



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

Date: March 18, 2014

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

Referral to: Council Member John Quincy, Ways and Means Committee

**Subject:** Small Business Revolving Loan Programs

**Recommendation:** The CPED Director recommends that the City Council:

- Receive and file the 2013 year-end loan portfolio report for the Business Development Loan Programs.
- Authorize write-off of a 2% loan made to Kuu Ruay LLC d/b/a Koyi Sushi Too as uncollectable.

**Previous Directives:** The Small Business Revolving Loan Fund Program guidelines were established in 1986. Amendments were made in 1993, 1996, 2000, 2003, 2004 and 2010. The last portfolio summary was submitted March 19, 2013.

### Department Information

Prepared by: Judy Moses, CPED, 673-5283
Approved by: Charles T. Lutz, Interim Director, CPED _____
Catherine A. Polasky, Director, Economic Policy & Development _____
Presenters in Committee: Judy Moses

### Reviews

- Permanent Review Committee (PRC): Approval \_N/A\_ Date \_\_\_\_\_

### Financial Impact

\_X\_ financial impact: The recommended write-off of this uncollectible loan will result in a \$53,331 reduction in the City's loan receivable revenue account.

### Community Impact

- Neighborhood Notification:
- City Goals: *Jobs and Economic Vitality* – Businesses, big and small, start here, stay here, thrive here. A City that works.

- 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: The proposed investments must be in compliance with the City's Zoning Code.
- 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 because of the small size of the financing package.
- Job Linkage                      Yes \_\_\_\_\_      No X

## Supporting Information

### Programs Summary

The City of Minneapolis has developed a robust toolbox of small business financing programs designed to increase the competitiveness of Minneapolis businesses, facilitate business starts and expansions, leverage private sector investments in Minneapolis businesses and support the growth of businesses, jobs and the tax base.

CPED's key small business loan programs include the following, in order of current loan volume:

**2% Loan Program:** provides financing to small Minneapolis businesses (retail, service or manufacturing) to purchase equipment and/or to make building improvements. A private lender provides half the loan at market rate and the City provides the rest, up to \$50,000 at 2 percent interest (up to \$75,000 in neighborhood commercial districts designated in the City's comprehensive plan).

**Alternative Financing Loan Program:** provides small Minneapolis businesses (retail, service or manufacturing) an alternative financing approach to the interest-based system. The program provides financing that complies with Islamic Sharia law to purchase equipment and/or make building improvements. A private lender provides half the financing at their rate of return, and the City provides the rest, up to \$50,000, at a 2 percent rate of return.

**Energy Efficiency Loan Program:** provides financial assistance to improve energy efficiency in neighborhood retail, service and light manufacturing businesses using stimulus grant funds through the Department of Energy. CPED provides a loan up to \$75,000 at a 0% interest rate for a term not to exceed 10 years. The initial Department of Energy capital for this program has been expended. Loan repayments will be recirculated.

**Business Development Fund Loan Program:** provides Minneapolis businesses loans of up to \$75,000 for equipment or capital improvements at market rate in partnership with a private lender. The program offers prepayment credits for each Minneapolis resident hired at living wage (during the first three years of the loan) and employed at least one year. The borrower can receive prepayment credits for up to half of the City loan amount.

**Working Capital Guaranty Program:** provides small businesses help in securing financing through private banking institutions. A private lender funds the loan, and the City of Minneapolis (CPED) guaranties a portion of the financing.

**Homegrown Business Development Center loans:** provides financing and technical assistance for Minneapolis-based businesses that process and manufacture local food products. This program is a partnership between CPED & the Metropolitan Consortium of Community Developers (MCCD). 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. To be eligible for loan funds, a minimum of 10% of the business's product must come from local ingredients. For the purposes of this program, a 'local ingredient' must be produced, grown or raised in Minnesota or within approximately 200 miles of Minneapolis. Loans can be up to \$10,000, with a fixed interest rate of 2%. The maximum term is 5 years.

**Business Recovery Loan Program:** When a tornado struck North Minneapolis in May 2011, CPED developed this program in partnership with the State of Minnesota and MCCD. The program provides unsecured loans up to \$5,000 to businesses. Many borrowers used the loan to pay insurance deductibles. Payments were deferred for the first six months and no interest accrued. Thereafter, the loans were amortized at 4% interest over a term of 36 months. However, the loan principal balance was forgiven if the business had made regular payments and was still operating two years after the loan closed.

**Business Health and Safety Loan Program:** This program will provide financing to businesses to make minor improvements that achieve standard health and safety code requirements. This program offers loans up to \$10,000 at a 7% interest rate for a term of 5 years or less. The program will be administered by the Metropolitan Consortium of Community Developers (MCCD). The program was approved by the City Council in December 2013 and will launch in March 2014.

CPED staff is currently conducting a comprehensive evaluation of the small business loans in our toolbox and review of the program guideline alignment with City goals. Following discussions with community lending partners and business advisors, staff will return to the Council with recommendations on program modifications, expected summer 2014.

### **Loan Portfolio Summary**

In 2013, 49 loans closed under the Small Business Revolving Loan Programs. These City loans totaled \$2,426,000 and leveraged \$14,591,000 from private lending partners to support investments in Minneapolis businesses. Borrowers estimated that these programs helped create 273 new jobs and retain 339 jobs in 2013. These estimates are based on information obtained from the applicants at the time of loan origination. Expected repayments with interest from all outstanding loans during 2014 is \$2,230,000.

The Small Business Revolving Loan Programs continue their role in 2013 of providing key financing to support business investment in neighborhood commercial districts. Some examples from 2013:

- The City provided a \$50,000 2% loan to the owners of Bauhaus Brew Labs, LLC. in participation with a \$550,000 from Fidelity Bank. The loan proceeds were used for building improvements and equipment for a new packaging/production brewery and taproom at 1315 Tyler Street NE. The business owners currently have 1 full-time and 1 part-time employee. Upon completion of the project they anticipate hiring 10 additional full-time employees. The estimated opening date for the business is spring, 2014.
- The City provided a \$50,000 2% loan and a Working Capital Guaranty on a line of credit to Amy Greely and Doug Flicker who are the owners of a new restaurant at the Lake Nokomis concessions called Sandcastle. The restaurant is a community gathering place, operating between April 15<sup>th</sup> and October 15<sup>th</sup>. Sandcastle is a

location for food and environmental education, as well as a venue for community events and casual gatherings. The 2% loan was used for the purchase of equipment and leasehold improvements. The Working Capital Guaranty provided a 30% guaranty on a \$50,000 bank line of credit. The total project costs were \$410,000. Venture Bank provided financing in the amount of \$220,000. In addition, the Metropolitan Consortium of Community Developers and Neighborhood Development Center each provided a \$20,000 loan to assist with the project. The remaining \$100,000 was provided in the form of owner equity.

- The City provided a \$60,000 2% loan to Dr. Tara Watson for the build out and equipment purchase for an Anytime Fitness Center at 2104 West Broadway, adjacent to Dr. Watson's Chiropractic office. Park State Bank participated in the project financing with a loan for \$240,000. The building houses a 5,000 sq. ft. club offering elliptical machines, a myriad of machine weights, free weights, personal training, a massage area and a tanning salon.
- The City provided a \$20,000 Alternative Financing loan to Layla Mohamud, the owner of Cedar Riverside Child Care Center. The new daycare center is located at 404 Cedar Avenue South. The loan was done in participation with the African Development Center and the funds were used for leasehold improvements. The center will serve up to 53 children ages infant to school age.

The following is a summary of the small business loan portfolio as of 12/31/2013.

**2% Revolving Loan Program - Portfolio Summary**

(since program inception – 1986)

Total # of Loans to Date: 1159	Total Loans Outstanding: 249
Total 2% \$ Loaned to Date: \$35,954,807	Total \$ Outstanding: \$8,167,748
Total \$ Private Invest: \$130,827,123	
Total # of Loans Paid Off: 845	
Total # of Loans Written Off: 65	Total # of Loans on Delinquent List: 7
Total \$ Amount Written Off: \$967,271	Total \$ Amount on Delinquent List: \$178,168
Total # of Loans Defaulted: 72*	
Default Rate: 2.69%**	

\*Includes loans on the Delinquent List and loans Written Off.

\*\*The default rate percentage does not include the loans currently on the Delinquent List.

### **Alternative Finance Program- Portfolio Summary**

(since program inception – 2007)

Total # of Loans to Date: 64	Total Loans Outstanding: 30
Total \$ Loaned to Date: \$1,211,500	Total \$ Outstanding: \$394,635
Total \$ Private Invest: \$1,458,000	
Total # of Loans Paid Off: 27	
Total # of Loans Written Off: 7	Total # of Loans on Delinquent List: 6
Total \$ Amount Written Off: \$60,497	Total \$ Amount on Delinquent List: \$48,087
Total # of Loans Defaulted: 13*	
Default Rate: 4.99%**	

### **Energy Efficiency Loan Fund - Portfolio Summary**

(since program inception – 2011)

Total # of Loans to Date: 16	Total Loans Outstanding: 16
Total \$ Loaned to Date: \$533,830	Total \$ Outstanding: \$360,198
Total \$ Private Invest: N/A	
Total # of Loans Paid Off: 0	
Total # of Loans Written Off: 0	Total # of Loans on Delinquent List: 0
Total \$ Amount Written Off: \$0	Total \$ Amount on Delinquent List: \$0
Total # of Loans Defaulted: 0	
Default Rate: 0%**	

### **Business Development Loan Fund - Portfolio Summary**

(since program inception – 1993)

Total # of Loans to Date: 43	Total Loans Outstanding: 5
Total \$ Loaned to Date: \$2,987,535	Total \$ Outstanding: \$211,035
Total \$ Private Invest: \$23,660,000	
Total # of Loans Paid Off: 36	
Total # of Loans Written Off: 2	Total # of Loans on Delinquent List: 0
Total \$ Amount Written Off: \$81,475.39	Total \$ Amount on Delinquent List: \$0
Total # of Loans Defaulted: 2	
Default Rate: 2.72%**	

\*Includes loans on the Delinquent List and loans Written Off.

\*\*The default rate percentage does not include the loans currently on the Delinquent List.

**Working Capital Guaranty Program - Portfolio Summary**

(since program inception – 1987)

Total # of Guarantees to Date: 258	Total # of Guarantees Outstanding: 5
Total \$ of Guarantees to Date: \$3,985,125	Total \$ Current Exposure: \$104,000
Total \$ Amount Paid Out: \$691,542	
Total # of Guarantees Paid Out: 38	
Percentage of loan guarantees paid: 17.35%**	

**Homegrown Business Development Center Loans - Portfolio Summary**

(since program inception – 2012)

Total # of Loans to Date: 2	Total Loans Outstanding: 2
Total \$ Loaned to Date: \$20,000	Total \$ Outstanding: \$19,680
Total # of Loans Written Off: 0	
Total \$ Amount Written Off: \$0	
Default Rate: 0%	

**Business Recovery Loans - Portfolio Summary**

(since program inception – 2011)

Total # of Loans to Date: 33	Total Loans Outstanding: 1
Total \$ Loaned to Date: \$139,167	Total \$ Outstanding: \$4,189
Total # of Loans Written Off: 12	
Total \$ Amount Written Off: \$45,394	
Total # of Loans Forgiven: 20	
Total \$ Amount Forgiven: \$44,169	
Default Rate: 32.6%	

\*Includes loans on the Delinquent List and loans Written Off.

\*\*The default rate percentage does not include the loans currently on the Delinquent List.

The default rates vary for the programs due to the longevity of the programs and the types of businesses that are served by the various programs. Some of the loan programs serve more start-up businesses versus established businesses. The Business Recovery Loan

Program was designed to provide small, unsecured loans to stabilize small businesses that were dealing with a natural disaster.

**Write-off request**

We are asking for the City Council's approval to write-off the loan referenced below. The following is a summary of the loan:

<u>NAME OF BUSINESS</u>	<u>PARTICIPATING BANK</u>	<u>ORIGINAL LOAN AMT.</u>	<u>PRINCIPAL BALANCE</u>	<u>DATE OF DEFAULT</u>
Kuu Ruay LLC d/b/a Koyi Sushi Too	Park Midway Bank	\$75,000	\$53,331.51	10/11/2011

On August 31, 2009 CPED loaned Kuu Ruay LLC d/b/a Koyi Sushi Too \$75,000 at 2% interest for 7 years. The CPED loan was matched by a \$75,000 loan from Park Midway Bank. The loan funds were used to make tenant improvements to the leasehold space at 2111 E. Franklin Avenue. The CPED loan was secured by business assets and a commercial guaranty signed by Willis L. Dry. The Park Midway Bank loan was secured by a commercial guaranty and cash held in a certificate of deposit. The City's interest in the commercial guaranty was subordinate to the bank's interest per the program participation agreement. The cash deposit was provided by the Seward Neighborhood Group to guaranty the bank's portion of the loan to Koyi Sushi Too.

Park Midway bank declared the loan in default in October 2011 after the restaurant closed. Mr. Willis Dry filed for personal bankruptcy in late 2011. The remaining balance of the City's loan following collection efforts and asset liquidation is \$53,331.51. It is staff's recommendation that the remaining balance be written off as uncollectible.