



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

Date: March 18, 2013

To: Council Member Lisa Goodman, Community Development & Regulatory Services Committee

Subject: Small business loan program partnerships

Recommendation: Authorize CPED staff to execute a contract for \$50,000 to extend the partnership with the Metropolitan Consortium of Community Developers in 2014.
Authorize CPED staff to execute a contract for \$40,000 to extend the partnership with the African Development Center in 2014.

Previous Directives: Since 1987 the City of Minneapolis has had a partnership arrangement with the Metropolitan Consortium of Community Developers to operate the micro loan program and other small business assistance programs that are made available to businesses throughout Minneapolis. On December 13, 2006 City Council approved the Alternative Finance Program and authorized the lender agreement between the City of Minneapolis and ADC.

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Approved by: Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director, Economic Policy and Development _____

Presenters in Committee: Becky Shaw

Financial Impact

- Other financial impact: The proposed contracts in the amount of \$90,000 are included in the 2014 budget.
- Action is in the business plan.

Community Impact

- Neighborhood Notification: Activity is not neighborhood specific.
- City Goals: Assistance to small businesses aids in building communities and in creating the environment that maximizes economic development opportunities in Minneapolis.

- Sustainability Targets: N.A.
- Comprehensive Plan: N.A.
- Zoning Code: N.A.
- Living Wage/Business Subsidy Agreement Yes _____ No X
The small business assistance programs of the City have generally been exempt under the State Act and the City's local Ordinance given the small size of the financings and the projects are undertaken for a variety of community development purposes.
- Job Linkage Yes _____ No X Not applicable.

Supporting Information

The Business Development department of CPED has a variety of assistance tools and financing programs available to Minneapolis Business owners. Most of our loan programs are participation based. The business owner applies for financing equipment or improvements through any lender. Typically they have an existing business relationship with a Commercial Lender and will continue to work with that individual bank. Business Development purchases a portion of the loan at a below market interest rate. The programs are designed to spur investment in Minneapolis businesses taking advantage of the collaborative efforts of professional lending institutions and existing commercial banking relationships. As a result of these participation based partnerships, we are able to use the support structure of underwriting, analysis, collections, and loan servicing tools already effectively operating within the bank to service their portion of the loan. This ensures professional handling of Minneapolis small business loans and eliminates duplicative, timely processes by utilizing those already available. Most commercial lenders have large back office operations departments and software systems to support the volume of customers and loans originated by their institution. An exception to this model exists in smaller community based lenders. The community based lenders do the same level of analysis, underwriting, collecting and servicing that the institutional lenders do, often with a small staff of employees, volunteers and community input. They develop and offer creative assistance tools to bridge existing gaps in traditional lending institutions to finance small business expansions and effect change in the City of Minneapolis. For this reason, we have supported and continue to support the efforts of the Metropolitan Consortium of Community Developers and the African Development Center.

The Metropolitan Consortium of Community Developers

The Metropolitan Consortium of Community Developers (MCCD), in cooperation with the City of Minneapolis, operates a number of small business assistance programs to provide loans to small businesses. The partnership with MCCD began in 1987 with a microloan program capitalized with City dollars with a cap of \$3,000. That program now has a cap of \$25,000 and is capitalized with revolving dollars and monies provided by foundations, local lenders and state and federal sources. Over the past several years additional programs have been developed with and by MCCD to continue to meet the evolving needs of businesses.

The following loan programs are available to Minneapolis businesses through our partnership with MCCD:

1. **Micro Loans** ranging from \$1,000 to \$25,000 are used for inventory, equipment or working capital, available to both start-ups and existing businesses. The City's partnership on this program goes back to 1987.
2. As with other partnership lenders, MCCD participates as a "banker" with the City's **2% loan program**. Businesses that MCCD works to finance through this program have not been able to secure bank financing even with the City's participation.

3. In 2009 the City launched the **Credit Building Program**. Many Minneapolis residents continue to find that credit impairment is limiting their access to the capital they need to enhance their economic opportunities. Particularly for small business owners and aspiring entrepreneurs, having low or non-existent credit scores constitute a major barrier to financial success. With few opportunities to create or improve their credit scores at credit bureaus, these borrowers have less access to competitive interest rates and safe loan products. Particularly hard hit are residents who have been victimized by predatory home mortgage loans and are finding that their credit history is being adversely affected. The program has been a good link with the City's existing foreclosure mitigation initiatives and our other small business efforts.
4. Also in 2009, MCCD began a new financing program, called **Transactional Financing**, to meet the needs of contractors who were unable to secure and perform on building contracts due to insufficient capital to front-end material and subcontractor cost. MCCD's program is targeted to small independent, minority or women-owned contracting businesses, and provides the working capital for specific contract, with repayment to be made from the eventual contract draw. MCCD piloted this program with two local contractors, both of whom have completed their projects and repaid their financing. Based on the success of the pilot, the program was rolled out to the broader public in 2010.
5. In 2011 the City rolled out two additional small business programs in partnership with MCCD, the **Homegrown Business Development Center** and the **Business Recovery Loan Program**. The Homegrown Business Development Center provides financing and technical assistance for Minneapolis based businesses that process and manufacture local food products. The purpose of the program is to foster the development and expansion of business ventures that promote sustainable agriculture and food production within Minneapolis and the surrounding region. A number of very promising entrepreneurs are utilizing the program to advance and expand their businesses. The second program, the Business Recovery Loan Program was established by the City Council in response to the May 22 tornado. The City in partnership with funding from the State, was able to respond quickly with financing to Minneapolis businesses impacted by the disaster. More than 30 businesses have received financial assistance to cover disaster related expenses, including insurance deductibles, building and equipment repair, and inventory replacement. The Business Recovery Loan Program continues to be available throughout the City should a disaster in the form of a fire, flood or storm strike again.
6. Also in 2011, the Metropolitan Council made \$4 million in forgivable loans available to **Central Corridor LRT businesses** during the construction period. In April 2011, the City Council authorized CPED to enter into a Joint Powers Agreement with the St. Paul HRA to administer the forgivable loan program in Minneapolis. MCCD was selected to underwrite, disburse, and service these loans.
7. The newest program in 2012 is the **Small Business Real Estate Acquisition Loan Program** that enables small business owners to obtain financing for real estate acquisition of commercial and industrial properties in which to operate their business. The loan is a partnership between a private lender which finances 50% of the acquisition, the MCCD with 40% of the loan, the City provides 5% and the borrower contributes the remaining 5% as equity. Projects are generally in the \$200,000 to \$800,000 range.

Through the various loan programs the City of Minneapolis and MCCD have together provided financing for more than 665 businesses during the last twenty-two years. With support from the City of Minneapolis, the MCCD loans represent one of the only sources of City-assisted financing for start-up and home-based businesses in Minneapolis. The MCCD

small business programs help many new and early stage businesses access the capital they need to grow and prosper. Since 2000, MCCD has made loans to over 340 Minneapolis businesses totaling over \$3.69 million and supporting 1388 jobs. Of these, MCCD is servicing 117 outstanding loans with a total balance of just over \$1.1 million.

For the past several years, the City of Minneapolis has provided partnership dollars to MCCD for a combination of loan capital, loan servicing operational support, and technical assistance to entrepreneurs and established businesses. In 2013, business mentoring provided by MCCD to strengthen financial, marketing and business management skills is supported by a \$125,000 contract through the new Technical Assistance Program (TAP) launched in 2012. The TAP program is designed to provide support for community development organizations such as MCCD providing business consulting services in a competitive, transparent fashion.

As technical assistance is now supported through the TAP program, City staff is recommending that the \$50,000 budgeted in 2013 to continue the small business partnership with MCCD be directed toward loan servicing not covered by interest and fees and flexible loan capital as needed, and requests authorization to enter into a contract with MCCD for that purpose.

The African Development Center

The African Development Center (ADC) works within African communities of Minnesota and is dedicated to the economic empowerment and success of African immigrants. Their mission is to start and sustain successful businesses, build wealth and promote community reinvestment. Through culturally competent services, workshops and consultations on financial literacy, business development, and homeownership ADC provides assistance to small business owners and entrepreneurs. 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 103 small business loans have been closed through this partnership between January 1, 2000 and today supporting approximately \$2,090,900 in investment, creating 131 new jobs and retaining 148. Today there are 55 loans outstanding with a total balance of \$540,305.71 and expected annual repayments to the City of approximately \$141,000. 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 costly services to CPED. 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.

For the past several years, the City of Minneapolis has provided partnership dollars to ADC for a combination of loan capital, loan servicing operational support, and technical assistance to entrepreneurs and established businesses. In 2013, business mentoring provided by ADC to strengthen financial, marketing and business management skills is supported by a \$40,000 contract through the new Technical Assistance Program (TAP) launched in 2012. The TAP program is designed to provide support for community development organizations such as ADC providing business consulting services in a competitive, transparent fashion.

As technical assistance is now supported through the TAP program, City staff is recommending that the \$40,000 budgeted in 2014 to continue the small business partnership with ADC be directed toward loan servicing not covered by interest and fees and flexible loan capital as needed, and requests authorization to enter into a contract with ADC for that purpose.