



# City of Racine Economic Development



**A PROPOSAL TO ESTABLISH A CDBG  
MICROENTERPRISE REVOLVING LOAN FUND**

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



# Economic Development HUD Regulations



## 24 CFR 570.203

### SPECIAL ECONOMIC DEVELOPMENT ACTIVITIES

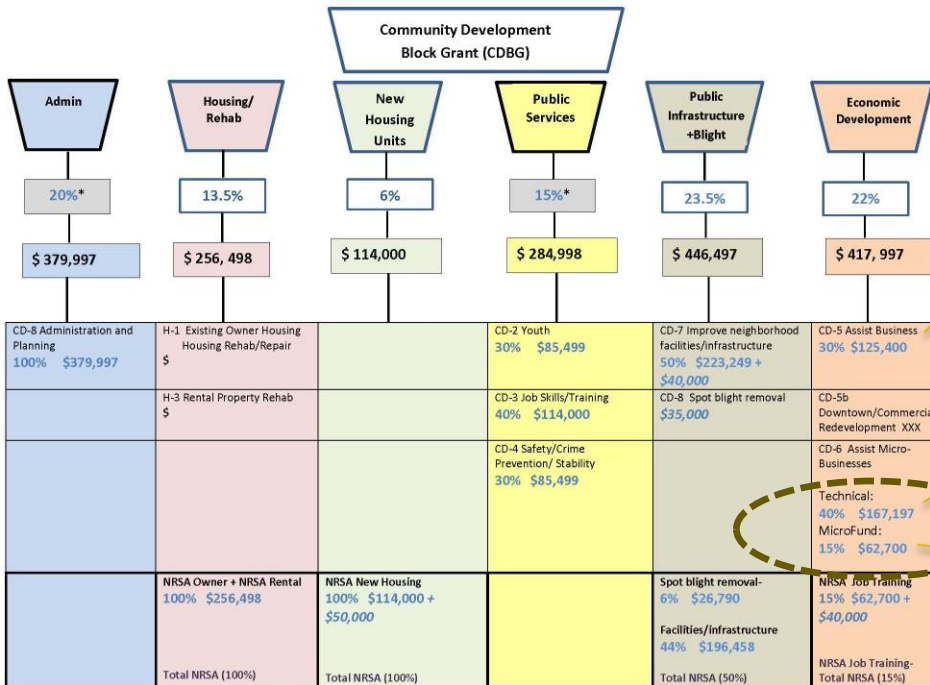
(b) The provision of assistance to a private for-profit business, including, but not limited to, grants, loans, loan guarantees, interest supplements, technical assistance, and other forms of support, for any activity where the assistance is appropriate to carry out an economic development project, excluding those described as ineligible in § 570.207(a). In selecting businesses to assist under this authority, the recipient shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods.

# 2018 Annual Plan Allocations



## CITY OF RACINE 2018 AAP FUNDING PRIORITIES (With Program Income)

2018 Amount Available: CDBG:  $\$1,899,987 + \$165,000 = \$2,064,987$



\* Public Services and Administration may not increase above percent given/ may not receive additional 2017 funds

NRSA = Greater Uptown Neighborhood Revitalization Strategy Area

**Small Business RLF**  
\$125,400

**Technical Assistance Programs**  
\$167,197

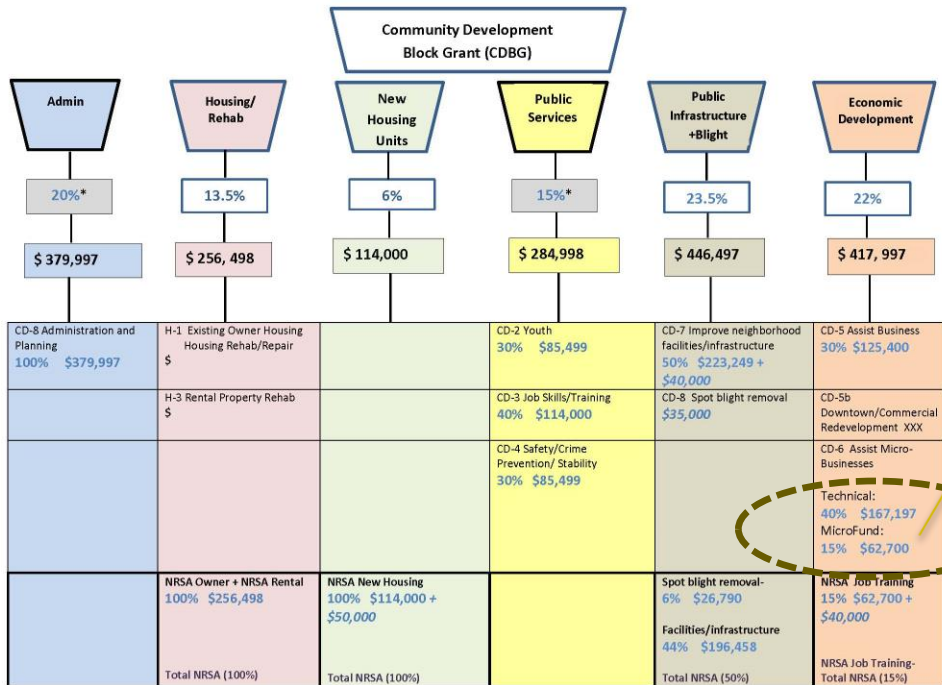
**Microenterprise RLF**  
\$62,700

# Microenterprise Revolving Loan Fund



## CITY OF RACINE 2018 AAP FUNDING PRIORITIES (With Program Income)

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Microenterprise RLF  
\$62,700

- 5 or fewer employees
- LMI Owner-Operators
- Operating 6mo-3yrs
- No Job Creation Requirements
- \$3,000 - \$15,000
- Targeted Underwriting
- Leverage other programs

# Why a Microenterprise Fund?



HUD defines a Microenterprise as “a commercial enterprise that has five or fewer employees one or more of whom owns the enterprise.” [Basically CDBG, Nov 2017, Section 8.1.1]

1. Business community has indicated a need;
2. Obstacles to existing small business loans;
3. Women and Minority-Owned businesses under-represented in Racine;
4. Many businesses operating on cash-basis cannot reach next level of growth;
5. Foxconn brings opportunities and will create ripple effect (tidal wave);
6. Neighborhood retail corridors have high vacancy;
7. Creative, motivated talent residing in Racine;
8. CDBG funds can have flexible loan terms;
9. Current CDBG Small Business RLF for larger projects & requires job creation.

# Microenterprise Fund- Need



## 1. Target Microenterprises:

- Owner-operated firms with five or fewer employees
- Owner-Operators with Low/Mod Income Households
- Owners on Payroll

## 2. Empowered entrepreneurship

- Self-employment through entrepreneurship
- Businesses operating 6 mos – 3 yrs

## 3. Position entrepreneurs for FoxConn-related opportunities

- Construction trades
- Community Retail and Services Industry
- Business support services

# Microenterprise Fund- Need



## 5. Leverage private funds and existing programs

- Crowd-Sourced financing [KIVA, Crowdfund, ect...]
- SBDO financing
- Owner Equity {financial, equipment, and sweat equity}
- BID Business Assistance programs
- Whitebox and Façade Grant programs
- State and County programs

## 6. Reduce obstacles to financing

- Small Business RLF Job Creation requirements
- Debt Service Coverage Ratio Reduced
- Consider Business Financials Only
- Personal debts with payment arrangements in place not factored
  - Tax debt, Child Support, Utility debt, ect...

# Microenterprise Fund: Terms



- Key Points

- Business located in City Of Racine
- Microenterprise with 5 or fewer employees on payroll (including owner)
- Owner Operator is from Low/Mod Income Household [HUD defined]
- Operating business 6 months – 3 years
- Unable to secure private (bank) financing
- Loan terms
  - ❖ \$3,000(min) - \$15,000 (max) on a reimbursement/Purchase Order basis
  - ❖ Up to 60 months; 12 months Principal Deferred
  - ❖ 0.5 - 3 percent annual interest
  - ❖ Capacity requirements
    - Registered with IRS, State of WI (DFI, DOR, DWD)
    - Active bank account and liability insurance
    - Complete business plan [including income projections]
    - Completed technical assistance classes/consulting
    - Debt Service Coverage Ratio: 1.15 (business debt only)
    - Collateral: All equipment purchased
- CPA and/or professional bookkeeping services contracted for first 12 months
- Project report provided to City within 60 days of final fund draw down.
- Certified financial statements provided after 12 months following loan approval.
- Owner is enrolled in technical assistance (TA) classes offered by a local Small Business Development Center (SBDC), or by a private for profit/nonprofit business development consultant as approved by City staff.



# Microenterprise Fund: Eligible Expenses



Including:

- Operating capital for leasing space, insurance and/or utilities, salaries (except owner salaries).
- Purchasing inventory, supplies, accounting and inventory software, furniture, fixtures, and equipment
- Rehabilitation of owner-occupied or leased space (maximum \$2,000 construction costs)
- Professional services including engineering, architectural, local permits or fees, business consulting, accounting
- Equipment purchase (with or without installation costs)
- Refinancing business debt in conjunction with other eligible costs (<25% of request)
- Marketing materials and advertising including website development and servicing

# Microenterprise Fund: Process



- Notice of Funding Availability twice annually until funds run out
- Finalists eligibility verified (income qualification, payrolls, registrations, permits)
- Project applications reviewed and assessed by CD staff using scoring matrix
- Final recommendations presented to Redevelopment Authority for review
- Contracts created by CD Staff and routed for signatures
- Reimbursement process commences
- City staff will monitor funded applicants to ensure compliance with CDBG regulations
- Annual report presented to CD Committee by CD Staff

# Questions?

