teams, behavior and intelligence officers, and a wide variety of other security personnel. The TSA has 400 of the 500 federal employees and approximately 48% live in San Jose. The federal agencies and the Airport work together to ensure a safe and seamless processing of people and aircraft.

Unfortunately, the federal shutdown continues without a clear resolution. This burden on the federal employees has already resulted in a notable increase in absenteeism for the TSA workers at the Airport, however the callouts in San Jose are below the national average. Businesses in the San Jose community have been very generous, with many donating food to the federal workers over the recent weeks. In addition, passengers have routinely thanked the workers for coming to work without a paycheck and some have purchased food from the concessions to distribute to the workers.

As a direct result of these challenges, 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 federal employees who work at the Airport.

ANALYSIS

City staff from the City Manager's Office, City Attorney's Office, Airport, Finance, and Economic Development commenced work on a short-term loan program. Initially, conversations commenced with Wells Fargo Bank ("WFB"), the City's current bank. It became apparent that due to regulatory constraints and a desire for WFB to not create a "San Jose specific" program, WFB was not in a position to deliver a program based on the guiding principles developed from discussion with the City Council. In response, discussions commenced working with Technology Credit Union ("TechCU").

Based on input from City Council, staff formulated the following guiding principles for the creation of the Program:

- Provide loans to federal workers assigned to the Airport,
- Maximum amount of the loans will not to exceed take home pay,
- Loans will be disbursed bi-weekly for up to three months, unless the Program is extended by the City Council and the TechCU,
- Loans are interest free during the shutdown period,
- Loans will be repaid shortly after recipients receive their back pay, so that these loans do not become a future burden,
- Financial institution will administer the Program and be responsible for all administrative details,
- Loans will be available regardless of credit history,
- No fees will be charged to City for administering the Program,
- No loan origination fees will be charged to the borrowers,
- The lending institution (or other organization) will also provide financial counseling to assist federal workers, and
- Loans should be provided as expeditiously as possible.

Key Elements of the Loan Program with Technology Credit Union

Based on initial and ongoing discussions with TechCU the key provisions of the Program for the borrowers include:

- Interest free loans to all federal workers at the Airport regardless of whether the employee is working without pay or is furloughed,
- Interest will begin to accrue at 12% if not repaid within 14 days of receipt of federal back pay,
- Maximum amount of each bi-weekly loan disbursement will not exceed take home pay,
- No fees will be charged to the federal workers for opening or servicing these loans if repaid within the terms of the loan agreement,
- Loans will not require a credit check,

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- Loans will be repaid, with a balloon payment for the full amount due, within 14 days after the federal workers receive their checks for back pay,
- Loans are to be provided with as little delay as possible,
- Participants will be required to become members of TechCU; however, the five dollar (\$5.00) membership fee will be waived by TechCU,
- All administrative support, including the processing of loan documents, collection efforts, will be managed by TechCU, and
- Licensed credit counselors will be available to assist federal workers with options and financial counseling.
- Initial loan disbursement to cover paychecks missed during January.

In order to facilitate the Program, Airport staff will be responsible for the following activities:

- Work with federal agencies to provide for a process for confirmation of federal workers at the Airport,
- Work with TechCU to inform the federal workers of required documents needed for the loan application, and
- Provide temporary space at the Airport for TechCU to hold a pop-up operation to facilitate activity between federal workers and TechCU.

The Program was developed within the framework of guiding principles that include the City partnering with a qualified financial institution that can safely and securely administer the Program, implement it as quickly as possible, create a simple program, and provide no-interest loans to the Airport federal employees during the term of the shutdown. Key elements of the agreement between the City and TechCU include:

- City will become a business member of the TechCU.
- Loans will be cash collateralized with a deposit of the maximum Program amount of \$5.0 million. This is a necessary component 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 program and implementation time.
- City will initially deposit \$5.0 million in an interest-bearing account at TechCU and these deposited funds ("Cash Collateral Deposit") will allow the Program to remain a no-cost program. It is the deposit of these funds that creates the ability for TechCU to loan the funds to federal employees at no interest and provide the Program to the City at no cost.
- Cash Collateral Deposit needs to be funded upfront 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.

- City will fund loans in a Loan Program Deposit Account as the TechCU approves and disburses loans. For example, if the first round of loans totals \$1.0 million, the City will transfer \$1.0 million to TechCU prior to disbursement of approved loans.
- All administrative support, including the processing of loan documents, collection efforts, will be managed by TechCU, and
- No fees will be assessed to the City for servicing these loans.

Outreach

The City will host a Resource Fair at the Airport where TechCU representatives will be available for meetings with federal workers to assist in the loan process and provide financial counseling services. In addition, the Airport has identified temporary space for TechCU to operate for ease of access to federal workers who are interested in the Program and would like to meet with TechCU during their lunch break or before/after their shift change. The event, as well as TechCU's availability at the Airport, will be widely distributed to the federal agencies to distribute to their workers. In addition, TechCU will be available at their offices at 1st Street and Brokaw, approximately one-half mile from the Airport to provide these services.

Financial Risks of Federal Employee Loan Program to the City

There are two key risks to the City related to establishing a loan program for federal employees at the Airport and entering into an Agreement with TechCU to execute and manage the Program. The first risk is counterparty risk, the risk associated with the City's agreement with TechCU, and the second risk is borrower loan default. Both are discussed below.

Counterparty Risk -- The National Credit Union Administration (NCUA) is an independent agency of the United States government that regulates, charters, and supervises federally insured credit unions. NCUA also operates and manages the National Credit Union Share Insurance Fund (NCUSIF) program which insures deposits up to \$250,000 and is backed by the full faith and credit of the United States government. In the rare event that a credit union fails, the NCUA matches dollar-for-dollar up to the \$250,000 limit. Any deposited funds in excess of \$250,000 are not guaranteed and will not be NCUA insured.

Borrower Loan Default Risk -- The borrower loan default risk is associated with amounts loaned to federal employees (i.e. borrower) working at the Airport that are not paid when due. The loan default risk is elevated since the analysis of credit history will not be required for obtaining a loan and the loan will be uncollateralized (i.e. no secured assets tied to the loan). Also, as similar financial assistance programs are developed and offered to the impacted federal employees, there are no restrictions on the number of programs they may apply for and no way to track and monitor the number of programs an impacted federal employee may be participating. There is the potential that borrowers

take advantage of more than one program and become overexposed financially. In this scenario, the borrower may not be able to repay the full loan amount when due.

If amounts are not repaid when due, interest charges on the outstanding balance will begin to accrue at 12%. After a good faith effort to collect outstanding loans by TechCU, the accounts will revert to City staff for additional collection efforts. Ultimately, if amounts are deemed uncollectible, the outstanding balances may be written off.

EVALUATION AND FOLLOW-UP

Staff will provide an Information Memorandum updating the City Council on the status of the Program and will return to City Council if expansion or modification of the Program is required.

POLICY ALTERNATIVES

Alternative: Do not implement a short-term loan assistance program for federal workers.

Pros: This alternative requires no action on the part of the City.

Cons: The federal workers at the Airport perform safety, security, and mission-critical activities that are integral to the operation of the Airport. Increasing absenteeism due to the ongoing federal shutdown will likely adversely impact Airport operations and customer service.

Reason for not recommending: Financial support of federal employees during the federal shutdown would likely mitigate absenteeism and the potential for federal workers looking for alternate employment and in turn support the ongoing operation, safety and security of the Airport and its benefits to the wider community.

PUBLIC OUTREACH

This item was discussed during a special City Council meeting on January 15, 2019 and has since been covered in several news outlets. This memo is to be posted for the January 24, 2019 City Council special meeting.

COORDINATION

This memo has been coordinated with the Airport and Finance Departments, the Office of Economic Development, and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

There is no Commission input on this item.

COST SUMMARY/IMPLICATIONS

The recommended actions establish a no interest short-term loan program for federal employees to borrow amounts up to their take home pay that is currently not being received during the federal government shutdown. These loans would be repaid once the impacted federal employees receive their back pay.

Initially, the Administration had assumed that Airport cash reserve funds would be used to fund these loans. However, given recent communication from the FAA, this may not be an allowable use of Airport funds. In order to expedite implementation of the Program, the use of the General Fund Budget Stabilization Reserve is recommended as the funding source. This reserve would be replenished once the loan repayments are received. If it is later determined that Airport funds can be used for this purpose, budget actions may be brought forward to change the funding source for the Program. In addition, if the Program extends beyond the 2018-2019 fiscal year, budget actions may be recommended to change the funding source to other one-time funds in the General Fund in order to replenish the Budget Stabilization Reserve.

Under the Program, TechCU would loan up to an amount not to exceed \$5.0 million to federal employees. This amount would cover an average loan amount of \$2,500 per bi-weekly pay period for three months with an estimated 65-70% of eligible employees participating in the Program. The City would also maintain \$5.0 million in the Cash Collateral Deposit at all times. The appropriation actions allocate \$10.0 million to the Program to account for the \$5.0 million for the Loan Program Deposit Account and Cash Collateral Deposit amount of \$5.0 million to cover the collateralization requirement. The City would receive interest on the funds held in the Cash Collateral Deposit Account.

As described above, there are two types of risk to the City funds: counterparty risk and borrower loan default risk. Given federal regulations and laws, the General Fund will be responsible for these risks, including funding any defaults associated with these loans, even if it is later determined that Airport funds can provide loan funding.

Changes to the Program may be brought forward in the future based on actual experience in the Program.

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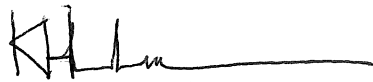
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BUDGET REFERENCE

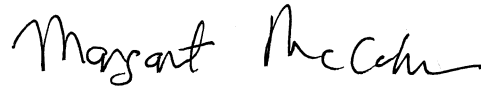
Fund #	Appn#	Appn Name	Total Current Appn.	Rec. Budget Action	2018-2019 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	8399	Budget Stabilization Reserve	\$17,000,000	(\$10,000,000)	IX-58	10/16/2018, Ord. 30172
001	NEW	Federal Worker Loan Assistance Program	N/A	\$10,000,000	N/A	N/A

CEQA

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



KIP HARKNESS
Deputy City Manager



MARGARET MCCAHAN
Budget Director

For questions, please contact Matthew Kazmierczak, Manager of Strategy and Policy for the Airport, at 408-392-3640, and for questions regarding the loan program, please contact Julia Cooper, Director of Finance, at 408-535-7011.