

MEMORANDUM

TO: CITY OF RACINE ECONOMIC DEVELOPMENT COMMITTEE
CITY OF RACINE CITY COUNCIL
RCEDC EXECUTIVE COMMITTEE

FROM: GORDON KACALA, EXECUTIVE DIRECTOR
RACINE COUNTY ECONOMIC DEVELOPMENT CORPORATION (RCEDC)
BRIAN GOTTSCHALK, PRESENTING STAFF

DATE: DECEMBER 1, 2009

SUBJECT: 2009 CITY OF RACINE INDUSTRIAL/COMMERCIAL BUILDING
REVOLVING LOAN FUND (I/CB-RLF) PLAN CERTIFICATION

Introduction

On an annual basis, the City of Racine is required to certify to the Economic Development Administration (EDA) that:

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

The RCEDC maintains a service contract with the City of Racine to administer the City's RLF and therefore prepares the report for consideration by the City of Racine. The RLF provides secondary mortgage low-interest loans to businesses in the City of Racine. The remainder of this report is intended to meet these federal requirements.

I/CB-RLF Plan is Consistent with the Racine County Economic Development Plan

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

Challenge One – To cultivate an entrepreneurial culture in Racine County

Strategies:

- Ensure a comprehensive system of entrepreneurial services for both value-added and neighborhood businesses.

Challenge Two – To focus on the importance of technology and innovation relative to the growth of existing businesses and the attraction of new businesses to the community

Strategies:

- Continue to implement an aggressive and targeted existing business growth and business attraction program for Racine County that is based on: 1) industries with a recent history of competitiveness and export orientation and 2) emerging industries that show a potential for future growth.
- Provide secondary financing to existing and new companies that are creating jobs, tax base and personal income to Racine County.

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:

- Continue to implement industrial and commercial redevelopment projects in communities throughout Racine County.
- Monitor the local economy to identify and retain employers that are considering relocation outside of Racine County.

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:

- Advocate for programs that will impact the high unemployment rates in low-income and minority communities.

I/CB-RLF is Being Operated in Accordance with the Policies and Procedures of the I/CB-RLF Plan and the Portfolio Meets the Projected Guidelines Contained Therein

The following provides the original I/CB-RLF guidelines, and the current status of the I/CB-RLF as of September 30, 2009.

1. Job Cost Ratio. An average of one full-time equivalent job will be created and/or retained for every \$35,000 of I/CB-RLF investment. Currently, the job cost ratio for the total portfolio is \$19,726 and \$21,351 for the active portfolio. **We are currently exceeding this guideline.**
2. Low- and Moderate-Income Benefit. All loan recipients are required to sign an “Employment Memorandum of Agreement” which requires that the business work with a Workforce Development Center (WDC) Business Services Specialist in making at least 51% of new and

retained jobs available to low- and moderate- income persons. To date, all recipients have signed this memorandum. The Specialist is located at the Racine County Workforce Development Center that is the “one-stop” shop for meeting the needs of the unemployed. The Center serves persons involved in the welfare-to-work transition as a part of other activities. **We are meeting this guideline.**

3. Private Sector Leverage Ratio. An average ratio of two private sector dollars for each I/CB-RLF dollar is required of business participants. To date, total bank financing and equity participation in project costs is \$11,663,361, and total I/CB-RLF funds disbursed is \$2,732,075, for a leveraging ratio of 4.27 to 1.0. **We are exceeding this guideline.**
4. Types of Activities Eligible for Funding. All loans must be for real estate purchases, environmental remediation, building construction and renovation, equipment purchases, and tenant improvements. Working capital loans will not be allowed as a part of this program. All loans have been for eligible purposes and no working capital loans have been made. **We are meeting this guideline.**
5. Types of Businesses Eligible for Funding. The I/CB-RLF strategy is to target the retention and expansion of existing businesses and the development of new businesses in the City of Racine. The goal of the program will be to provide 20 percent of the loan portfolio to new businesses and 80 percent to existing businesses. Currently, 20 percent of the loans made have been to new businesses and 80 percent of the loans made have been to existing businesses. The distribution of the 13 loans in the active portfolio is: 10 loans have been to existing businesses and three to new businesses. **We are meeting this guideline.**

A maximum of 20 percent of the loan portfolio can be loaned to retail/commercial firms. Currently, 12.4% of the active I/CB-RLF loans, or 1 of 13 loans, have been made to retail/commercial businesses. The distribution of the current thirteen loans is: three loans were made to manufacturing companies, one loan was made to retail/commercial companies, and nine loans were made to service companies. **We are meeting this guideline.**

The I/CB-RLF Plan prohibits certain types of business financing. No loans or loan guarantees can be made to EDA Title II recipients. In addition, the I/CB-RLF may not finance any equity, subsidize interest payments on existing loans, refinance existing debt, or contribute equity required by other loan programs. **We are meeting this guideline.**

There are several restrictions with regard to the types of businesses that can receive I/CB-RLF loans:

- A. All loan recipients are located in the City of Racine.
- B. No loans have been made to businesses that have relocated jobs from outside the Racine labor market area to the City of Racine.
- C. No loans have been made that are not related to job creation or retention.
- D. No loans have been made that have created a conflict of interest for existing or former RCEDC Board members or staff.

- E. No loans have been made that would be used to invest in interest-bearing accounts, certificates of deposit, or other investments not related to the objectives of the I/CB-RLF portfolio.

All of the above guidelines have been met.

- 6. Standards to Achieve Economic Objectives and Benefits for the City of Racine. The new I/CB-RLF plan requires that all loans include an analysis of why other public sector loan programs were not used prior to using the I/CB-RLF funds. All loans subject to this EDA regulation have included this analysis in the loan write-up that is provided to the Loan Committee. **We are meeting this guideline.**

A minimum of 15 percent of the loan funds should provide financing for minority owned firms. Currently, no funds have been used for this purpose. **We are not meeting this guideline.**

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, or not cost effective, through the I/CB-RLF program.

As a result, several years ago the RCEDC initiated a Minority Loan Fund that provides loans of \$15,000 or less for these businesses. The program also provides grants for the preparation of business plans and financial forecasts. The program is capitalized through the City of Racine CDBG program. As of October 1996, four loans had been made through the City's program and one loan through a State Minority Loan Program, at the time the fund was administered by the RCEDC.

Due to the poor utilization of the CDBG-funded Minority Loan Fund, the RCEDC initiated work with the Racine Chapter of the National Association for the Advancement of Colored People (NAACP) to develop a minority loan and business development program. The program is operated by the Community Economic Development Corporation (CEDCO), a minority private non-profit development corporation, with administrative funds being provided by the City of Racine. **The RCEDC provides loan closing and portfolio management service for CEDCO.** The organization began operations in early 1997. The above-mentioned City Minority Loan Program has been transferred to the CEDCO. As of September 30, 2009, CEDCO, with the assistance of RCEDC, has made 39 loans through the City's program for approximately \$500,000.

In addition, and in order to supplement the CDBG initiative, the RCEDC provides financial services for the Racine County Minority Matching Grant Program that, over the last several years, has provided grants to minority entrepreneurs.

- 7. Assurances for Maximum Private Sector Leverage. The I/CB-RLF program will maximize private sector leverage and private equity contributions and ensure that I/CB-RLF funds are not substituted for private financing. To this end, the I/CB-RLF program requires: 1) financial institutions participating in the project to submit a letter stating that the financial institution is providing the maximum amount available and that the loan is contingent upon the receipt of I/CB-RLF financing, and 2) equity contributions must be documented with a letter from contributing source that commits to the injection of the equity upon receipt of an I/CB-RLF

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

8. Total Number of Loans in Initial Funding Cycle. A total of 22 loans to 22 companies have been made from the original grant, the recapitalization, and loan program income. The number of loans required has been met. **We have met this guideline.**
9. RLF Loan Size. The anticipated average loan size is \$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 \$124,185 which is more than anticipated. The largest loan was \$200,000 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 I/CB-RLF plan. The interest rates on all active loans are set at a fixed rate. The interest rate on the last loans made was fixed at 4.0 percent. **We are meeting this guideline.**
11. Special Loan Terms. Special financing techniques the I/CB-RLF program can offer to applicants include: 1) deferral of principal payments during the first year of an I/CB-RLF loan; 2) the subordination of the I/CB-RLF security position to private sector lenders that participate in the I/CB-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 equity requirements have remained within the standards included in the I/CB-RLF Plan. All but one loan recipient have provided a 10 percent or more equity injection. One loan recipient provided 0% equity injection due to other previous cash contributions to the Company. **We are meeting this guideline.**
13. Collateral Requirements. The current goal of the I/CB-RLF is to provide a 1:1 collateral coverage ratio on each loan. Personal guarantees and mortgages on non-project assets are often used to increase the collateral coverage when project assets are not sufficient. The goal of 1:1 collateral coverage is always sought but given the nature of the program is rarely achieved. In those cases, new project assets are often taken as additional collateral. Therefore, **we have met this guideline.**
14. Restructuring RLF Loans. I/CB-RLF loans may be restructured when restructuring will improve the borrower's ability to repay the loan. **No I/CB-RLF loans have needed to be restructured.**
15. Elements of a Loan Guarantee Program. The I/CB-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 I/CB-RLF has not provided any loan guarantees.**
16. Interest Payments on Recycled RLF Funds and Sales of RLF Loans and Loan Origination Fee. The I/CB-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 I/CB-RLF loans. **This guideline has been met.**

17. RLF Program Coordination with SBA 504 and Other Programs. The I/CB-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.

18. 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. For the time period ending September 30, 2009, the RLF fund had 72.1 percent of capital in use. Given the current economic conditions facing small businesses, as well as more conservative bank financing throughout the City of Racine and the Country, there has been less demand for the RLF dollars. **We are currently not meeting this guideline, with an excess of \$49,787 RLF funds currently available.**