

The COJ/Vystar Loan Program seems like a great program. Of course, Vystar Credit Union is a stellar institution as well. However, COJ/ Vystar Loan Program should not be funded through Federal CARES Act Relief Funds.

How the Program Works:

- The business owner applies for a line of credit with the Vystar Credit Union (Vystar's streamlined application is flawless).
- Upon approval, the city "grants" the business \$1000 (using CARES Act Funds)
- **Year 1** - If the business owner withdrawals from their line of credit, anytime during the first year, the city "grants" the business owner (using CARES ACT Funds) the 4.99% interest that may accrue. No strings attached. No obligation to keep employees on the payroll
- **Years 2-6** - If the business owner withdraws from the line of credit during years 2-6, the city will continue "granting" their interest cost only if the business owner proves they have at least 50% of their pre-COVID employees on the payroll
- **Years 2-6** - If the business owner withdraws from the line of credit during years 2-6, the city will "grant" 10% of the annual principal balance only if the business owner proves they have at least 50% of their pre-COVID employees on the payroll
- The business owner can opt not to submit proof of payroll and simply pay their own interest
- The business owner can apply for a line of credit to simply get the \$1000 grant, never intending to use the line of credit
- Since there is no guarantee business owners will withdrawal from the loan, there is also no guarantee the city will have to make the interest payments they are currently holding in reserve

The COJ/ Vystar Loan Program does not meet the following CARES Act Fund guidelines:

- The Coronavirus Relief Fund Local Government Guidance Form (Page 2, Paragraph 2) states the funds can cover "*costs incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.*" The COJ/ Vystar Loan Program holds money aside to cover potential program costs that extend out to April 2026. <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>
- The Coronavirus Relief Fund Frequently Asked Questions for Local Governments (Page 6, Question 4) states, "*the government should not use the Fund to make prepayments on contracts.*" By the city holding millions in relief funds intending to spend it for future contracted payments over the next six years, they are essentially "pre-paying" their contract with business owners and Vystar Credit Union. Furthermore, there is no guarantee the business owners will even withdrawal from the loan. Therefore, there is no guarantee the city will have to make those interest payments <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>
- The Coronavirus Relief Fund Frequently Asked Questions for Local Governments (Page 8, Question 4) states, "*if a government has not used funds it has received to cover costs that were incurred by December 30, 2020, as required by the statute, those funds must be returned to the Department of the Treasury.*" If every business withdrew the maximum amount of their line of credit, resulting in the city paying the maximum in interest payments, the amount in reserve would not be exhausted by the December 30 deadline.

This would result in the city having to return the funds to the Department of Treasury. <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>

Other Problems with the COJ/ Vystar Loan Program:

- 1. Overlooks Census Data:** The CARES Act mandates the Treasury use the latest U.S. Census Bureau data when aggregating distribution methodologies amongst States. It is indisputable that the CARES Act's intentions were to distribute relief funds in the amounts that are proportionate to the city's population size. The Vystar Loan Program does not adopt that same methodology. The program utilizes a significantly large portion of the relief funds to help a very small fraction of the city's population.
- 2. Lack of Access:** Only 20% of the city's businesses (those with brick & mortar and W-2 employees) qualify to apply for Vystar's line of credit. When compared to the remaining 80% of the city's businesses (that don't qualify for the line of credit), the types of businesses that do qualify for the line of credit are the same types of businesses with least difficulty qualifying for Federal PPP/EIDL loans and State/ Federal Unemployment. (Duval Census Non-Employer Business Stats: <https://www.census.gov/quickfacts/duvalcountyflorida>)
- 3. Lack of Analysis and Accountability:** Without knowing how much of the loans are being withdrawn from, the City Council cannot make a critical analysis of who the funds are helping or not helping. They also cannot determine which, if any, businesses are actually using their lines of credit. Is this legal? Transparent?
- 4. Lacks Urgency:** Jacksonville cannot wait for the council to "wait until November to re-evaluate the program's effectiveness." That gives The Council only one month to determine how to redistribute the leftover funds before the December deadline. Making it highly likely they will make yet another rushed decision that will not serve business owners justly. Businesses need relief funds now!
- 5. No Guarantee to Help Small Businesses:** at 6/10/20 council meeting, council members refused to propose a resolution declaring all unused COJ/Vystar Loan Program funds be re-distributing to more cash grants for Jacksonville's business owners, 1099 contractors, self-employed, sole-proprietors and freelancers. Council member's unwillingness to propose the resolution signals they do not intend on keeping the promise they made to the public to spend \$27M helping small business owners.
- 6. There is No Job Guarantee:** The COJ/Vystar Program does not mandate business owners to keep their employees on the payroll. The business owner's interest is paid the first year, with no strings attached. Year 2-6, they can opt-out of the interest grant altogether.
- 7. Requires business owners to take on debt.** Why is the City Council is requiring businesses to take out a line of credit to pay their employees' salaries? When they could use the funds to instead directly pay their employees via city-wide cash grants.
- 8. \$27M in expenditures is a prediction:** Businesses are not guaranteed to withdraw from their line of credit. Therefore, there is no guarantee the city will accrue interest costs for all the businesses. In years 2-6, businesses are not guaranteed to qualify for (or obligated to apply for) the continued interest payments or the 10% principle balance payments. The city holding all these funds in reserve is moot.
- 9. \$27M for the 1%:** Based on the latest publicly available invoices, only 970 businesses

have received a line of credit. Based on Duval Census Data (linked above), Jacksonville has 100,000 businesses. Our city is essentially reserving \$27M in "case" 1% of our businesses withdraw from their line of credit.

10. **Only \$9M for the 80%:** Meanwhile, \$9M was spent providing 4500 of the 78,000+ remaining businesses cash grants.
 1. **Businesses are not making withdraws:** Based on the latest publicly available invoices, the city only spent \$35,000 on interest. With a 4.99% interest rate, this means businesses have withdrawn roughly \$700,000 from the \$40M in lines of credit granted. Without transparency of data, we have no way of telling how many businesses are withdrawing.
 2. **The money is not being spent:** Based on the latest publicly available invoices, only \$1.2M has been spent. Only \$35,000 has spent on actual interest cost. \$970,000 was spent giving 970 business owners \$1000 grants. \$213,000 was spent on paying the credit union once off-underwriting loan fees. These last two costs will eventually reduce to zero as new loans are no longer processed.

QUESTIONS FOR CFO GRIEVE: Since my public comments cannot be read out loud in city council meetings. Please consider these challenging follow-up questions for CFO Grieve:

Q1. How much has the city paid to the people in the form of interest payments? If Grieve responds with "we have gotten over \$40M in funding," please remind him that is the amounts in lines of credits businesses have received from Vystar. It has nothing to do with how much the city has used of federal relief funds. Have him read aloud the interest paid so far (\$35,000).

Q2. Does the low-interest cost imply the lines of credits are not being used? Why does he think this is? Answer: very few small businesses are in a position to put their employee's salary or business expenses on credit.

Q3. Based on the invoices as of May 20, 2020 only 970 businesses have been granted lines of credit. Jacksonville has a little over 100,000 businesses. Does Grieve think holding \$27M in reserve to pay the possible interest of 1% of the city's businesses is a little excessive? If he states, this program saves jobs. Please ask to reference the job retention requirement in year one of the program. Ask him if the business owner can opt-out of the program at any time and just pay their own interest?

Q4. \$27M/ 970 businesses= \$27,835.05 each. Can Grieve provide examples of other successful pandemic relief funding models with a similar inflated budget to benefactor ratio?

Q5. What percentage of the businesses have withdrawn from their line of credit?

Q6. At the 4/27 City Council meeting, Grieve stated that businesses who hire 1099 employees like hair salons and gyms were eligible to apply for this program, but they are still getting turned down. After five emailed requests to Grieve over six weeks, the Vystar website has still not been updated to include these types of business owners. Vystar has explained that they cannot change the website without the city's ok. Will someone ask to Grieve to correct the record and clarify whether businesses with 1099 employees can or cannot apply for the loan?

