



**Department of City Development**  
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## **M E M O R A N D U M**

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FOR MEETING DATE: July 16, 2015

TO: Community Development Committee

FROM: City Development Staff

SUBJECT: CDBG Small Business Development Revolving Loan Fund  
Redevelopment Authority of the City of Racine, WI

The Redevelopment Authority of the City of Racine, WI is requesting \$371,454 to establish a CDBG Small Business Development Revolving Loan Fund (SBD-RLF), based on numerous successful models utilized in other communities. The goal of the program is to create jobs, encourage private investment, and provide financing alternatives for small start-ups or expanding businesses that are already located in the city or are relocating to the city from outside the region. Terms of the financial assistance provided to businesses will be flexible through no to below market interest rates, loan guarantees, and extended maturities, but they must create or retain at least one full-time job per \$35,000 of CDBG assistance provided per federal regulations. At least 51% of the jobs created or retained must be for low and moderate income residents as well. As the loans are repaid, the funds are “revolved” or loaned to other eligible businesses that are creating or retaining job opportunities for our residents; multiplying the program’s effect.

As the attached Harvard Business School’s study called “The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game” indicates, small business are core to America’s economic competitiveness. Small business create two out of every three new jobs, were hit harder than larger businesses by the recession, and have been slower to recover from the recession. Bank credit, particularly through term loans, is one of the primary sources of external financing for small businesses. Term loans are crucial in helping small firms maintain cash flow, hire new employees, purchase new inventory or equipment, and expand. Moreover, there are troubling signs that access to bank credit for small businesses was in steady decline prior to the crisis, was hit hard during the crisis, and has continued to decline in the recovery as banks focus on more profitable market segments. New online lenders have appeared on the market to meet this gap, but there products do not necessarily meet the needs of all small businesses and are offered at “sub-prime” rates at up to 50% APR with short repayment terms.

The CDBG Small Business Development Revolving Loan Fund program is designed to meet this gap, and to leverage or complement traditional bank lending. It will also help the City to invest CDBG resources in a manner that will return the funding to the City for reinvestment into other projects, which is especially important now that our CDBG allocation has been reduced by over a third in the last 15 years. The program will also serve as the “front-door” to utilize the Section

108 Program for larger projects, and may be used to invest in public infrastructure in the event that the project leads to job creation or retention.

City Development staff will give a detailed presentation on the request at the meeting.

Staff recommends that the Community Development Committee move to recommend that the Mayor, City Clerk, and Director of City Development be authorized to execute a written agreement with the Redevelopment Authority of the City of Racine, WI consistent with federal regulations for \$371,454 of CDBG funds for the purpose of creating a CDBG Small Business Development Revolving Loan Fund.

**Fiscal Note:** The Community Development Committee and Common Council allocated \$371,454 of CDBG for the purposes of assisting businesses through 2015 Annual Plan, and, as such, there are sufficient resources available to fund this request.