



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

Date: April 21, 2015

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

**Subject:** Small business loan program partnership

**Recommendation:** Authorize CPED staff to execute a contract for \$50,000 to extend the partnership with the Metropolitan Consortium of Community Developers in 2015.

**Previous Directives:** Since 1987 the City of Minneapolis has had a partnership arrangement with the Metropolitan Consortium of Community Developers to operate a number of small business assistance programs that are made available to businesses throughout Minneapolis.

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Approved by: D. Craig Taylor, Executive Director CPED \_\_\_\_\_

Presenters in Committee: Nila McDonald

### Financial Impact

- Other financial impact: The proposed contract in the amount of \$50,000 is included in the 2015 budget.
- Action is in the business plan.

### Community Impact

- Neighborhood Notification: Activity is not neighborhood specific.  
City Goals: A hub of economic activity and innovation: Businesses – big and small – start, move, stay and grow here.  
One Minneapolis: Disparities are eliminated so all Minneapolis residents can participate and prosper
- 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.

## 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 very small businesses and entrepreneurs. 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 provided seed dollars to capitalize this program starting in 1987. The program is now capitalized with revolving funds and foundation dollars rather than City funds.
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** with MCCD. 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 can 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. Through this program MCCD makes small loans of a few hundred dollars to clients of partner financial literacy programs to establish a positive credit record.

4. In 2011, the City rolled out an additional small business program in partnership with MCCD, the **Homegrown Business Development Center**. 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.
5. In 2013, the City authorized the continued use of prior allocation of **Federal Empowerment Zone** funding with MCCD. Empowerment Zone funds are being used as a source of capital for real estate investments for business startup and expansion.
6. In 2013, the City established an additional small business loan program in partnership with MCCD, the **Business Health and Safety Improvement Loan Program**. The program was developed as a revolving loan fund used to assist Minneapolis businesses in financing code compliance and other remedial minor physical improvements for regulated businesses.

Through the various loan programs the City of Minneapolis and MCCD have together provided financing for more than 684 businesses during the last twenty-seven years. With support from the City of Minneapolis, the MCCD loans represent one of the only sources of City-assisted financing for start-up 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 365 Minneapolis businesses totaling over \$4.2 million and supporting 1440 jobs. Of these, MCCD is servicing 80 outstanding loans with a total balance of just over \$1.44 million.

For several years, the City of Minneapolis provided partnership dollars to MCCD for a combination of loan capital, loan servicing operational support, and technical assistance to entrepreneurs and established businesses. With the creation of the Business Technical Assistance Program (B-TAP) to support a variety of organizations that provide technical assistance to businesses through a transparent, competitive process, MCCD now receives City support for that portion of their work with entrepreneurs through B-TAP.

City staff is recommending that the \$50,000 budgeted in 2015 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.