



TO: CITY OF RACINE REDEVELOPMENT AUTHORITY
CITY OF RACINE COMMON COUNCIL

FROM: CAROLYN ENGEL, BUSINESS FINANCE MANAGER

RE: CAPITAL CATALYST PROGRAM

DATE: OCTOBER 26, 2015

The Racine County Economic Development Corporation has secured a grant award from the Wisconsin Economic Development Corporation (WEDC) to capitalize a new loan fund through the WEDC Capital Catalyst program. This program was established to support innovation based, start-up and early stage businesses by providing grants, loans and equity investments to eligible businesses. This program will have the ability to fill a funding gap for businesses that are or will be located in the City of Racine.

Industries of focus include but are not be limited to the following:

- Advanced Manufacturing
- Agriculture or Food Processing
- Information Systems or Software
- Medical Devices and Research
- Biosciences and Renewable/Green Energy

WEDC has awarded \$100,000 to establish this program contingent upon a local 1:1 match. The City of Racine is being requested to provide the required matching funds of \$100,000 from Intergovernmental Revenue Sharing Funds to launch the new program. Additionally, the City is being requested to approve the Policy Manual for this program which will be referred to as the Seed Capital Fund.

Attached is an outline of the parameters of the fund, as well as, the Policy Manual for consideration. The goal is to launch the program by December 1, 2015 making it available to City of Racine businesses.

City of Racine

Seed Capital Fund

Funding Sources: WEDC \$100,000
 City of Racine \$100,000

Purpose: The Program will make grants, loans and equity investments in innovation based, start-up and early stage businesses that are or will be located in the City of Racine.

Original Fund
Availability: The Fund will be established with the original \$200,000 to be allocated as follows:

Uses	WEDC	City	Total
Grants	\$34,000		
Any Structure (Grants, Loans, Equity)	\$66,000	\$100,000	
Total	\$100,000	\$100,000	\$200,000

It is a requirement of the grant from WEDC that \$34,000 of its grant funds be allocated as direct grants of up to \$10,000 to applicants. These grants would not require a repayment of the funds.

Program objectives:

1. To assist with the creation of innovation based companies who are in the early stages of development or the start-up phase.
2. To encourage the creation and retention of permanent jobs which provide a wage appropriate to the skills and experience of the local workforce.
3. To encourage the leveraging of private investment in the City of Racine in the form of mixed asset investment particularly in the area of innovation technology.
4. To encourage the development and use of modern technology and create a safe work environment.

Primary Goals: There are three primary goals set for this program:

1. Provide low interest loans to businesses graduating from Gateway Technical College's Accelerator program (a Small Business Administration funded program).
2. Recruit new businesses to the City of Racine.
3. To support growing City of Racine entrepreneurs and small businesses within the defined industry criteria of the program.

Target Area: City of Racine

Eligible Businesses: High growth start-ups and emerging growth companies that are located in or will locate in the City of Racine. Industries of focus will include but not be limited to:

- Advanced Manufacturing
- Agriculture or Food Processing
- Information Systems or Software
- Medical Devices and Research
- Biosciences and Renewable/Green Energy

Ineligible businesses include those whose primary market is direct consumer purchased retail, restaurant or hospitality industry sectors.

Use of Funds:

- Land and building purchases, construction and renovation
- Site preparation, demolition and remediation
- Leasehold improvements
- Equipment
- Furniture and fixtures
- Professional fees such as feasibility studies, consulting fees and legal fees associated with project development
- Working capital
- Other purposes as deemed eligible by the RCEDC Loan Committee and Executive Committee

Review Process: RCEDC administers the fund as its Lender and has authority for approvals of applications. The review process is as follows:

1. Staff Review
Applications are reviewed by RCEDC staff for completeness and verification that the project meets the necessary eligibility requirements.
2. RCEDC Loan Committee
Loan processing is completed by the RCEDC staff and presented to the RCEDC Loan Committee.
3. Executive Committee
A final recommendation for approval is made to the RCEDC Executive Committee.

RCEDC's current Loan Committee of nine (9) volunteers will include at least one member with expertise or skills that would be valuable for this type of loan program.

Amount Available
For Each Project:

Up to \$100,000

Rate/Terms:

Negotiable on each project. Generally, loans will be made at 2% interest rate and no higher than P+2%. Deferrals and other creative structures may be considered.

Portfolio

Expectations:

- This is a higher risk loan fund .
- Loans would generally be secured with a Note and lien on business assets but typically no personal guarantees.
- Notes may be converted to equity and depend upon long term performance of the business.

Administrative Fees: No amount of the original Fund investments will be used for administrative fees. Repayments from businesses receiving dollars from the Fund will be used to both replenish the Fund and pay reasonable administrative costs for the management of the fund. Administrative costs for this Fund will be funded as follows:

- 1.5% processing fee charged to Borrower
- Interest earned on the fund will be used to cover administrative costs of the program
- Closing costs will be the responsibility of the recipients of these funds

Costs and fees will be monitored to determine whether they are appropriate.

Recipients

Reporting

Requirements:

Recipient businesses are required to report to RCEDC (for reporting purposes to WEDC and City of Racine) on the following items for five years after receiving the award:

- Employment levels
- Salaries and wages
- Capital leverage

Timeframe to

Commit Funds:

All Funds must be committed within 18 months of executing the WEDC disbursing the award into the Fund.

Next Steps:

The following steps are being completed to establish the Fund with a goal of launching the program by November 1, 2015:

- City of Racine RDA and City Council consideration of an allocation of matching funds and approval of the program policy manual
- RCEDC Executive Committee approval of the program policy manual and approval of a new Loan Committee member, if appropriate, that works with these type businesses
- WEDC Agreements for its portion of the award are signed.
- By Dec. 1, 2016: Program is announced and launched.
- By May 31, 2017: The Full \$200,000 original award will be committed to eligible businesses (within 18 months of WEDC funding received).

