

**Update Report**  
**To**  
**Memphis City Council**  
**Economic Development Committee**



**Re: Small Business Economic Development Funds**

**March 1, 2011**

## **Council Summary**

### **Administrative Request: Resolution Submitted**

Administration requests to amend the 2011 operating budget by transferring current appropriation of 1,000,000 from capital Outlay to be used to establish two (2) loan fund programs for M/W/SBE. The administration also requests that the Capital Outlay appropriation, presently in the FY 2011 operating budget, be expended from the \$1.0 million appropriated for Economic Development in the 2011 CIP program.

### **Council Question:**

Provide criteria for the two economic development funds

### **Administrative Response:**

Criteria for Micro Loan Fund and Grow Memphis Fund enclosed

# **Administrative Response**

## **Criteria**

## BACKGROUND

- On June 8, 2010 the Memphis City Council approved the Capital Acquisition Budget and the Capital Improvement Program for Fiscal Years 2011-2015.
- Included was a request from the Administration for \$5 million to be used for economic development in the City of Memphis.
  - Current Status of the \$5.0 Million Economic Development Fund

Pinnacle Public Parking Project	\$3.0 Million
Remaining Available as of 2/10/11 for:	
Large Businesses	\$1.0 Million
Requested for M/W/SBE	<u>\$1.0 Million</u>
Total	\$5.0 Million

- As per Section 9-21-105(21)(A )Tennessee Code Annotated and as noted by bond counsel, general obligation bond funds can only be used for “public works projects”.
- These public works projects (e.g., roads, water, and sewer lines) can be critical to retain and attract business investment.
- To address the needs of minority/women/small business enterprises (M/W/SBE) that often need capital for operations and fixed assets, but not public improvements, the Administration is looking to substitute \$1M of CIP funds for \$1M from the City’s General Fund (budgeted for public improvements) and fund a M/W/SBE program.

### M/W/SBE Program Objectives:

- To provide eligible M/W/SBEs with access to capital beyond that available from conventional lending sources.
- To support the creation of jobs and the growth and expansion of eligible M/W/SBEs. These small businesses must be locally-owned and operated within the city limits.
- To leverage the City’s funding contribution to attract private investment.

## Recommendation

- The \$1 million used to capitalize two (2) loan fund programs.

1. **Grow Memphis Fund - \$400,000**

2. **Micro Loan Fund - \$600,000**

# Funds Overview

## **Grow Memphis Fund**

The City will provide \$400K in partnership with the National Development Council (NDC) to create this loan fund. NDC is the oldest national non-profit community and economic development organization in the U.S. Founded in 1969 this organization has loaned more than \$80 Million to small businesses.

NDC will leverage city funds to create a \$2.4 million total fund.

NDC will underwrite and administer loans to eligible businesses.

Loans from NDC, based on SBA criteria and standards, can be used for working capital as well as fixed assets.

## **Micro Loan Fund**

The City will provide \$600K to capitalize a micro-loan fund administered by the City of Memphis Renaissance Business Center (RBC).

This loan program is designed to provide unconventional lending up to \$25,000 to eligible firms.

Eligible use of funds can be equipment financing, facility improvements, inventory, working capital, etc.

Interest rates will be low and fixed with shorter terms.

Technical assistance will be provided to all applicants by the RBC service providers. (Budgeting, management, one-one counseling, training workshops, networking, etc.).

Note: Quarterly reports on these programs will be provided to the City Council in combination with the regular reports given by the Memphis and Shelby County Office of Economic Development.

**Memphis Economic Growth Initiative**  
**Program Description: Grow Memphis Fund Program**

The purpose of the Grow Memphis Fund Program is to provide eligible M/W/SBEs with access to capital beyond that available from conventional lending sources. This Program is designed to support job creation and the growth and expansion of eligible M/W/SBEs as a part of the administration's Memphis Economic Growth Initiative.

**Fund Capitalization**

The City will provide \$400K in partnership with the National Development Council (NDC) to create this Loan Fund. NDC will leverage the City's capital six (6) times to \$2.4 million through SBA Program. Financing is partially guaranteed by the SBA.

**Underwriting of Application**

NDC will administer the Grow Memphis Loan Fund and make decisions based on SBA criteria and standards. NDC staff will work with the RBC to take applications for financing. An NDC loan officer will be onsite on a regular basis to meet with businesses on financing. RBC will assist in outreach to eligible businesses and in taking loan applications. NDC has a current HCD service contract...No additional administrative cost will be charged by NDC.

**Loan Amount**

Loans up to \$2 million. Completed applications are reviewed and considered on a first-come, first-served basis with financing approval subject to the availability of funds.

**Eligible Businesses**

Minority, Women and Small – Owned Businesses with a need to finance working capital, fixed assets, inventory and real estate.

**Term of Loan**

The loan terms are based on SBA standards and are longer dependent on the type of loans (real estate, equipment, etc.). The terms of the loan will match the life of the assets.

**Interest Rates**

Fixed or Adjustable Interest rates range from Prime to Prime plus. (Prime as published in the Wall Street Journal).

**Collateral**

Appropriate collateral may include real estate, equipment, machinery, vehicles and personal assets of the company's owners and will include personal guarantees of the company's owners.

**Fees**

SBA fees range between 2% to 3% of the loan amount.

**Technical Assistance**

Technical assistance will be provided to applicants by National Development Corporation.

**Service Area**

Eligible minority, women and small businesses must be locally-owned and operated within the city limits.

**Memphis Economic Growth Initiative**  
**Program Description: Micro-Loan Fund Program**

The purpose of the Micro Loan Fund Program is to enhance job growth and/or retention by providing access to alternative financing for minority, women and small businesses for operating capital, inventory, façade improvements, equipment, etc. as part of the administration's Memphis Economic Growth Initiative.

**Fund Capitalization**

The City will provide \$600K to capitalize a micro-loan fund administered by the City of Memphis Renaissance Business Center (RBC).

MLF will be leveraged through participation with other lenders.

**Underwriting of Application**

Application intake point is the City Renaissance Business Center. All decisions will be made by external RBC Loan Committee which consists of nine (9) members of the business and banking community. No additional administrative cost will be required.

**Loan Amount**

The maximum loan amount is up to \$25,000. The minimum loan size is \$2,500. Completed applications are reviewed and considered on a first-come, first-served basis with financing approval subject to the availability of funds.

**Eligible Businesses**

Minority, Women and Small Business Enterprises with a need to finance small purchase of fixed assets, which includes machinery, equipment and working capital. Entrepreneurs and small and emerging businesses are included.

**Term of Loan**

The term of the loan shall not exceed 5 years.

**Interest Rates**

Fixed Interest rates are based on prime rate plus 2%. (Prime as published in the Wall Street Journal)

**Collateral**

Appropriate collateral may include real estate, equipment, machinery, vehicles and personal assets of the company's owners and will include personal guarantees of the company's owners.

**Fees**

A \$25.00 non-refundable application fee must be submitted with the application.

**Technical Assistance**

Technical assistance will be provided to all applicants by the RBC service providers.

**Service Area**

Eligible minority, women and small businesses must be locally-owned and operated within the city limits.

# Resolution

## RESOLUTION

**WHEREAS**, On June 8, 2010 the Memphis City Council approved the Capital Improvement Program for Fiscal Year 2011; and

**WHEREAS**, included in the Capital Improvement Program for Fiscal Year 2011 was a request for \$5 million to be used for economic development in the City of Memphis; and

**WHEREAS**, the Mayor was asked to return to Council to explain how the \$5 million for economic development would be used, and to clarify why bond funds cannot be used; and

**WHEREAS**, a Memphis Economic Growth Initiative presentation was given by Mayor A C Wharton, Jr., on September 4, 2010, in the Council Executive Session, describing use of the \$5 million; and

**WHEREAS**, the Mayor's presentation identified that \$1 million of the \$5 million be made available for small business and specifically to address the needs of minority / women / small business enterprises (M/W/SBE) that often need capital for operations and fixed assets; and

**WHEREAS**, according to Section 9-21-105 (21) (A) Tennessee Code Annotated and as noted by bond council, general obligation bond funds can only be used for "public works projects."; and

**WHEREAS**, given the present economic environment it is also necessary to provide eligible M/W/SBEs with access to capital beyond that available from conventional lending sources; and

**WHEREAS**, the City's General Fund budget for Capital Outlay is \$1,000,000.00; and

**WHEREAS**, the City Council of Memphis wants to make General Funds available to fund an M/W/SBE loan program.

**NOW, THEREFORE, BE IT RESOLVED** by the City Council of Memphis that the Fiscal Year 2011 Operating Budget be and is hereby amended by transferring the currently available appropriations from Capital Outlay of \$1,000,000.00 in General Fund expenditures to be used to establish two (2) loan fund programs for existing and new M/W/SBEs.

**BE IT FURTHER RESOLVED**, that the Capital Outlay Expenditures that are currently planned and approved per the Fiscal Year 2011 Operating Budget be expended from the \$1 million in G.O. Bonds appropriated in the Fiscal Year 2011 Capital Improvement Program Budget for the Economic Development CIP Project.