



Economic Development Small Business Revolving Loan Fund



**A PROPOSAL TO ESTABLISH A CDBG SMALL
BUSINESS DEVELOPMENT REVOLVING LOAN FUND**

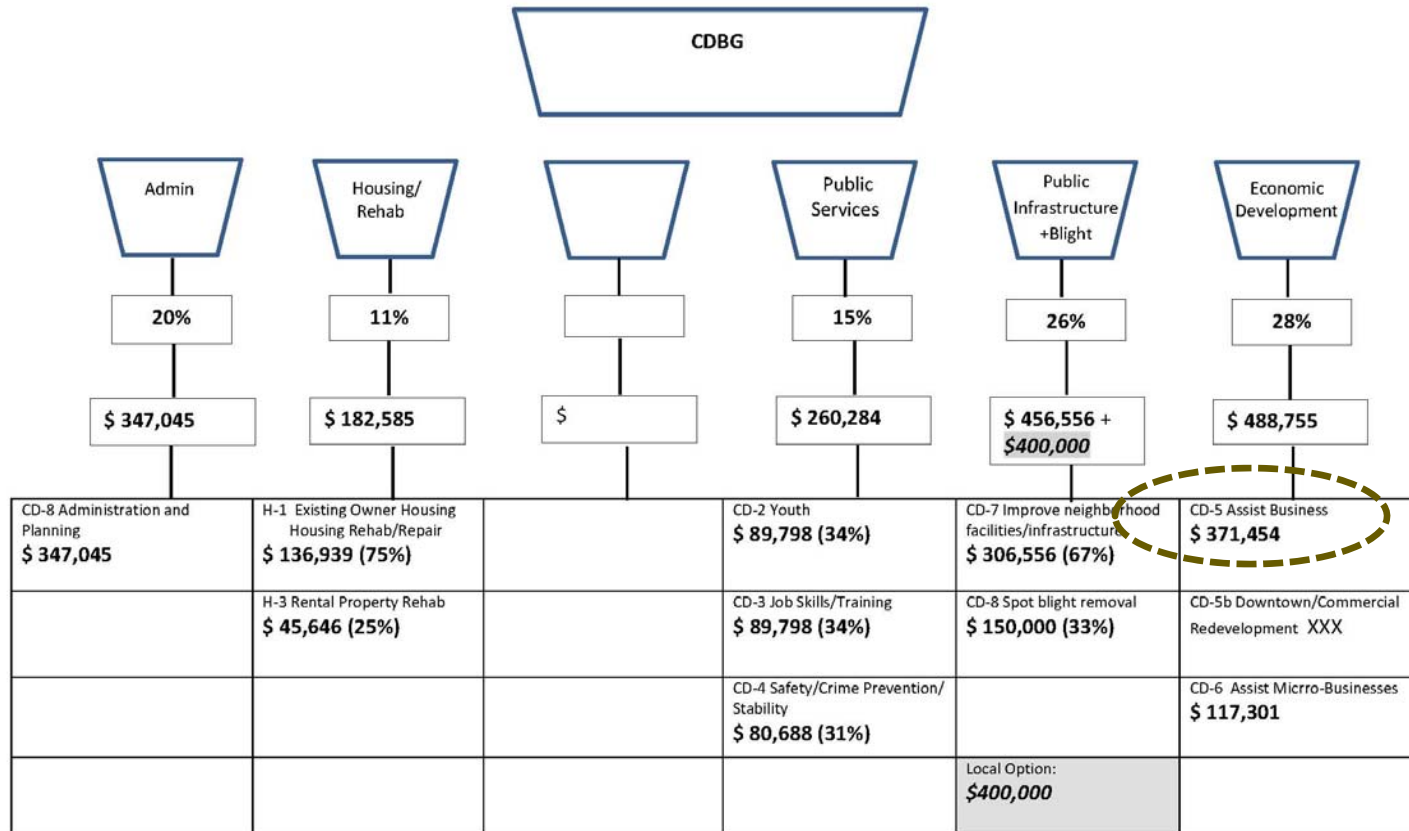
**DEPARTMENT OF CITY DEVELOPMENT
CITY OF RACINE, WI
730 WASHINGTON AVENUE
RACINE, WI 53403**

Consolidated Plan Allocation Priorities



RACINE 2015 CDBG FUNDING PRIORITIES

Amounts Available: **CDBG: \$1,735,225**

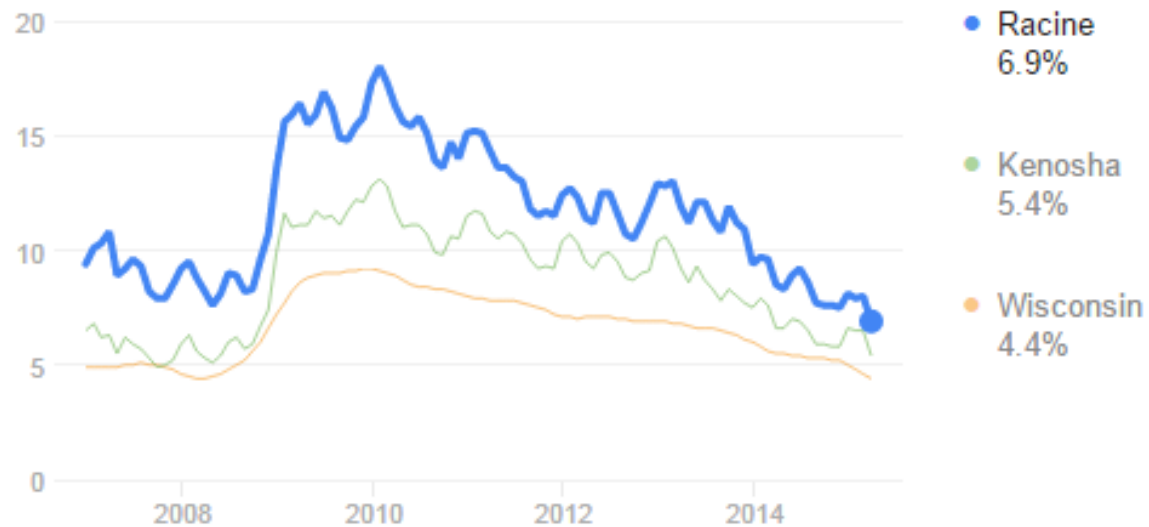



Unemployment Rate



6.9% (Apr 2015)

Racine, Unemployment rate

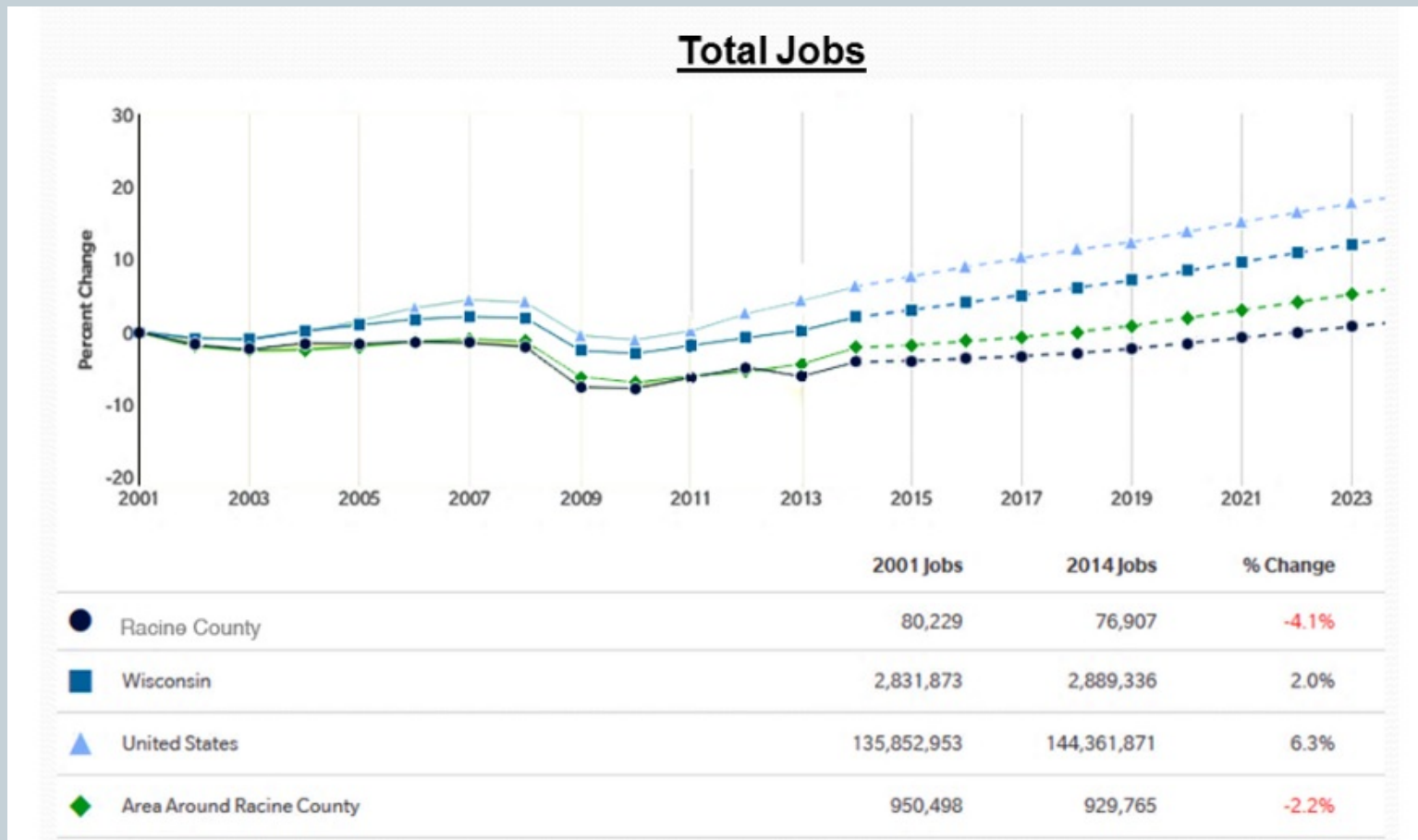


 [Explore more](#)

Sources include: U.S. Bureau of Labor Statistics

Fee

Total Number of Jobs Forecasted



Other Analyses Specific to Racine



- **Racine Federal Reserve Bank Report**
 - Industrial Cities Initiative
 - ✦ Lack of Educational Attainment
 - ✦ Inability to Annex
 - ✦ Lack of direct Freeway and/or Rail Access
- **Federal Home Loan Bank 2015 Economic Forecast**
 - Racine recovery not keeping pace with rest of State

Employment Levels Rising Across Nearly All Wisconsin MSAs

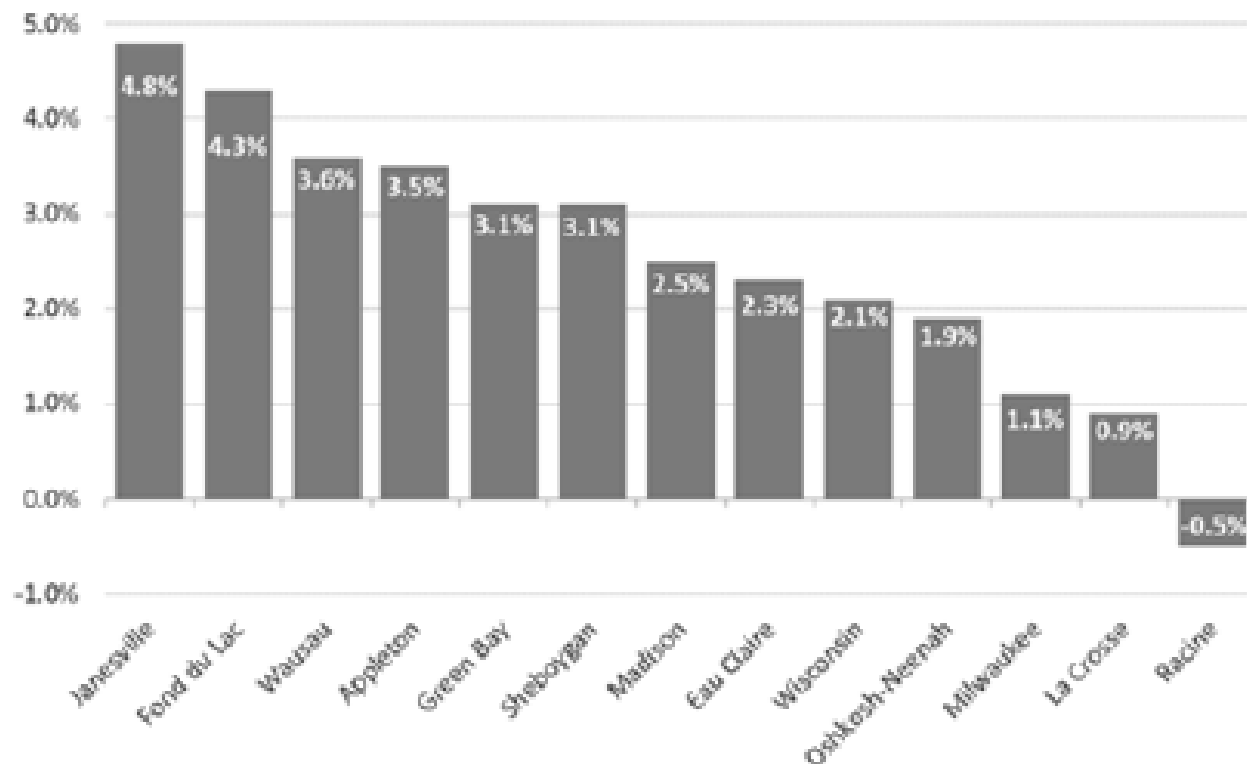
Wisconsin Metropolitan Area Employment

Wisconsin metro areas have seen strong growth in payrolls in recent months.

The Janesville and Fond du Lac areas have shown the largest job growth in the past 12 months out of all MSAs in Wisconsin.

While the Milwaukee MSA has also experienced a strong increase, other areas near Milwaukee – such as Racine – continue to struggle.

Non-Farm Payrolls By Metro Area
Year-over-Year Percentage Change



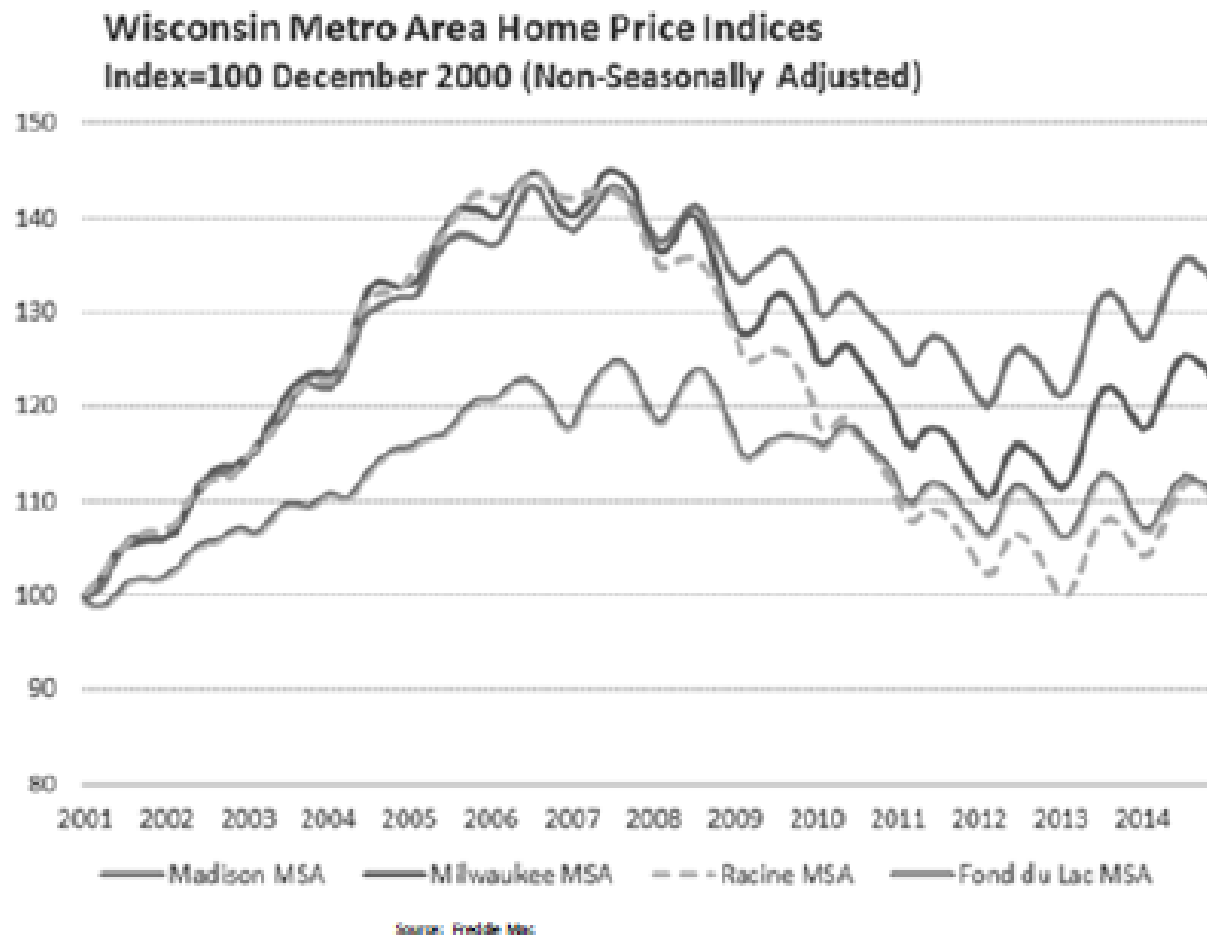
Source: Bureau of Labor Statistics

Wisconsin Home Prices on the Upswing

Wisconsin Metropolitan Area Housing Prices

The Madison and Milwaukee areas saw a similar housing bubble to other southeastern Wisconsin metropolitan statistical areas, though the decline has been less severe.

The Racine and Fond du Lac areas continue to be one of the hardest hit areas of the state, with housing prices continuing to struggle into 2015.



Why a Small Business Revolving Loan Fund?



- **Support & Create Small Businesses**
- **Create jobs for residents**
- **Increase the City's tax revenue.**
- **Leverage private investment**
- **Revolve limited resources for reinvestment into the community.**
- **Proven model of success**

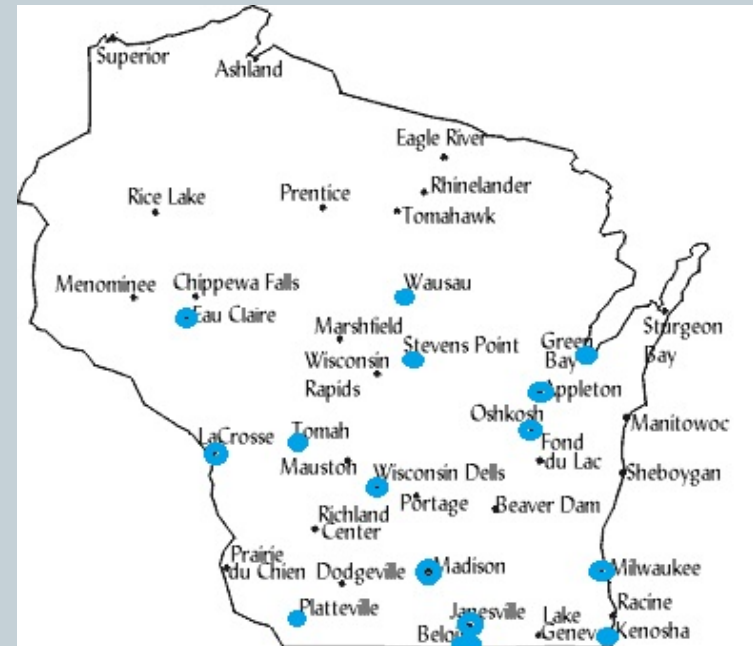
National CDBG RLF Model



Wisconsin CDBG economic development programs

Found in:

- Milwaukee
- Appleton
- La Crosse
- Green Bay
- Madison
- Kenosha
- Wausau
- Wisconsin Rapids
- Stevens Point
- Wauwatosa
- Eau Claire
- Neenah
- Platteville
- Janesville
- Beloit
- Wisconsin Dells
- West Bend
- ... and more



Why a Small Business Revolving Loan Fund?



CDBG Funding Declining:



Community Development Funding Trends

Year	Funding	Change
2000	CDBG: \$2,573,000 HOME: \$901,000 ESG: \$90,000	NA
2010	CDBG: \$2,129,205 HOME: \$635,844 ESG: \$88,108	2000 – 2010: -17.2% 2000 – 2010: -29.4% 2000 – 2010: -2.1%
2014	CDBG: \$1,708,782 HOME: \$434,103 ESG: \$137,767	2010 – 2014: -19.7%; 2000 – 2014: -33.6% 2010 – 2014: -31.7%; 2000 – 2014: -51.8% 2010 – 2014: +56.4%; 2000 – 2014: +53.1%

Source: HUD, Racine City Development

Why a Small Business Revolving Loan Fund?



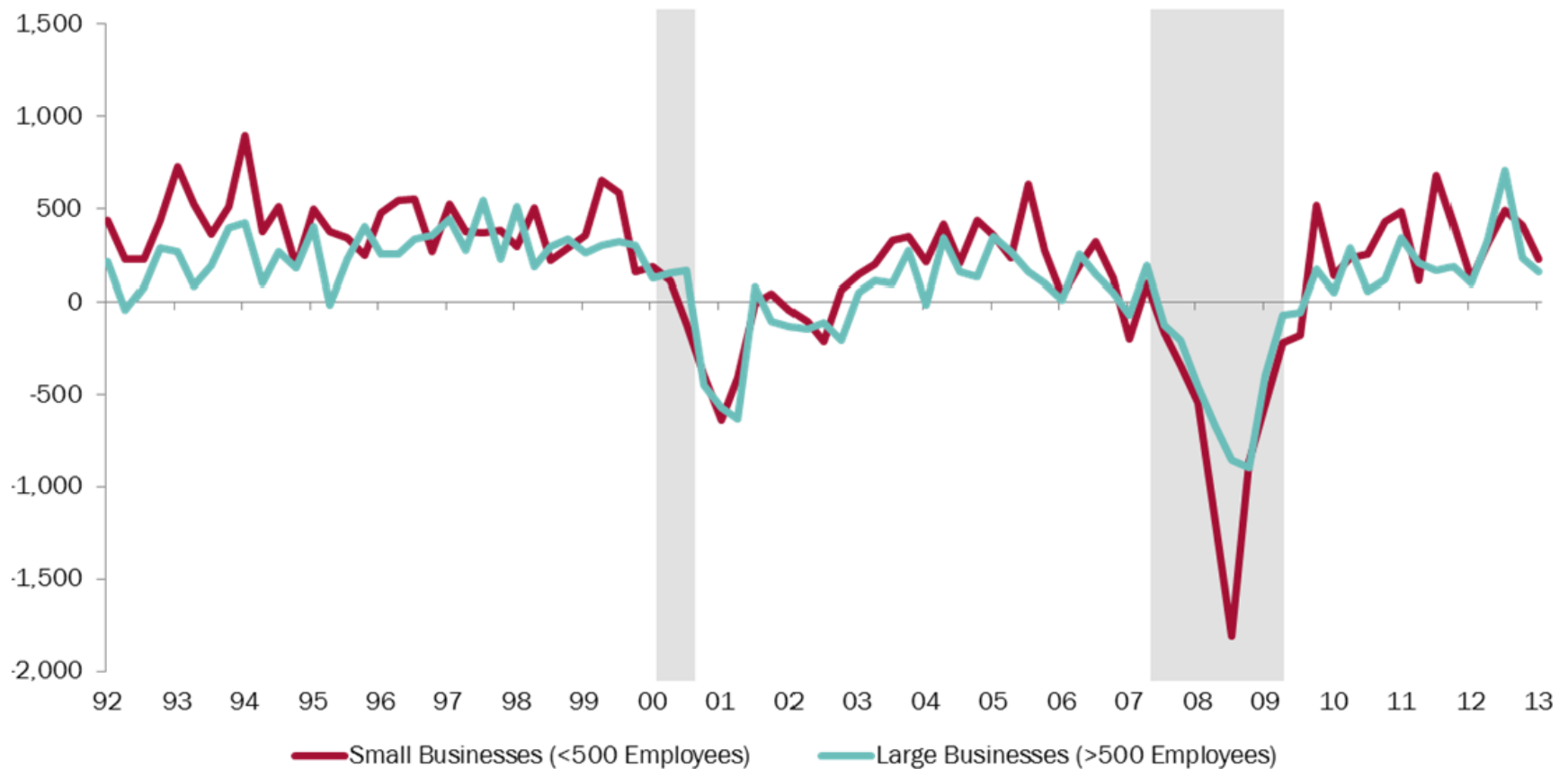
- Small firms employ half of the private sector workforce, and since 1995 small businesses have created about two out of every three net new jobs—65 percent of total net job creation.
- Small businesses were hit harder than larger businesses during the 2008 financial crisis, and have been slower to recover from a recession of unusual depth and duration.
- Small Business loans are down and becoming an increasingly lengthy and difficult endeavor

Why a Small Business Revolving Loan Fund?



Figure 4: Small Firms Hit Harder in Crisis, Representing 60 Percent of Job Losses

Net Job Gains or Job Losses by Firm Size ('000 Jobs)

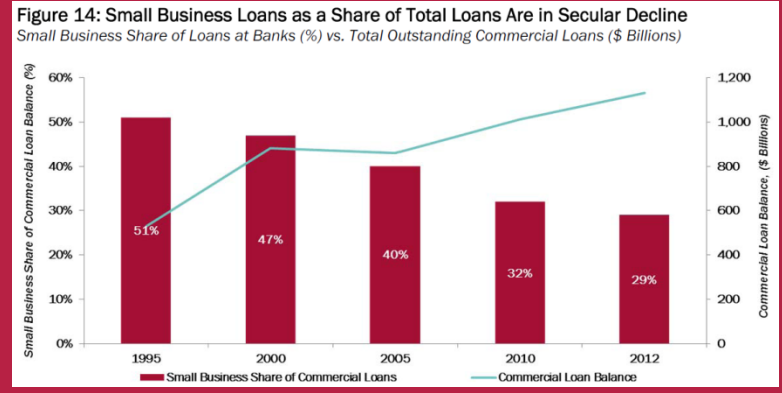
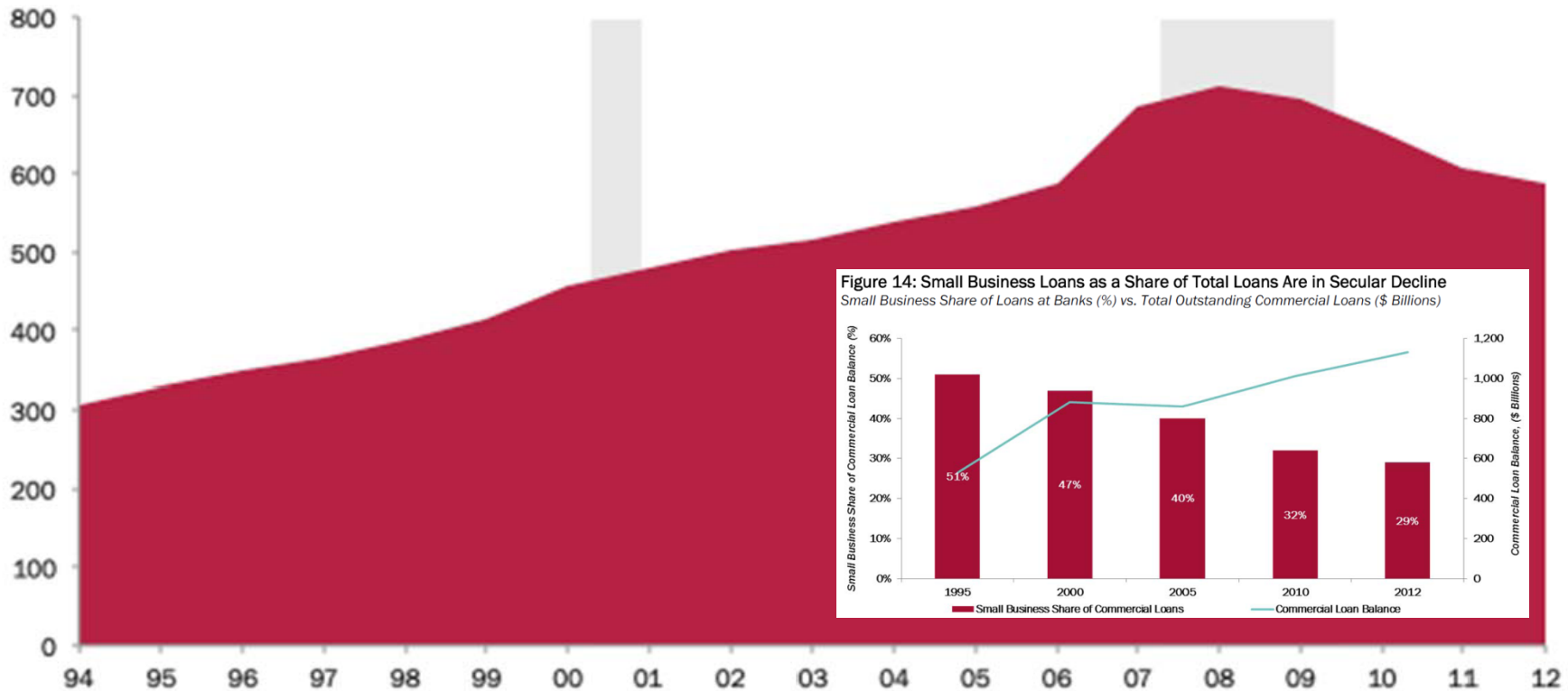


Source: Harvard Business School; "The State of Small Business Lending : Credit Access During the Recovery and How Technology May Change the Game"

Why a Small Business Revolving Loan Fund?



Figure 13: Small Business Loans Down About 20 Percent Since the Financial Crisis of 2008
Small Firm Loan Balances at Banks (\$ billions)



Source: Federal Deposit Insurance Corporation, Call Report Data. As of June 2012.

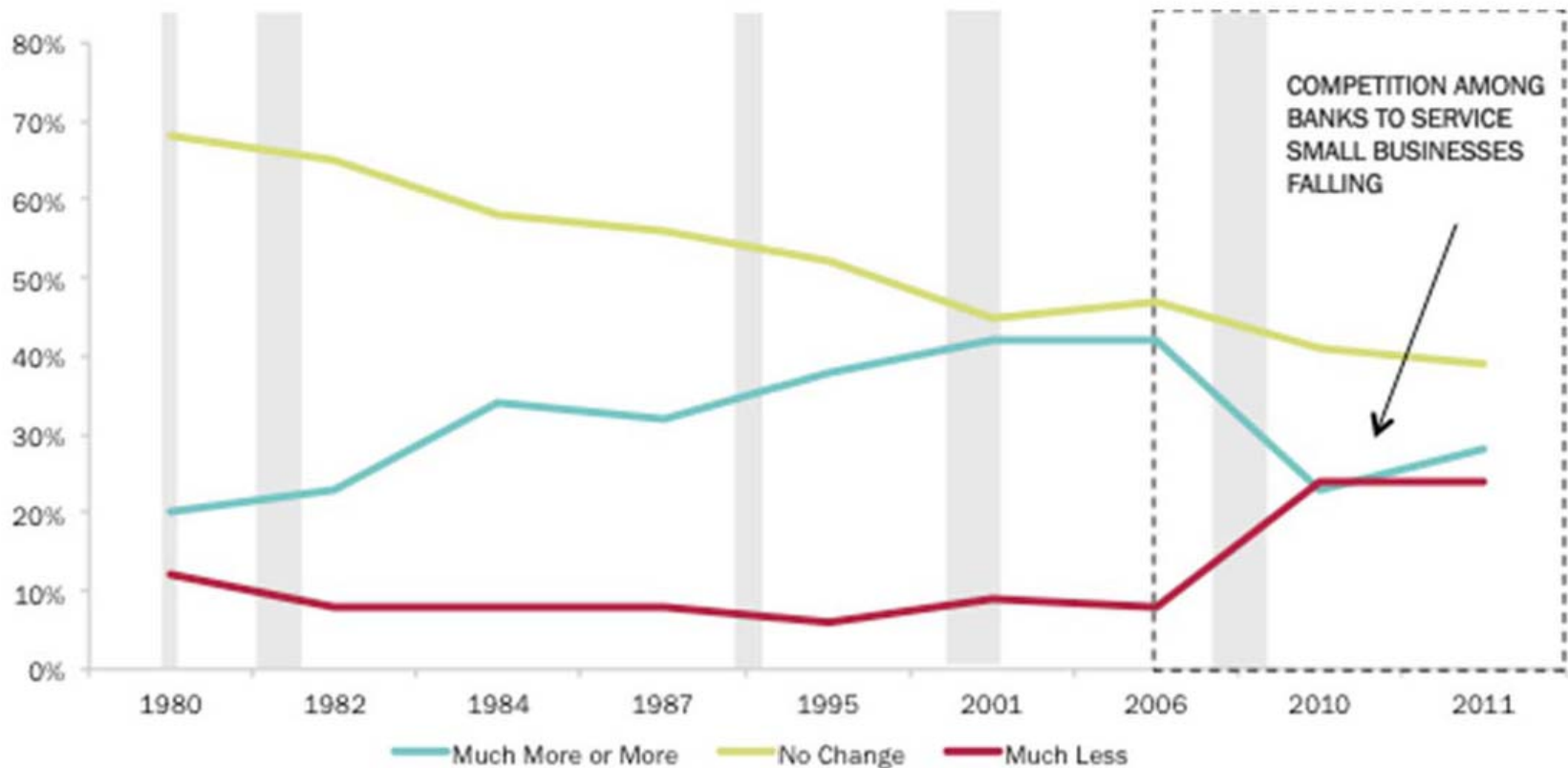
Source: Harvard Business School; "The State of Small Business Lending : Credit Access During the Recovery and How Technology May Change the Game"

Why a Small Business Revolving Loan Fund?



Figure 15: Bank Competition for Small Business Loans Is Falling

Percentage of Small Business Owners Noting Rising Banking Competition for Their Business



Source: Federal Reserve (New York), "Small Business Credit Survey", Fall 2013.

Source: Harvard Business School; "The State of Small Business Lending : Credit Access During the Recovery and How Technology May Change the Game"

Why a Small Business Revolving Loan Fund?



Figure 5: Primary Financial Institution
Percentage of Total Small Businesses Surveyed

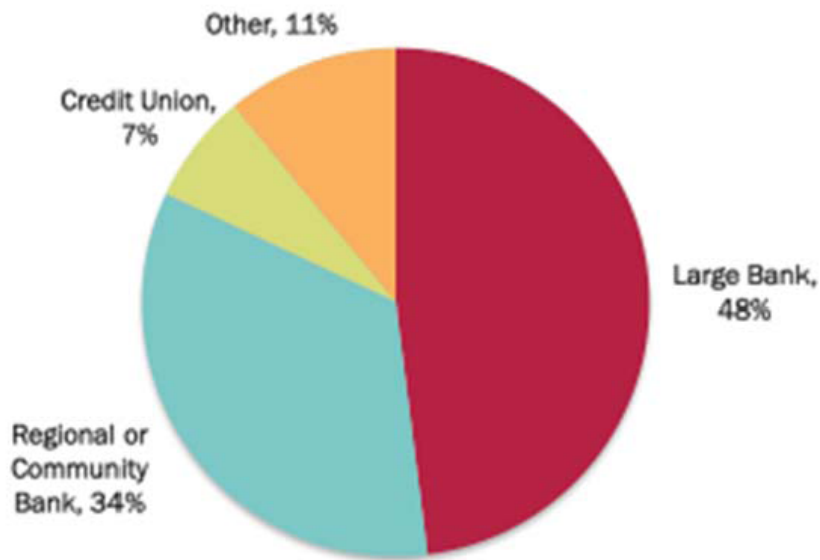
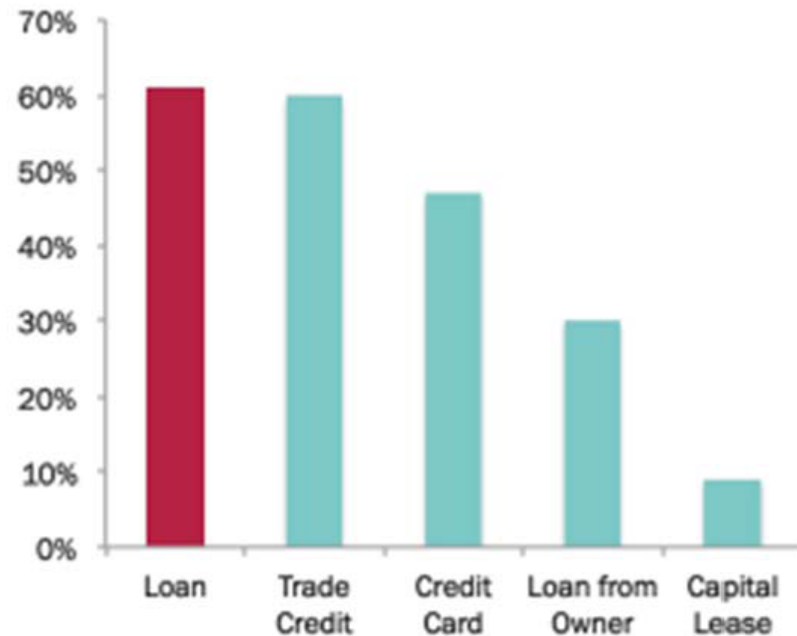


Figure 6: Small Business Sources of Capital
Percentage of Total Small Businesses Surveyed



Why a Small Business Revolving Loan Fund?



Figure 11: About 40 Percent of Small Businesses Apply for Credit

Percentage of Small Businesses Applying for Credit

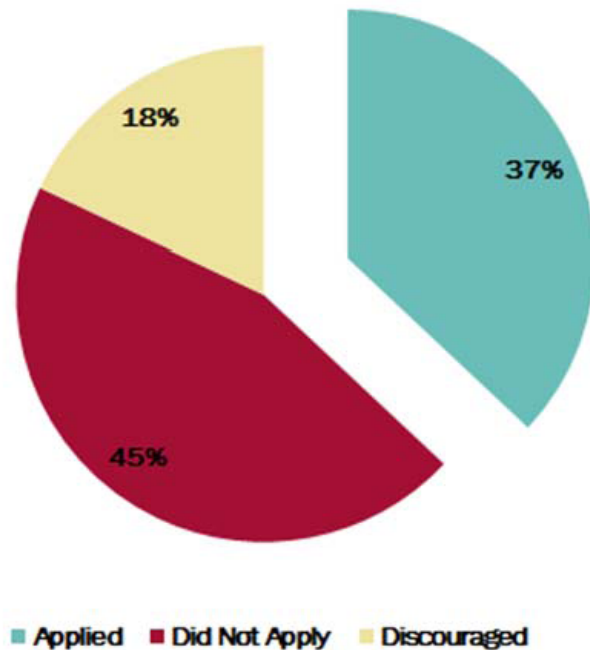
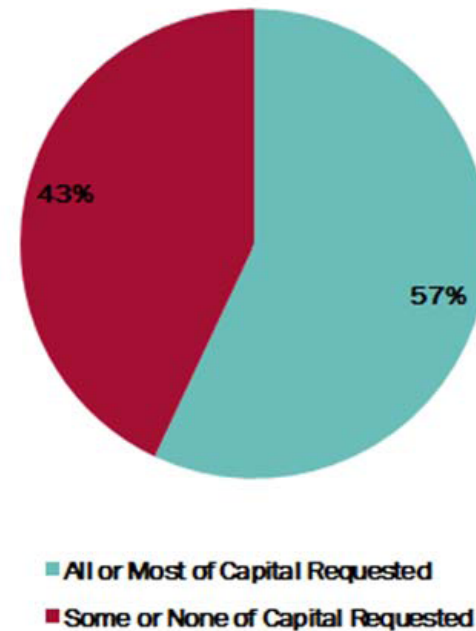


Figure 12: 40 Percent Applying for Credit Get Rejected or Less Credit Than Desired

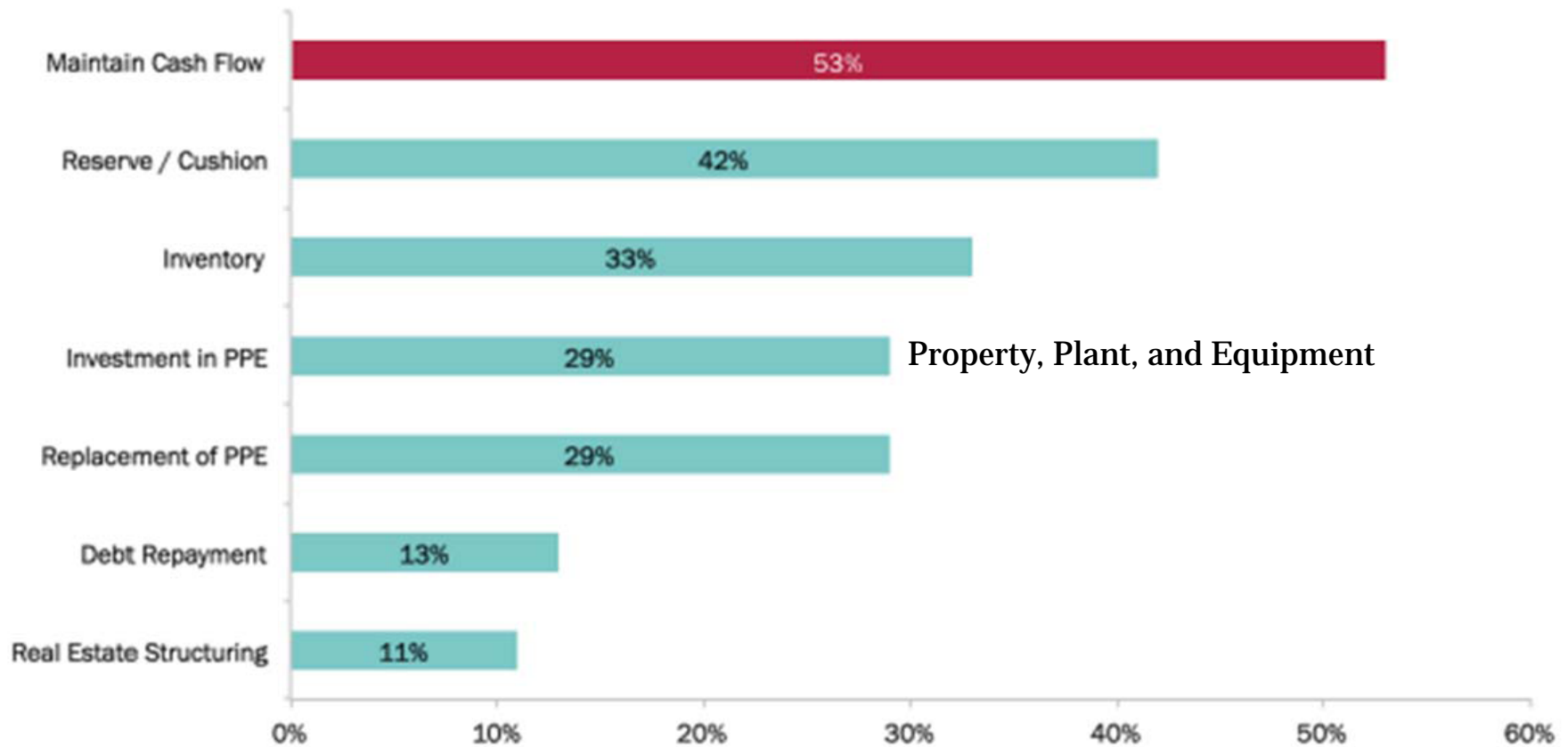
Percentage of Small Businesses Receiving Credit



Why a Small Business Revolving Loan Fund?



Figure 7: Small Business' Use of Proceeds for Loan Capital Sought
Percentage of Total Small Businesses Surveyed



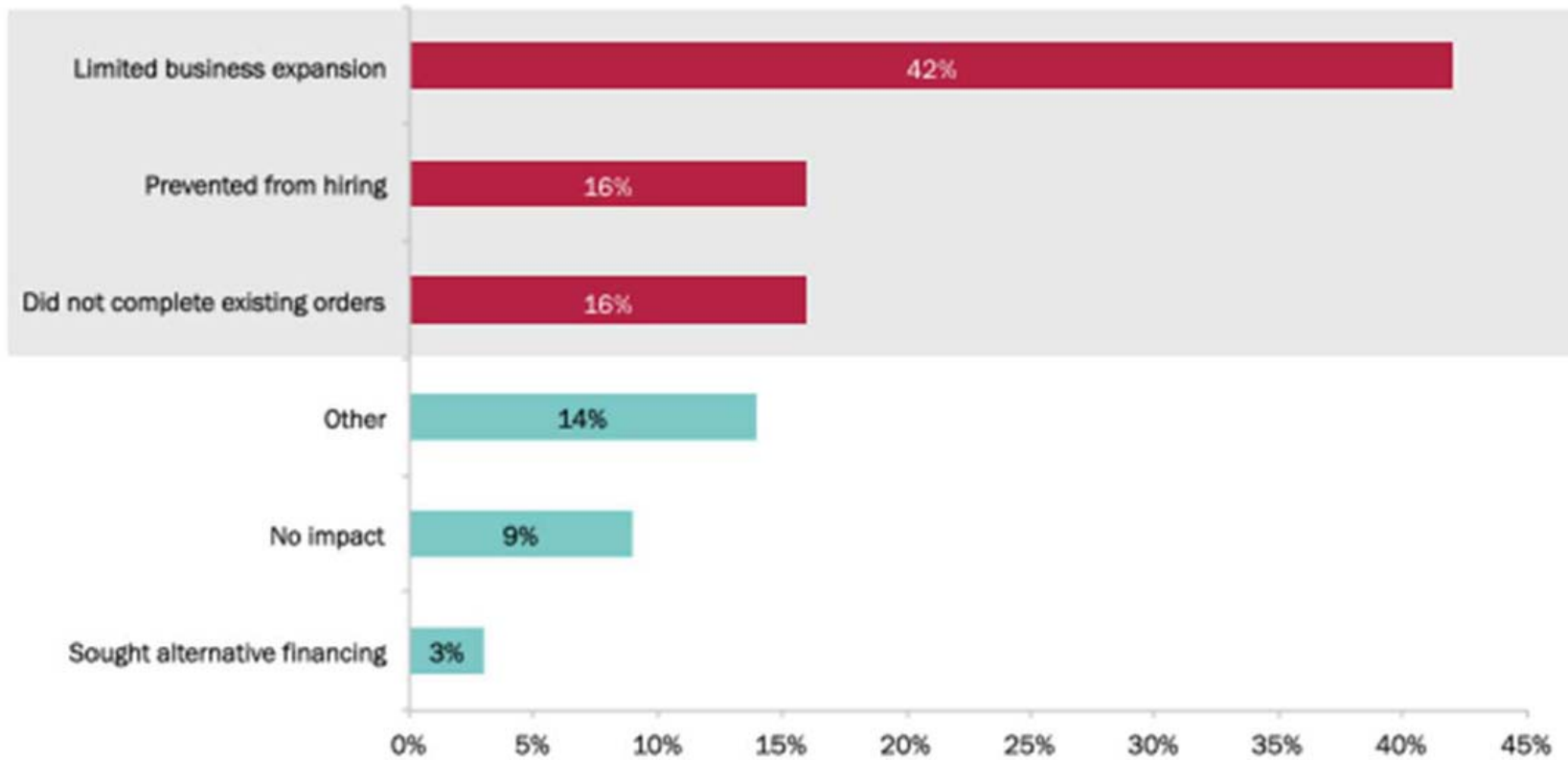
Source: Harvard Business School; "The State of Small Business Lending : Credit Access During the Recovery and How Technology May Change the Game"

Why a Small Business Revolving Loan Fund?



Figure 16: Impact of Credit Denial on Small Businesses and the Economy

What Impact Does Credit Denial Have on Your Business? Percentage of Small Businesses Surveyed



Source: Federal Reserve (New York), "Small Business Credit Survey", Fall 2013.

Source: Harvard Business School; "The State of Small Business Lending : Credit Access During the Recovery and How Technology May Change the Game"

Figure 17: Overview of Key Problems in Small Business Access to Bank Credit

Cyclical vs. Structural Barriers

RECENT CYCLICAL BARRIERS The Perfect Storm

SALES: Small businesses were battered by the recession, reporting weak sales and income receipts as their biggest hurdle for about four years, and some may be less qualified for bank credit today

COLLATERAL: Financial crisis hit sources of collateral hard, particularly real estate, further undermining the ability of small business owners to borrow

LENDERS MORE RISK AVERSE: Banks were hit hard in the crisis, notably small banks which are most likely to lend to small firms, and have become more risk averse. Moreover, retrenchment in lending due to bank failures and problem institutions has been exacerbated by the lack of new bank starts

REGULATORY OVERHANG: Banking examiners and regulators have responded to the crisis by forcing banks to conserve capital and make fewer risky loans

LONGER-TERM STRUCTURAL BARRIERS There Before Crisis, Exacerbated Since







BANKING CONSOLIDATION: Small banks are most likely to lend to small firms, but the number of community banks is in long-term decline as banking assets consolidate into fewer large institutions

SEARCH COSTS: Small firms face high search costs, often going to several lenders before securing capital, with significant time and expense wasted on paperwork

TRANSACTION COSTS: Wide heterogeneity, high failure rates, varying use of borrowed funds by small firms make it hard to develop general standards and mean that the costs of processing \$100K loan is the same as processing a \$1M loan, but with less profit

Why a Small Business Revolving Loan Fund?

Figure 32: Three Emerging Models in Online Lending to Small Businesses

	Online Balance Sheet	Marketplaces	P2P Platforms
	 	 	 
Model	Use balance sheet capital to decision loans via new risk scoring algorithms that include non-trad'l data	Connect borrowers with range of traditional and alternative lenders, incl. big banks, SBA, new players	Connect prime and super-prime quality borrowers with capital from consumers, inst'l investors
Loans to Date	Est. \$1.5B as of 4Q13	N/A	Est. \$4.7B as of 4Q13
APR	20 - 50 percent	Wide variation given range of products and lenders	9 - 12 percent
Terms	6 - 12 months on average; focused on new loans	Wide variation given range of products and lenders	3 year or 5 year; largely focused on refinancing of credit card debt
VCs	Google Ventures, First Round, Tiger, SAP Capital	Khosla Ventures, First Round Capital, Square 1	Khosla Ventures, Kleiner Perkins, General Atlantic

Ok, how will it work?



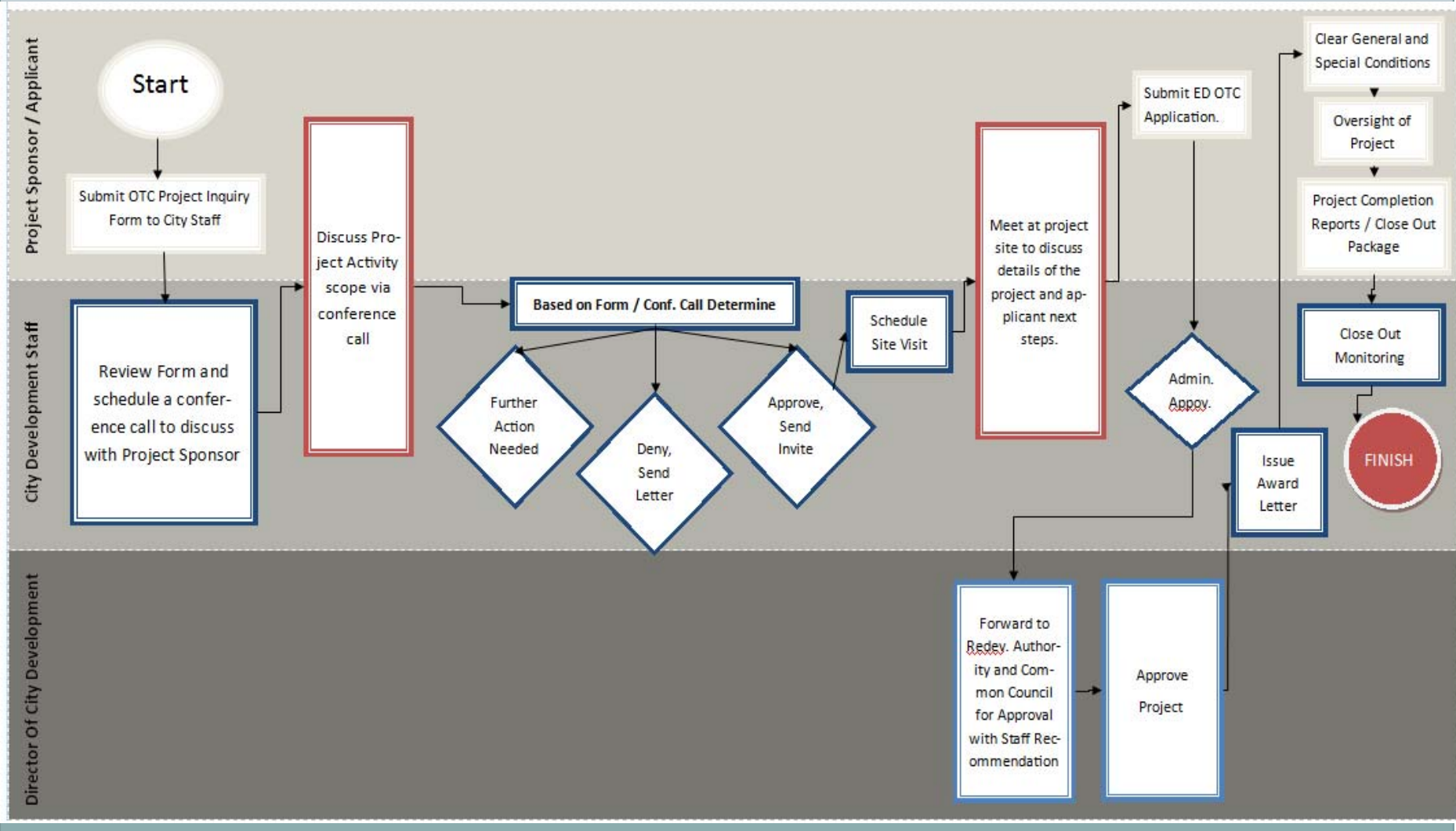
- **Redevelopment Authority to Administer**
 - In partnership with Small Business Development Organizations (SBDO, like WWBIC, RCEDC, HCC, etc.).
 - SBDO's already work hand in hand with businesses
 - SBDO Staff to assist the RDA with reviewing business plans
 - SBDO to assist the RDA in reviewing business credit worthiness, and underwriting the loan.
- **Lend funds to businesses that will create or retain permanent jobs, at least 51% of which will be made available to low and moderate income residents.**

Ok, how will it work?



- If the goal is to create jobs, there must be documentation indicating that at least 51 percent of the jobs will be held by, or made available to, LMI persons.
- For activities that retain jobs, there must be sufficient information documenting that the jobs would have been lost without the CDBG assistance and that one or both of the following applies to at least 51 percent of the jobs:
 - The job is held by a LMI person; or
 - The job can reasonably be expected to turn over within the following two years and steps will be taken to ensure that the job will be filled by, or made available to, a LMI person.

Ok, how will it work?



What can it fund?



Examples include:

- Construction of a building that provides space and services to a new, small startup business
- Loans to a business to expand their factory
- Assistance to a local business that is likely to close because of outdated machinery
- Furniture, Fixtures, and Equipment (FF&E)
- Property, Plant, and Equipment (PP&E)
- Public infrastructure that supports job creation or retention
- Working capital

Other Benefit: “Front Door” to Section 108



- **“Most potent and important public investment tool that HUD offers to local governments.” - HUD**
- **Allows communities to utilize up to 5 times their CDBG allocation to secure federal loan guarantees large enough to pursue physical and economic revitalization projects capable of renewing entire neighborhoods.**
- **Successful: To date, there has been no default under the Section 108 program resulting in a repayment by HUD.**

Other Benefit: Infrastructure Investment Possible



Example:

- Business needs infrastructure public infrastructure upgrades for business expansion (roadway enhancements) that will create numerous jobs.
- Business is loaned money to pay for the City's expense.
- Loan could be repaid, in whole or in part, by tax increment financing with the business providing a guarantee.
- Funds then recycled for other eligible projects.

Case Studies: Trattoria Stella



Case Studies: Trattoria Stella



Case Studies: Trattoria Stella



Case Studies: Trattoria Stella



Case Studies: Trattoria Stella



Cordia is honored to complete the final phase of the Building 50 restoration.



Summer of 2014



Today

Questions?





2015 HUD INCOME LIMITS

Median \$ 65,500.00

Household Size

	1	2	3	4	5	6	7	8
"Extremely Low Income"	\$ 13,800	\$ 15,930	\$ 20,090	\$ 24,250	\$ 28,410	\$ 32,570	\$ 36,730	\$ 40,890
10%	\$ 4,590	\$ 5,240	\$ 5,900	\$ 6,550	\$ 7,080	\$ 7,600	\$ 8,130	\$ 8,650
20%	\$ 9,180	\$ 10,480	\$ 11,800	\$ 13,100	\$ 14,160	\$ 15,200	\$ 16,260	\$ 17,300
30%	\$13,770.00	\$15,720.00	\$17,700.00	\$19,650.00	\$21,240.00	\$22,800.00	\$24,390.00	\$ 25,950.00
40%	\$18,360.00	\$20,960.00	\$23,600.00	\$26,200.00	\$28,320.00	\$30,400.00	\$32,520.00	\$ 34,600.00
50%	\$22,950.00	\$26,200.00	\$29,500.00	\$32,750.00	\$35,400.00	\$38,000.00	\$40,650.00	\$ 43,250.00
60%	\$27,540.00	\$31,440.00	\$35,400.00	\$39,300.00	\$42,480.00	\$45,600.00	\$48,780.00	\$ 51,900.00
70%	\$32,130.00	\$36,680.00	\$41,300.00	\$45,850.00	\$49,560.00	\$53,200.00	\$56,910.00	\$ 60,550.00
80%	\$36,720.00	\$41,920.00	\$47,200.00	\$52,400.00	\$56,640.00	\$60,800.00	\$65,040.00	\$ 69,200.00
90%	\$41,310.00	\$47,160.00	\$53,100.00	\$58,950.00	\$63,720.00	\$68,400.00	\$73,170.00	\$ 77,850.00
100%	\$45,900.00	\$52,400.00	\$59,000.00	\$65,500.00	\$70,800.00	\$76,000.00	\$81,300.00	\$ 86,500.00
110%	\$50,490.00	\$57,640.00	\$64,900.00	\$72,050.00	\$77,880.00	\$83,600.00	\$89,430.00	\$ 95,150.00
120%	\$55,080.00	\$62,880.00	\$70,800.00	\$78,600.00	\$84,960.00	\$91,200.00	\$97,560.00	\$ 103,800.00