



## Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

**Date:** January 15, 2013

**To:** Council Member Lisa Goodman, Chair, Community Development Committee

**Referral to:** Council Member Betsy Hodges, Chair, Ways and Means/Budget Committee

**Subject:** Authorization to enter into contracts with the Metropolitan Consortium of Community Developers (MCCD) and the Neighborhood Development Center (NDC) in order to continue a program funded from a prior allocation of Empowerment Zone (EZ) Funds to continue small business loan activity under the revolving loan fund program for an additional ten years.

**Recommendation:** **The CPED Director recommends that the City Council authorize the execution of the contracts to continue the use of a prior allocation of EZ funding with the Metropolitan Consortium of Community Developers and the Neighborhood Development Center to continue the City's partnership on small business lending for another ten years.**

**Previous Directives:** On March 1, 2002, the Minneapolis City Council approved the Empowerment Zone Loan RFP process as well as the Minneapolis Empowerment Zone Small Business Initiative Loan Fund. On June 7, 2002 the City Council approved the selection of five loan fund providers that included MCCD and NDC, and the allocation of \$1 million in loan funds and technical assistance grants. The City in 2002 entered into Contracts #018337 with MCCD and #18533 with NDC allocating \$400,000 and \$350,000 respectively in loan funds to make loans to small businesses over a ten year period. On November 21, 2003 the City Council approved an additional allocation of EZ Small Business Initiative Loan Funds, with MCCD receiving \$300,000 and NDC receiving \$150,000. The City in 2004 entered into Contracts #C-20787 with MCCD and #20479 with NDC to continue the small business revolving loan fund activities.

Prepared by: Bob Lind, CPED	
Approved by: Charles T. Lutz, Deputy Director CPED	_____
Catherine A. Polasky, Director, Economic Development	_____
Presenters in Committee: Bob Lind	

## Reviews

- Permanent Review Committee (PRC): Approval: N.A.

## Financial Impact

- The EZ funds for the continuation of the small business revolving loan fund program in partnership with MCCD and NDC were originally allocated in 2002 and 2004 with this authorization continuing the program for another ten years with no new funds required.

## Community Impact

- Neighborhood Notification: N.A. Continuation of an existing small business loan program.
- City Goals: The support and financing of small businesses supports multiple City goals including: A Safe Place to Call Home, Many People, One Minneapolis, Eco-Focused, and A City that Works.
- Sustainability Targets: The small business lending activity supports the City's indicators and targets on creating green jobs and eliminating race/ethnicity disparities in the poverty rate.
- Comprehensive Plan: Projects are required to be in compliance with the policies of the Minneapolis Plan.
- Zoning Code: Projects are required to be in compliance.

## Supporting Information

In 1999 the City of Minneapolis was one of 15 cities to be awarded a 10-year designation as an Empowerment Zone (EZ) city. With the designation came federal funding to create sustainable communities through economic growth, affordable housing, safety, education, job training and community services. The designation of the Minneapolis EZ officially ended on December 31, 2009.

In 2002 as part of the City's EZ strategy, the City partnered with MCCD and NDC with funding from the Federal EZ legislation to create a small business initiative loan fund to make funds and resources available to small businesses within the boundaries of the City's Empowerment Zone. The intention of the revolving loan fund was to address the following needs:

1. Loans to small businesses owned by the minority populations that comprise the Empowerment Zone or business owners who have difficulty getting loans or investments from traditional lenders because they lack credit or assets; and
2. Loans to start-ups or businesses that want to maintain or expand but don't have the know-how and need technical assistance to achieve these goals.

Over the past ten years MCCD and NDC have deployed the EZ funds throughout the City focusing on the above two needs of minority businesses and start-ups. A summary of their activities:

### MCCD EZ Loan Funds

1 <sup>st</sup> Contract	\$ 400,000
2 <sup>nd</sup> Contract	\$ 300,000
Total Funds Received	\$ 700,000
EZ Funds Disbursed to Businesses	\$1,361,261
Loans Written Off Net of Recoveries	\$ 338,409
Remaining Funds to Roll-over	\$ 361,591

Small Business Loans Made	90
Small Businesses Financed	72
Women-owned Businesses Financed	38
Minority-owned Businesses Financed	59
Other Funds Leveraged	\$4,869,470
Number of Jobs Created/Retained	457

**NDC EZ Loan Funds**

1 <sup>st</sup> Contract	\$ 350,000
2 <sup>nd</sup> Contract	\$ 150,000
Total Funds Received	\$ 500,000
EZ Funds Disbursed to Businesses	\$ 761,896
Loans Written Off Net of Recoveries	\$ 173,838
Principal Repaid to City/EZ	\$ 32,869
Remaining Funds to Roll-over	\$ 293,293
Small Business Loans Made	82
Small Businesses Financed	47
Women-owned Businesses Financed	18
Minority-owned Businesses Financed	44
Number of Jobs Created/Retained	246

It is staff's recommendation that the City continue its partnership with MCCD and NDC for another ten years to utilize the previously allocated EZ Funds to continue making loans to Minneapolis small businesses with particular emphasis on minority businesses and start-ups. Attached are the program guidelines that will govern the Small Business Revolving Loan Fund going forward.

Attachment: Program Guidelines for the Small Business Revolving Loan Fund

**MCCD and NDC**  
**Small Business Revolving Loan Fund**  
**Program Guidelines**

**Purpose** To provide affordable financing to small Minneapolis neighborhood retail, service and light manufacturing businesses that are not able to obtain adequate financing from traditional financing sources.

**Program Structure** The Small Business Revolving Loan Fund (SBRLF) will provide City financing alone or in partnership with private banks, and other lending partners. The Metropolitan Consortium of Community Developers (MCCD) and Neighborhood Development Center (NDC), collectively and separately referred to as “Lender” will administer the program. All loans will be made in the name of the City of Minneapolis.

**Loan amount** The maximum amount of a SBRLF loan will be \$25,000 unless the applicant business is located in a city-designated Commercial Corridor or Commercial Node, in which case the maximum loan amount will be \$35,000.

**Term** The term will normally be between three and five years, and will be matched to the purpose of the loan. The maximum term will be ten years. The loan will usually be fully amortizing, but may be structured differently on a case by case basis.

**Interest Rate** The interest rate will not exceed 7.25%.

**Eligible uses** Loan proceeds can be used to finance general business operations, equipment, inventory, working capital, and building acquisition and improvements. Refinancing of existing debt is not an eligible use.

**Eligible Applicants** The applicant must be a for-profit business located in Minneapolis and unable to obtain adequate capital from a traditional financing institution. The applicant must have the ability to repay the loan and be an acceptable credit risk as determined by Lender. If the loan is to acquire or make improvements to a building the applicant must:

- Be in compliance with all city code/licensing with no building or health code violations
- Meet Minneapolis city code for all rehab work or equipment installation
- Use contractors licensed in Minneapolis

- An applicant's property status must be a conforming use or a legal non-conforming use under the City's Zoning Ordinance

**Underwriting** Loans must comply with the Lender's small business loan underwriting standards. The Lender shall have the sole responsibility of determining the applicant's credit risk through accessing a credit bureau report and through any other type of investigation typically used or deemed necessary.

**Collateral** The Lender shall determine the type and amount of collateral the borrower will provide. When participating with a traditional financing institution the Lender will normally be in a junior lien position on collateral. The Lender shall file any liens required on collateral in the name of the City.

**Origination and servicing** The Lender will originate and service the loans. The Lender will credit the principal portion of each payment received back into the loan pool and will keep the interest payment as the administration fee. When participating with a private lender in providing financing the private lender may sometimes originate and service the SBRLF loans on behalf of the Lender.

**Fees** Lender will charge its standard application, closing and origination fees.

**Recourse** Should a business default and not be able to pay the Lender, the City will not hold the Lender responsible for the loss of the defaulted loan funds. The Lender shall use all reasonable efforts to obtain the full or partial repayment of defaulted loans through workouts, extensions, or foreclosure on collateral provided by the business to secure the loan.