



## Redevelopment Authority AGENDA BRIEFING MEMORANDUM

**AGENDA DATE:** October 4, 2018

**SUBJECT:**

Microenterprise Revolving Loan Fund

**PREPARED BY:**

Ben Lehner, Community Development Program Specialist and Matthew Rejc, Manager of Housing and Community Development

**EXECUTIVE SUMMARY:**

Department of City Development - Division of Housing and Community Development recommends that permission be granted for the RDA to enter into an agreement with the City of Racine to create the Microenterprise Revolving Loan Fund.

**BACKGROUND AND ANALYSIS:**

The City of Racine is poised to benefit from proximity to the FoxConn development in many ways. Some of these emerging opportunities include growth and increased demand in construction trades, retail and entertainment industries, supply-chain businesses, and professional services. The Microenterprise Revolving Loan Fund ('Micro Fund') targets business owners supporting households with low/moderate incomes, and encourages reinvestment in Racine's retail and commercial corridors. Further, the Micro Fund aims to ensure that Racine residents have access to Foxconn-related opportunities through entrepreneurship.

In 2015, the City of Racine established a Small Business Revolving Loan Fund ('Small Business RLF') to support viable business projects that have been denied traditional financing. The RDA reviews and approves/denies Small Business RLF funds project proposals. Small Business RLF requests range from \$25,000 to \$250,000, and require that one full-time equivalent position be created for every \$35,000 borrowed. Since its inception, this program has assisted 5 local businesses, created 9 new full-time positions, and directly retained 20 full-time positions. Additionally, this fund has leveraged CDBG-derived financing with private funds at a ratio of 1:1.

City of Racine Community Development staff and Small Business Development Organization partners have identified the need for start-up funding for area microenterprises. As defined by HUD, microenterprises are businesses with no more than five (5) employees, where one of those employees owns over 51% of the business. These small owner-operated enterprises are critical to building a resilient economy in the City of Racine. They often reinvest in the local community, hire locally, and hold great promise for growth. These microenterprises are also commonly under-capitalized and unable to secure traditional lending. Further, the minimum funding amount of \$25,000, combined with the collateral, equity, and job creation requirements of the current Small Business RLF have proven prohibitive to early-stage microenterprises.

In response to this need, the Common Council voted to authorize \$62,700 in Community Development Block Grant (CDBG) funds for expansion of economic development activities to create a

microenterprise financial assistance program. The proposed Microenterprise Revolving Loan Fund would offer loans from \$3,000 to \$15,000 to City of Racine-based, owner-operated microenterprises that have been in operation for six (6) months to three (3) years.

Eligible expenses include:

- Operating capital for leasing space, insurance and/or utilities, staff salaries outside of owner salaries.
- Purchase of 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
- Equipment purchase (with or without installation costs)
- Refinancing business debt in conjunction with financing other eligible costs (<25% of request)
- Marketing materials and advertising, including website development and servicing

As proposed in the program guidelines, the Micro Fund will have two RFP periods, Spring and Fall, respectively. Project applications will be reviewed for completeness, compliance with HUD requirements by CD staff, and scored according to a standardized scoring matrix. Successful applications will be reviewed and approved by the Redevelopment Authority of Racine (RDA).

Among other requirements, applicants will be required to show proof of registration and insurance, a complete business plan, professional bookkeeping services contracted for at least 12 months following loan approval, and a business debt service coverage ratio of no more than 1.15. Micro Fund loan terms would be for 60 months, include an interest rate of 3% or less, and principal-deferred payments for the first 12 months. Machinery, equipment, or other fixtures purchased with Micro Fund financing will be collateralized to the greatest extent possible with liens.

All CDBG-specific requirements as stated at 24 CFR 570 will apply to funds used through the Micro Fund. As designed, the Micro Fund would meet the CDBG low-/mod-income benefit national objective on a limited clientele basis. To meet this national objective, the owner of the assisted business must be income-verified as a member of a household that earns no more than 80% of area median income annually as defined by HUD. For reference, the income limit for a household of four is currently set at \$60,000 per year in the City of Racine.

Ineligible applicants for this funding source include liquor and tobacco stores, adult entertainment, short-term loan businesses, non-profits, and passive real estate investments.

On September 20, 2018, the Community Development Committee voted unanimously to recommend approval of a Resolution allowing the City of Racine to enter into an agreement with the RDA to create a Microenterprise Revolving Loan Fund, and a final decision is expected at the Common Council meeting on October 4, 2018.

**BUDGETARY IMPACT:**

The Community Development Committee and Common Council allocated \$62,700 of CDBG for the purposes of assisting microenterprises through 2018 Annual Action Plan. There are sufficient resources available to fund this request.

**RECOMMENDED ACTION:**

Staff recommends that the Redevelopment Authority of the City of Racine, WI authorize the Executive Director of the Redevelopment Authority of the City of Racine to enter into a written agreement with the City of Racine, WI consistent with federal, state, and local regulations upon review by the City Attorney for \$62,700 of CDBG funds for the purpose of creating and administering a CDBG Micro-Enterprise Revolving Loan Fund.