



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

Date: January 29, 2013

To: Council Member Lisa Goodman, Community Development Committee  
Council Member Betsy Hodges, Ways and Means/Budget Committee

**Subject:** Request for funding African Development Center to continue Servicing outstanding portfolio of Alternative Finance and Revolving Loans for 2013 as part of the City’s small business assistance programs.

**Recommendation:** The CPED Director recommends that the City Council authorize an allocation of \$40,000 to the African Development Center (ADC) to service the outstanding portfolio of City Partnership loans and authorize the appropriate City officers to execute contract documents consistent with this request.

**Previous Directives:** On December 13, 2006 City Council approved the Alternative Finance Program and authorized the lender agreement between the City of Minneapolis and ADC.

Prepared by: Becky Shaw 673-5066  
Approved by: Charles T. Lutz, Deputy Director CPED \_\_\_\_\_  
Catherine A. Polasky, Director, Economic Development \_\_\_\_\_  
Presenters in Committee: Becky Shaw  
Funding Source and Appropriation \_\_\_\_\_  
Language Reviewed by Development Finance: \_\_\_\_\_

### Reviews

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

### Financial Impact

- Other financial impact: Funds have been budgeted in Fund 01SED (Small Business Finance) for 2013.

## Community Impact

- Neighborhood Notification: Activity is not neighborhood specific.
- City Goals: *Jobs and Economic Vitality* – Businesses, big and small, start here, stay here, thrive here *Many People, One Minneapolis* - New arrivals welcomed, diversity embraced
- Sustainability Targets: Not applicable.
- Comprehensive Plan: *Policy 1.4* Develop and maintain strong and successful commercial and mixed use areas with a wide range of character and functions to serve the needs of current and future users *Policy 4.1.1* Use public development resources and other tools to leverage maximum private sector investment for public benefit *Policy 4.1.4* Improve the coordination of economic development activity among units of government, the business community, neighborhood organizations and nonprofit entities *Policy 4.9* Focus economic development efforts in strategic locations for continued growth and sustained vitality
- Zoning Code: Not applicable.
- Living Wage/Business Subsidy Agreement Yes \_\_\_\_ No  X  Not applicable.
- Job Linkage Yes \_\_\_\_ No  X  Not applicable.

## Supporting Information

The African Development Center (ADC), works within African communities of Minnesota to start and sustain successful businesses, build wealth and promote community reinvestment. ADC provides culturally competent services to business owners and entrepreneurs through Business Development Workshops, Technical Assistance, and a variety of financing tools. ADC is a growing micro lender in Minnesota and works with the City of Minneapolis Department of CPED to provide financial assistance to small business owners either starting or expanding a business within the City of Minneapolis.

Through this partnership, ADC and CPED are able to combine efforts to finance small business through Revolving Loans, Alternative Financing, Micro Loans and Working Capital Guarantees. ADC has underwritten and closed loans, partnered with CPED on loans and has provided servicing on the portfolio. A total of 101 small business loans have been closed through this partnership between January 1, 2000 and today supporting approximately \$1,745,350 in investment, creating 119 new jobs and retaining 172. Today there are 55 loans outstanding with a total balance of \$644,047.86 and expected annual repayments to the City of \$259,893.71.

Comprehensive servicing of a portfolio of loans includes activities such as loan set-up, processing legal closing documents, processing payments, delinquency collections, and payoff. At this time, ADC performs those time consuming and often costly services to CPED. The current default rate for the ADC-City partnership loan portfolio is 14%. This is higher than the default rate for City programs generally, but fairly typical for programs like ADC's focused on early stage, startup and immigrant entrepreneurs. The portfolio has not yet reached the point where repayments alone will fully support the servicing costs. Staff recommends this support to ADC to cover loan servicing costs not recouped through interest payments to protect the City's financial interest in this portfolio. The allocation of \$40,000 would allow ADC to continue monitoring individual accounts. Monitoring will include:

- Collecting monthly payments from individual clients and remitting them to CPED,
- Providing a monthly spreadsheet of payments processed and loan balances,
- Maintaining collection efforts and restructuring loans when necessary, and
- Filing all documentation in relation to legal filings, collection efforts and loan restructuring and credit bureaus.

Support for ADC's loan portfolio servicing was included in CPED's 2013 budget in Fund 01SED – Business Development.

