



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

Date: December 12, 2006

To: Council Member Lisa Goodman, Community Development Committee
Council Member Paul Ostrow, Ways and Means/Budget Committee

Subject: Request for approval of contract and funding of the partnership with the Community Reinvestment Fund (CRF) and the City of Minneapolis on the Emerging Entrepreneur Loan Program Pilot in Minneapolis.

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

- 1. authorize the execution of the contract on the partnership of the City of Minneapolis with CRF on expanding the Capital Acquisition Loan (CAL) Program through the Emerging Entrepreneur Loan Program Pilot in Minneapolis;**
- 2. authorize an allocation of \$325,000 to CRF from Hilton Legacy Funds (Fund SPH0) as part of the CPED 2007 budget; and**
- 3. authorize an Advance Commitment Agreement with CRF that will permit CAL loan activities in 2007.**

Previous Directives: In 1998 the City Council approved the program guidelines and the partnership with CRF on Business Finance's collaboration with CRF and local lenders to create the Capital Acquisition Loan (CAL) Program. In 2000, 2001, 2002, 2004 and 2005 the City Council authorized Advance Commitment Agreements with CRF to facilitate CAL loan activity.

Prepared by: Bob Lind, CPED, Business Finance, 673-5068
Approved by: Charles T. Lutz, Deputy Director CPED _____
Presenters in Committee: Bob Lind

Reviews

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

Financial Impact

- Other financial impact: Funds for the partnership with CRF on the expansion of the existing CAL Loan Program through providing a \$325,000 grant to CRF for the Emerging Entrepreneur Loan Program Pilot in Minneapolis is part of the pending 2007 Budget from the Hilton Legacy Fund (Fund SPHO). Included in the \$325,000 is the necessary funds to secure the Advance Commitment Agreement in order to make additional CAL loans in 2007.

Community Impact

- Neighborhood Notification: N.A. The CAL Loan Program is a City-wide program.
- City Goals: The program supports the City goal of a mix of unique small businesses that give Minneapolis' neighborhoods unique identities and character. The program also supports entrepreneurial opportunities for residents by enabling financing for the ownership of buildings and businesses.
- Sustainability Targets: N.A.
- Comprehensive Plan: Projects when completed are in compliance.
- Zoning Code: Projects when completed are in compliance.
- Other: N.A.

Supporting Information

In 1998 the City of Minneapolis collaborated with CRF and local lenders to help entrepreneurs purchase the buildings where they operate their businesses. Called the Capital Acquisition Loan Program (CAL), this partnership helped many minority, immigrant, women and local entrepreneurs to become property owners and to renovate their buildings. CAL was also designed to help the City of Minneapolis meet a need to reduce the number of neglected buildings owned by absentee landlords and to strengthen its commitment to its initiative in Commercial Corridors and Commercial Nodes.

The CAL loans help small businesses purchase and renovate small commercial and industrial properties, with the City providing staff assistance but no direct City funding for the loans. The CAL loans are funded from at least 50 percent from local lenders, CRF finances up to 40 percent, and the business borrower provides the remaining 10 percent in the form of equity.

Since 1998, in partnership with CRF and local lenders, the City of Minneapolis has closed on 94 CAL loans, with CRF providing over \$9 million and local banks providing almost \$15 million in funding. See the attached listing of the 94 CAL loans closed since the inception of the program in 1998. It is noted that the average size of a CAL loan has steadily increased over the years, partially reflecting the increase in real estate costs within the City.

CRF, founded in 1988, is a Minnesota based nonprofit corporation that operates a secondary market for community development loans. CRF has taken the model of the CAL program created with the City of Minneapolis and has duplicated it across the country with other government agencies and municipalities.

While our current partnership with local banks and CRF has made great gains in reaching out to small businesses wishing to purchase their own buildings, the program has been unable to meet the funding needs of certain entrepreneurs. Current underwriting standards for the CAL program exclude start-up businesses and businesses that have experienced financial setbacks in the last two years. CRF underwriting standards along with the secondary market investors that purchase these loans from CRF, often have underwriting guidelines newer businesses and immigrant entrepreneurs may not meet. Yet it is these entrepreneurs who are revitalizing Lake Street, Franklin Avenue and Central Avenue. It is the new storefronts, clean streetscapes, new jobs and improved goods and services available to local residents that are the direct results of small entrepreneurs with access to capital and their willingness for hard work to turn a neighborhood around. It is the intent of the Emerging Entrepreneur Loan Program to meet the challenge of finding ways to make capital available to these entrepreneurs.

The Minneapolis/CRF pilot CAL program will focus on meeting the funding needs of the emerging entrepreneur community, many of which are expected to be members of minority groups, women and immigrants. CRF has already modeled and set in place the infrastructure for the Minneapolis pilot through similar pilots already approved in:

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|--------------------------|-----------------|-------------------------------------|--------|
| 1. City of St. Paul | \$300,000 Grant | First emerging entrepreneur loan | |
| approved in April, 2006. | | | |
| 2. McKnight Foundation | \$300,000 Grant | St. Paul and Minneapolis are target | areas. |
| 3. Blandin Foundation | \$200,000 Grant | Greater Minnesota target area | |

In addition to the above existing grant funds to launch the Emerging Entrepreneur Loan Program, CRF has also raised an additional \$3 million in program related investments (loans) from the Bremer Foundation, Blandin Foundation and the Northwest Area Foundation to augment the lending and loan purchases. Through a Minneapolis grant of \$325,000, CRF would be able to target over a three year period, new lending to Minneapolis entrepreneurs starting a new business, embarking in new fields, or overcoming personal financial challenges that have blocked their access to

capital. The \$325,000 in grant funds would be leveraged with the \$3 million in program related investments for making direct CAL loan purchases from the City and in setting aside loss reserves.

The Emerging Entrepreneur Loan Pilot Program will consist of creating and testing the concept of a “seasoning pool” of loan funds that will allow CRF to purchase loans that for one reason or another would be seen as too risky for the more traditional portfolio and provide a “home” where the loans can “season” for 12 to 24 months. After a period of time, if these loans have performed and paid as agreed, institutional investors will be more comfortable with the loans and CRF will be able to include them in its next offering to the secondary markets.

It is expected that with the above grants and program related investments, CRF will be able to provide Minneapolis businesses with an additional 25-30 CAL loans over a three year period.

The success of the Emerging Entrepreneur Loan Program will be determined by the ability of the pilot program to deliver the following:

1. That Minneapolis emerging entrepreneurs will receive financing that they would have otherwise found unobtainable from local banks. The loans will enable them to purchase their own buildings, putting them on sound footing for expansion. The residents of the local neighborhoods will benefit from job creation and the physical improvement of the buildings in their commercial corridors and nodes. The extent to which minority, immigrant and women entrepreneurs receive funding and in overcoming the barriers to economic opportunity will be an important measure of the pilot's success. We will work with CRF to assess the success of the program making use of their existing extensive data tracking system.
2. The City of Minneapolis will gain access to a new tool and the resources it needs to create jobs and increase the number of rehabilitated owner-occupied commercial properties. The City's investment of \$325,000 into the program will leverage not only the economic development lending capital of CRF, but the 50% of the loan that is typically funded by the participating lenders. With the average CAL loan being about \$250,000, the three year pilot of about 25-30 loans will generate about \$8.5 million in private financing on the part of CRF and the local lenders involved in each deal. This equates to a public/private investment ratio on the City's \$325,000 investment of 1:26.

Attachment: CAL Loans 1998 – October 31, 2006

CRF Entrepreneur Program City Council Report December 12, 2006