



**MEMORANDUM**

**TO:** CITY OF RACINE FINANCE AND PERSONNEL COMMITTEE  
CITY OF RACINE COMMON COUNCIL  
RCEDC EXECUTIVE COMMITTEE

**FROM:** JANELL TOPCZEWSKI, PORTFOLIO MANAGER/CLOSER

**DATE:** JUNE 1, 2014

**SUBJECT:** CITY OF RACINE REVOLVING LOAN FUND (CITY-RLF) PLAN CERTIFICATION FOR THE PERIOD ENDING MARCH 31, 2014

**THE REQUEST**

The purpose of this memorandum is to request the City of Racine to approve the March 31, 2014 semi-annual Plan Certification (attached). RCEDC has prepared the RLF Plan Certification report for the City of Racine approval to certify to the Economic Development Administration (EDA), on a semi-annual basis, that the City's Revolving Loan Fund (RLF) program is consistent with:

- 1) Racine County's Economic Development Plan (EDP); and
- 2) The policies and procedures within the RLF Manual.

**NOTABLE REPORT CHANGES**

The items described below are the highlights of the March 2014 report. Overall, the RLF program is performing within the standards of the RLF Plan or performing better than those goals set for the program.

- 1) On page 3, item #1, the job cost ratio for the period ending March 31, 2014 is \$25,418.51/job for the active loan portfolio and \$24,617.71 for the total loan portfolio. These numbers reflect that the portfolio is performing better than the RLF goal of \$35,000 RLF dollars lent per job. These amounts are higher from the previous reporting period; however, this is primarily due to two new loans being funded. These loans have not yet begun creating the anticipated jobs;
- 2) On page 4, item #3, the private sector leverage ratio is 3.5 to 1 for the active portfolio. For every one RLF dollar we are lending we are leveraging \$3.50 dollars in private sector dollars. This is above our 2 to 1 goal.
- 3) On page 10, item #20, the Capital Utilization Standard is being met. The Capital Utilization Standard refers to the total dollars lent from the RLF funds compared to funding availability. EDA requires 75% of RLF dollars be lent. If this requirement is not met, excess funds must be sequestered but remain available for future lending. Currently no RLF dollars are being held in a sequestered account and 69.97% of the capital is currently being used. The City was

awarded a matching grant from the EDA to recapitalize this loan fund. However, given current economic conditions, demand for the RLF funds continues but not at a high rate. Banks are more competitive with the rates they are offering, yet the number of businesses making capital expenditures has been small. The even larger factor in not having an immediate need for the full RLF award is that as financial institutions are now aggressively trying to lend their dollars, they are refinancing more of other creditor's debts including the existing RLF loans. So although new City RLF loans have been made in 2013 and 2014, a higher level of loan payoffs has been able to support those new loans and only a minimal amount was drawn from the new award. RCEDC staff is in the process of requesting an extension of this award from the EDA.

The one certification the RLF program is not meeting and has struggled to meet historically is:

- 1) On page 6, item #7, a minimum of 15% of the loan fund should provide financing to minority owned firms. As of March 31, 2014 6.25% (up from 5.15% in the last semi-annual period) of the fund has been used for this purpose. While Page 4 of this document provides greater detail on the following, it is important to note that we have made significant progress in improving the minority entrepreneurial loan pipeline in 2013:
  - 1) A total of 17 referrals of minority entrepreneurs have been made to WWBIC for counseling, training and potential loans for this semi-annual period;
  - 2) WWBIC has made two loans to ethnic minorities in 2013 with two additional entrepreneurs being considered;
  - 3) WWBIC has opened a new office in downtown Racine greatly enhancing the visibility of the organization; and
  - 4) Based upon information provided by the UW-P, Small Business Development Center, all current and carryover funds from the Racine County Minority Matching Grant Program (MMG) had been awarded to minority entrepreneurs, a total of 22 grants and \$46,355.



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Introduction

In 1999 the Economic Development Administration (EDA) and the City of Racine established this low interest loan fund. The fund addresses the goals of assisting with the redevelopment of vacant industrial and commercial buildings that are located in the City of Racine and providing general gap financing to assist with the recruitment, retention and growth of businesses in order to create and retain jobs in the City. As these loan dollars are repaid, they are retained in the RLF and are available for relending to another eligible business. RCEDC had been administering these funds on behalf of the City since the inception in 1999.

The City of Racine is required to certify to the Economic Development Administration (EDA) on a semi-annual basis that:

1. The City Revolving Loan Fund (City-RLF) Plan is consistent with and supportive of the area's current economic adjustment strategy;
2. The City-RLF is being operated in accordance with the policies and procedures contained in the City-RLF Plan and the loan portfolio meets the standards contained therein.

**City-RLF Plan is Consistent with the Racine County Economic Development Plan**

Only those Challenges and Strategies that are applicable to the City-RLF Program have been included below:

Challenge One – To create an entrepreneurial culture in Racine County.

Strategies:

- Existing programs will be maintained and new financial capital programs and resources will be attracted which address fundamental gaps preventing the start and growth of Racine County entrepreneurs.

Challenge Two – To focus on a proactive business recruitment program and a business retention and expansion (BRE) program that will create and retain jobs, create additional tax base and increase personal income in Racine County.

Strategies:

- Continue to implement a targeted and proactive business recruitment program
- Maintain an active business retention and expansion (BRE) program that meets the needs of existing employers in Racine County
- Continue to provide staff assistance to business and local units of government to support business recruitment and business retention and expansion.

Challenge Four – To take advantage of the development opportunities that exist as a result of the Chicago-Milwaukee Corridor and to properly link land use with future business development county-wide.

Strategies:

- Provide high value real estate development opportunities that link Racine County with the Southeast Wisconsin Region and Northern Illinois, including an update of the Racine County Industrial Lands Absorption Study.

Challenge Five – To link education and training in a manner that provides a competitive workforce to meet the present and future needs of local employers and to create opportunities for low-income, disadvantaged, and minority individuals to prepare for and obtain employment.

Strategies:

- Provide the infrastructure for new and expanding business and industry in areas of high unemployment and identify appropriate business targets with the potential to locate in and/or expand in these areas in order to employ the unemployed and underemployed persons that will be educated and trained through the programs identified elsewhere in the plan.

**City-RLF Plan is Consistent with the City of Racine Economic Development Plan Challenges and Strategies (last adopted May 2012)**

Challenge Two – To encourage and support the retention and expansion of existing businesses in the City of Racine and to seek new businesses that best support and sustain employment opportunities commensurate with skill levels and abilities of local residents.

Strategies:

- Promote public and private loan funds that support retention and expansion of existing businesses. In particular, support the re-capitalization of the City of Racine Revolving Loan Fund in order to provide the necessary capital to eliminate and/or re-use vacant industrial and commercial facilities.

Challenge Five – To encourage and support brownfield redevelopment in the City.

Strategies:

- Work with private owners of brownfield sites to improve their properties through assistance such as grant application preparation or appropriate financial programs for redevelopment activities.

**The City-RLF is being Operated in Accordance with the Policies and Procedures of the City-RLF Plan and the Portfolio Meets the Projected Guidelines Contained Therein. The Policies and Procedures for the City-RLF were last approved on May 1, 2012.**

The following provides the City-RLF guidelines, and the current status of the City-RLF as of March 31, 2014:

1. Job Cost Ratio. An average of one full-time equivalent job will be created and/or retained for every \$35,000 of City-RLF investment. Currently, the job cost ratio for the portfolio is \$24,617.71. **We are currently meeting this guideline.**

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	\$25,418.51 (12 Loans)	\$21,997.75 (12 Loans)	\$20,438.72 (10 Loans)	\$24,247.67 (13 Loans)	\$27,210.62 (14 Loans)
Total Portfolio	\$24,617.71 (32 Loans)	\$22,523.66 (30 Loans)	\$22,034.45 (28 Loans)	\$20,160.56 (28 Loans)	\$20,160.56 (28 Loans)

2. Job Creation. Loan recipients will be required to enter into an Agreement with the Racine County Workforce Development Center to assist with the posting of new employment positions. The goal of the program is to assist the unemployed in the City of Racine and place them in new positions, particularly those that offer higher-skills and higher-wages. Specifically, the program targets those projects that pay above minimum wage and ideally \$15 per hour or more as well as those that offer fringe benefits. The Workforce Development Center works with both employers and job seekers to assist in making these positions available. Each loan recipient signs this agreement as a part of their loan closing documents. **We are meeting this guideline.**

3. Private Sector Leverage Ratio. An average ratio of two private sector dollars for each RLF dollar will be required of businesses participating in the RLF program. All private sector dollars must be obtained from a non-public debt or equity source. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans. To be classified as leveraged, private investment must be made within twelve (12) months of approval of an RLF loan, as part of the same business development project, and may include:

- (i) Capital invested by the borrower or others;
- (ii) Financing from private entities; or
- (iii) The non-guaranteed portions and ninety (90) percent of the guaranteed portions of the U.S. Small Business Administration’s 7(A) loans and 504 debenture loans.

To date, total bank financing and equity participation in project costs is \$18,420,213 and total City-RLF funds disbursed are \$4,135,775 for a leveraging ratio of 3.85 to 1.0. **We are performing better than this guideline.**

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	3.5 to 1 (12 Loans)	3.63 to 1 (12 Loans)	3.90 to 1 (10 Loans)	3.31 to 1 (13 Loans)	3.37 to 1 (14 Loans)
Total Portfolio	3.85 to 1 (32 Loans)	3.97 to 1 (30 Loans)	4.09 to 1 (28 Loans)	4.09 to 1 (28 Loans)	4.09 to 1 (28 Loans)

4. Assurances for Maximum Private Sector Leverage. The RLF program will maximize private sector leverage and ensure that RLF funds are not substituted for private financing by requiring all businesses to provide the following documentation as a part of an RLF application:

- (1) Financial institutions participating in the project must submit a letter stating that the financial institutions contribution amount and indenting its loan is contingent upon the receipt of RLF financing; and
- (2) Equity contributions must be documented with a commitment to the injection of the equity upon receipt of an RLF loan, and identification of the exact dollar amount and source of the funds.

**This guideline has been met for each loan and has been included in the loan write-up that is provided to the Loan Committee.**

5. Types of Activities and Businesses Eligible for Funding. As a part of its strategy to enhance economic opportunities in the City of Racine, the RLF program will emphasize small- and medium-sized manufacturing, warehouse, distribution, transportation, service, and construction businesses with less than 100 employees. In addition, professional services and retail businesses may also benefit from this program as they are targeted industries within the EDP. Specific industry targets identified include:

- Agriculture, Construction & Mining Manufacturing (NAICS 3331)
- Navigational, Measuring, Electromedical, & Control Instruments manufacturing (NAICS 3345)
- Engine, Turbine & Power Transmission Equipment Manufacturing (NAICS 3336)

- Other General Purpose Machinery Manufacturing (NAICS 3339)
- Machine Shops, Turned Product, & Screw, Nut & Bolt Manufacturing (NAICS 3327)
- Computer Systems Design & Related Services (NAICS 5415)
- Other Professional, Scientific, & Technical Services (NAICS 5419)
- Specialized Design Services (NAICS 5414)
- Scientific Research & Development Services (NAICS 5417)
- International recruitment
- The RLF program will target those businesses making investments into new technology that would assist the business in becoming more sustainable and create more jobs over the long-term.
- The RLF program will support those businesses making investments that would assist them in being more innovative and more competitive, such as purchasing state-of-the-art equipment in order for them to better compete in the marketplace.
- Those projects that would assist Stage One (2-9 employees) companies into becoming Stage Two (10- 99 employees) companies as is the goal of the City’s Launch Box initiative described on page 14.
- Those projects that fit in with the City’s water technology initiative.

The goals of the program will include providing:

- 10 percent of the loans to new businesses and 90 percent to existing businesses. The total portfolio includes: new business- 25% (8 Loans) and existing business- 75% (24 Loans). The distribution of the 12 loans in the active portfolio is 10 loans (83.33%) have been to existing businesses and 2 loans (16.67%) to new business.

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	16.67% (2 Loans)- Start up 83.33% (10 Loans)- Existing Business	25% (3 Loans)- Start up 75% (9 Loans)- Existing Business	30% (3 Loans)- Start up 70% (7 Loans)- Existing Business	23% (3 Loans)- Start up 77% (10 Loans)- Existing Business	21% (3 Loans)- Start up 79% (11 Loans)- Existing Business
Total Portfolio	25% (8 Loans)- Start up 75% (24 Loans)- Existing Business	23% (7 Loans)- Start up 77% (23 Loans)- Existing Business	25% (7 Loans)- Start up 75% (21 Loans)- Existing Business	25% (7 Loans)- Start up 75% (21 Loans)- Existing Business	25% (7 Loans)- Start up 75% (21 Loans)- Existing Business

- 50% of the loans to manufacturing businesses. The total loan portfolio 28.13% (9 out of 32 loans) has been made to manufacturing companies. The active portfolio includes 41.67% (5 out of 12) loans to manufacturing companies.

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	41.67% (5 of 12 Loans)	33% (4 of 12 Loans)	30% (3 of 10 Loans)	23% (3 of 13 Loans)	N/A*
Total Portfolio	28.13% (9 of 32 Loans)	27% (8 of 30 loans)	25% (7 of 28 Loans)	25% (7 of 28 Loans)	N/A*

\*This goal was implemented in May 2012 with the policy manual update during the recapitalization of the loan fund.

- No more than 20% of the loans to retail/commercial businesses. The total loan portfolio includes 21.88% (7 out of 32) loans to retail/commercial businesses. The active portfolio has 0% (0 out of 12) loans to retail business.

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	0% (0 of 12)	0% (0 of 12)	0% (0 of 10)	7.69% (1 of 13)	7.14% (1 of 14)
Total Portfolio	21.88% (7 of 32)	23% (7 of 30)	25% (7 of 28)	25% (7 of 28)	25% (7 of 28)

**We are currently meeting the goals of the program.** These goals were adopted May 1, 2012 as the loan fund was being recapitalized. The goals are based on the current economic conditions and need for the RLF dollars and not the historical need for the RLF dollars. As new loans are made RCEDC staff will evaluate new prospects on the above guidelines.

6. Standards to Achieve Economic Objectives and Benefits for the City of Racine. All loan activities and economic benefits resulting from RLF activities will be located within the City of Racine. RLF assistance will be withdrawn if the RLF finance activity is moved outside of the City. In addition, Loans that assist with the relocation of jobs from outside of the labor market area will be prohibited. The labor market is defined as all areas within a 25-mile radius of the boundaries of Racine County. **We are currently meeting this goal.**

7. Development of Minority-Owned Businesses. The RLF program will target the development of minority-owned businesses as a part of the RLF program, and, at a minimum, 15 percent of the RLF portfolio will be provided to minority-owned businesses. In addition, the RLF program will encourage the development of women-owned businesses in the City of Racine. Currently, 2 loans have been made to a minority owned business which is 8.33%% of our active portfolio and 6.25% of our total portfolio. Women-owned businesses are 31.25% of our total portfolio and 25% of the active portfolio. **We are not meeting this guideline.**



Historical Trends- Ethnic Minorities:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Total Portfolio	6.25%	5.15%	5.67%	5.67%	5.67%

Historical Trends- Women Owned Businesses:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Total Portfolio	31.25%	17.65%	19.43%	19.43%	19.43%

The RCEDC experience has been that a significant number of minority entrepreneurs have sought funding for small loans for retail and commercial operations that are generally not permitted, nor cost effective, through the RLF program. Often, RCEDC makes referrals to the Community Economic Development Corporation (CEDCO) and the Women’s Business Initiative Corporation (WWBIC) as their programs are typically better suited to meet the needs of these entrepreneurs (see comparison below). RCEDC staff also refers minority entrepreneurs to UW- Parkside Small Business Development Center (SBDC) who has resources to assist these clients to grow their business to be successful. Importantly, during 2013 WWBIC has opened an office in downtown Racine that will better meet the needs of minority entrepreneurs.

Racine County has established the minority matching grant program to assist minority owned businesses. Businesses which are 51% or more minority owned can apply for this \$2,500 matching grant to assist with training and/or consulting services; financial services; marketing services; business operation services; legal services; information technology; and computer systems. In 2013 22 of these grants had been awarded totaling \$46,355.48. All funds for 2013 and carryover from previous years had been awarded.

If a potential loan recipient does not meet the EDA required guidelines for the City-RLF program RCEDC staff refers their individuals to our resource partners including Launch Box, CEDCO, and WWBIC.

Historical Trends for WWBIC Referrals:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
WWBIC Referrals for financing	17	30	29	49	N/A*

\*Information on referrals to WWBIC is not available for reporting periods before September 2012. During the September 2012 EDA plan certifications representative Q. A. Shakoor II request RCEDC track referrals made to WWBIC for financing.

One significant reason for not reaching this goal is that the entrepreneurs contacting us to discuss their financing options tend to be a better fit for the Wisconsin Women’s Business Initiative Corporation’s (WWBIC’s) micro-loan program. Most businesses in the Racine area that have contacted us and that are owned by racial minorities tend to be commercial/retail businesses, which primarily have financing

needs specific to working capital such as the need for a line of credit. RCEDC makes referrals to WWBIC when appropriate for the customer’s needs.

Below is a table that provides a comparison between the WWBIC and EDA-RLF loan programs which explains why the EDA-RLF program was not designed for certain funding needs and explains why WWBIC’s program is better suited for those purposes.

	City – RLF	WWBIC
<b>Program Fees</b>	Approx. \$3,350 (legal fees and 1.5% processing fee, would be \$2,250 on a \$150,000 example) plus out-of-pocket costs	\$375-\$1,275 based on loan amount
<b>Loan Amount</b>	Up to \$200,000 (average \$150,000)	\$1,000-\$100,000
<b>Loan Terms</b>	Average 15 years	6-year maximum
<b>Typical Use of Funds</b>	Fixed Assets (Real estate and Equipment)	Working Capital (Lines of Credit available)
<b>Bank Participation (Private Dollar Leverage )</b>	Required. A 2:1 private dollar match is required; the City RLF can only finance up to 33% of a total funding need.	Not required.
<b>Typical Total Project Amount</b>	\$450,000	\$1,000-\$100,000

8. Total Number of Loans in Initial Funding Cycle. A total of 32 loans to 31 companies have been made from the original grant, the recapitalization, and loan program income. The number of loans required has been met. In 2012 the City was awarded a grant from the EDA with a required City match to re-capitalize this fund. These dollars had a subsequent disbursement deadline which RCEDC staff is currently in the process of seeking an extension. However, given current economic conditions, demand for the RLF funds continues but not at a high rate. Banks are more competitive with the rates they are offering, yet the number of businesses making capital expenditures has been small. The even larger factor in not having an immediate need for the full RLF award is that as financial institutions are now aggressively trying to lend their dollars, they are refinancing more of other creditor’s debts including the existing RLF loans. So although new City RLF loans had been made in 2013 and 2014, a higher level of loan payoffs has been able to support those new loans. In April 2014 a minimal amount was drawn from the EDA award, however no future funds are available unless EDA provides the City with a disbursement deadline extension.
  
9. RLF Loan Size. The average loan size is anticipated to be \$100,000, with a minimum loan size of \$50,000 (although can be lower) and a maximum loan size of \$200,000. Currently, the average active loan size is \$133,447 and the average for the total loan portfolio is \$129,243 both of which are slightly more than anticipated. The largest loan was \$225,000 and the smallest loan was \$25,825. **We are meeting this guideline.**
  
10. Standard Terms and Rate of Interest. The terms and interest rates of the loans have not exceeded the standards included in the City-RLF plan. The interest rates on all active loans are set at a fixed rate. The interest rate on the last loan made was fixed at 2.44 percent. **We are meeting this guideline.**

11. Special Loan Terms. Special financing techniques the City-RLF program can offer to applicants include: 1) deferral of principal payments during the first year of a City-RLF loan; 2) the subordination of the City-RLF security position to private sector lenders that participate in the City-RLF program; and, 3) the use of balloon payments. The RCEDC has deferred payments on the principal portion of loans, has subordinated its collateral to financial institutions, and typically offer balloon payments. **We are meeting this guideline.**
12. Equity Requirements. The RLF program will require a 10 percent equity injection for each RLF loan, when appropriate. Consideration will be given for individuals that have made substantial equity commitments to the applicant business, as well as to individuals who do not have sufficient financial resources to contribute to the RLF project. All equity contributions must be provided through private sources. The RLF program will not be used to purchase or finance equity. **We are meeting this guideline**
13. Collateral Requirements. Collateral may include mortgages on land and building and liens on machinery and equipment. In addition, key-person life insurance coverage, with a declining balance equal to the outstanding loan balance, junior liens on all corporate assets, cross-collateralizing of multiple loans, and personal guarantees may be used where appropriate. This collateral may be subordinated to private sector financial institutions participating in the RLF project, if required. The RCEDC will be listed as the secured party on all RLF collateral documents. **We have met this guideline.**
14. Restructuring RLF Loans. City-RLF loans may be restructured when restructuring will improve the borrower's ability to repay the loan. **No City-RLF loans have needed to be restructured.**
15. Loan Origination Fee: The RLF program will charge a loan origination fee not to exceed 1.5 percent on all RLF loans. The RLF reserves the right to waive or reduce this loan origination fee when deemed appropriate. The loan origination fee will be used to pay for administrative costs associated with the RLF program. This fee is collected at the closing of each loan and no borrower has paid above 1.5%. **We are meeting this guideline.**
16. Elements of a Loan Guarantee Program. The City-RLF may establish a loan guarantee program with recycled or second-generation RLF funds to reduce the risk of private lenders and thereby persuade lenders to provide financing that otherwise would not have been available. **The City-RLF has not provided any loan guarantees; therefore this guideline has been met.**
17. Interest Payments on Recycled RLF Funds and Sales of RLF Loans and Loan Origination Fee. The City-RLF program will utilize a maximum of 50 percent of any and all program income for expenses associated with the administration of the RLF and will not charge more than 1.5 percent loan origination fees on all City-RLF loans. **This guideline has been met.**
18. RLF Cannot Substitute Private Capital Participation: The RLF loan cannot be used to substitute for available private capital and applicants must demonstrate that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. The borrower and bank are required to provide a letter indicating the need for the RLF as a part of the loan approval process; therefore **we are meeting this guideline.**

19. RLF Program Coordination with SBA 504 and Other Programs. The City-RLF program will utilize private sector financial institutions and the local SBA 504 Certified Development Company program, as well as other public sector financing programs, in packaging loans. **This guideline has been met** and has been included in the loan write-up that is provided to the Loan Committee.
  
20. Capital Utilization Standard. During the revolving phase, at least 75 percent of an RLF's capital should be in use. At any time subsequent to a second consecutive report showing that the applicable standard has not been met, EDA may require the grant recipient to deposit excess funds in an interest bearing account and EDA approval will be required to withdraw the sequestered funds. No City-RLF funds are currently being held in a sequestered account. For the time period ending March 31, 2014, the RLF fund had 69.97% of its capital in use or committed to projects. RCEDC has worked diligently over the past year to improve the RLF by adjusting loan terms to better meet current economic conditions (i.e. longer terms and reduced interest rates). Also, RCEDC increased marketing efforts in 2012 and 2013 to make the public more aware of the RLF dollars and further assist in the expansion of small businesses in the City of Racine. **We are currently meeting this guideline based on committed projects approved over the last semi-annual period.**