

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

Date: January 18, 2011

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

Subject: Request for Funding of Partnership with the Metropolitan Consortium of Community Developers and the City of Minneapolis for the Small Business Loan Programs in 2011

Recommendation: The CPED Director recommends that the City Council authorize an allocation of \$115,000 to the Metropolitan Consortium of Community Developers to extend the City's partnership on small business loan programs for 2011.

Previous Directives: Since 1991 the Business Finance staff on an annual basis has requested that the City Council approve the partnership arrangement with the Metropolitan Consortium of Community Developers to operate the micro loan program and other small business assistance programs.

Prepared by: Bob Lind, CPED, Business Finance, 673-5068

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

Catherine A. Polasky, Director, Economic Development _____

Presenters in Committee: Bob Lind

Funding Source and Appropriation Language

Reviewed by Development Finance: _____

Reviews

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

Financial Impact

- Other financial impact: The \$115,000 in funds have been appropriated in Fund 01SED (Small Business Finance) and are part of the CPED 2011 budget request.

Community Impact

- Neighborhood Notification: All programs are City-wide small business loan programs.
- 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

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

Supporting Information

The Metropolitan Consortium of Community Developers (MCCD), in cooperation with the City of Minneapolis Department of CPED, operates the micro loan program to provide loans to small neighborhood businesses. Many of the micro loans have been under \$15,000. The micro loan program is just one of a number of small business assistance programs that the MCCD operates. In addition to the funding from the City, MCCD uses other resources including state, federal and private foundation funds to further capitalize the various loan programs it operates, thereby leveraging the funds provided by the City of Minneapolis.

In 2009 the City launched its newest loan program with MCCD, the Credit Building Program. Since then, the program has been expanded through new partnerships with PPL and others. Many 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 of late, are residents who have been victimized by predatory home mortgage loans and are finding that their credit history is being adversely affected.

In setting up the Credit Building Program, MCCD built on the experience of other organizations that are already providing credit counseling and foreclosure prevention programs. Several MCCD member organizations, including Project for Pride in Living, Habitat for Humanity and Community Neighborhood Housing Services, currently offer these services. It is the program's goal to provide credit building loans to up to 50 Minneapolis residents/businesses that are already in foreclosure prevention and credit counseling programs. Along with MCCD, we will be targeting the credit building loan program to existing and potential small business owners who are in foreclosure prevention counseling and who may have had a strong credit score until they were faced with a home mortgage crisis. The program will be a good link with the City's existing foreclosure mitigation initiatives and our other small business efforts.

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.

The small business loan programs that MCCD does in cooperation with the City of Minneapolis are a partnership of the following MCCD member lending organizations:

- African Development Center
- Latino Economic Development Center
- Metropolitan Economic Development Association
- Neighborhood Development Center
- Northside Residents Redevelopment Corporation
- Northeast CDC

- Seward Redesign

Through the micro loan program the City of Minneapolis has assisted M CCD in providing financing for more than 565 target area businesses during the last twenty years. See the attached exhibit for the 40 small businesses that have been assisted in the past twelve months. The M CCD loans represent one of the only sources of city-assisted financing for start-up and home-based businesses in Minneapolis. M CCD has initiated an intensive and on-going technical assistance program for its borrowers, in an effort to strengthen their financial, marketing and business management skills. The advice, counseling and technical assistance can often mean the difference between success and failure. The M CCD small business programs help new and early stage businesses access the capital and technical assistance they need to grow and prosper.

In 2011 City staff will continue to work with M CCD and others on an initiative from the earlier work on Homegrown Minneapolis. As part of the City's effort to promote the sustainable agenda of Homegrown Minneapolis, efforts are underway to roll out in 2011 a Homegrown Business Development Center to connect food production and small businesses in a way that supports urban farmers and local food processors. Additional information is forthcoming to the City Council in the next couple of months.

City staff is proposing to allocate the \$115,000 as a grant to M CCD so it can further leverage these funds with other funding sources. City funds will be used to capitalize the micro loan program, to provide guarantees for the working capital small business loan guaranty program, to support program operations including loan origination and servicing, to provide technical assistance for loan recipients, and to provide funding for the credit building loan program. The \$115,000 for support of M CCD is included in CPED's 2011 budget in Fund 01SED – Small Business Finance.

Attachment: Exhibit A: M CCD loans closed in 12 month period of January 1, 2010 through December 31, 2010.