

**RESOLUTION NO. 2017-94**

**JOINT RESOLUTION BY THE FINANCE AND HUMAN RESOURCES COMMITTEE AND THE ECONOMIC DEVELOPMENT AND LAND USE PLANNING COMMITTEE APPROVING THE SEMI-ANNUAL RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR THE PERIOD ENDING SEPTEMBER 30, 2017, AND AUTHORIZING SUBMISSION OF SAID PLAN TO THE UNITED STATES DEPARTMENT OF COMMERCE'S ECONOMIC DEVELOPMENT ADMINISTRATION**

To the Honorable Members of the Racine County Board of Supervisors:

**BE IT RESOLVED** by the Racine County Board of Supervisors that Racine County hereby adopts and approves the Revolving Loan Fund (RLF) Plan Certification for the period ending September 30, 2017, which has been prepared by the Racine County Economic Development Corporation and is attached hereto and incorporated as Exhibit A.

**BE IT FURTHER RESOLVED** by the Racine County Board of Supervisors that the Director of the Racine County Public Works and Development Services Department is hereby authorized and directed to submit the Revolving Loan Fund Plan Certification for the period ending September 30, 2017, to the Economic Development Administration of the United States Department of Commerce for approval. The County Clerk is directed to transmit two certified copies of this resolution to the Racine County Economic Development Corporation, 2320 Renaissance Boulevard, Sturtevant, WI 53177.

Respectfully submitted,

1st Reading \_\_\_\_\_

**ECONOMIC DEVELOPMENT AND LAND USE PLANNING COMMITTEE**

2nd Reading \_\_\_\_\_

**BOARD ACTION**  
Adopted \_\_\_\_\_  
For \_\_\_\_\_  
Against \_\_\_\_\_

\_\_\_\_\_  
David J. Cooke, Chairman

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Robert D. Grove, Vice-Chairman

VOTE REQUIRED: Majority

\_\_\_\_\_  
Thomas Roanhouse, Secretary

Prepared by:  
Corporation Counsel

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Thomas Pringle

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Monte G. Osterman

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Tom Hincz

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Mark M. Gleason

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3 Respectfully submitted,

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5 **FINANCE AND HUMAN RESOURCES**  
6 **COMMITTEE**

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9 Q. A. Shakoor II, Chairman

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12 Robert N. Miller, Vice-Chairman

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15 Thomas Pringle, Secretary

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18 Donnie Snow

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21 John A. Wisch

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24 Janet Bernberg

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27 Brett A. Nielsen

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30 **The foregoing legislation adopted by the County Board of Supervisors of Racine County, Wisconsin, is hereby:**

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32 **Approved:** \_\_\_\_\_

33 **Vetoed:** \_\_\_\_\_

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35 **Date:** \_\_\_\_\_,

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38 **Jonathan Delagrave, County Executive**

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41 **INFORMATION ONLY**

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43 **WHEREAS**, on a semi-annual basis, the Racine County Economic Development  
44 Corporation is required to certify to the USDOC Economic Development Administration that:

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- 46 1. The Revolving Loan Fund is consistent with, and supportive of, the area's current economic  
47 adjustment strategy; and
  - 48 2. The Revolving Loan Fund is being operated in accordance with the policies and procedures  
49 contained in the Revolving Loan Fund, and the loan portfolio meets the standards contained  
50 therein.  
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**MEMORANDUM**

**TO: RACINE COUNTY FINANCE & HUMAN RESOURCES COMMITTEE  
RACINE COUNTY ECONOMIC DEVELOPMENT & LAND USE PLANNING  
COMMITTEE  
RACINE COUNTY BOARD OF SUPERVISORS  
RCEDC EXECUTIVE COMMITTEE**

**FROM: JANELL TOPCZEWSKI, COMPLIANCE/CLOSING SPECIALIST**

**RE: RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR THE  
PERIOD ENDING SEPTEMBER 30, 2017**

**DATE: DECEMBER 1, 2017**

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**THE REQUEST**

The RCEDC is requesting Racine County approve the September 30, 2017 semi-annual Plan Certification (attached) required by the Economic Development Administration (EDA) to indicate that the County's Revolving Loan Fund (RLF) program is consistent with:

- 1) Racine County's Economic Development Plan (EDP); and
- 2) The policies and procedures within the RLF Manual.

**PROGRAM STATISTICS- AS OF SEPTEMBER 30, 2017**

Below are some current statistics on the EDA RLF:

- Fund Capitalization: \$1,100,000;
  - EDA: \$700,000;
  - Racine County: \$400,000;
- Dollars available to lend: approximately \$418,482 (as of October);
- Outstanding Loan Balances: \$1,172,370.22;
- Active Loans: 12;

- Total Loans Made: 73 to 62 different companies;
- Total project investments since inception of program: \$56,048,141.84;
- Total RLF dollars lent since inception of program: \$6,607,557.94;
- Total private investment since inception of program: \$49,440,583.90;
- Total Job Creation: 461;
- Total Job Retention: 188; and
- Total Job Impact (Creation and Retention): 649.

**REPORT HIGHLIGHTS**

Overall, the RLF program is performing within the standards of the RLF Plan or performing better than the goals set for the program. Some of the key metrics include:

	<b>GOAL</b>	<b>CURRENT RESULT</b>
Create Full Time Equivalent (FTE) positions	1 FTE for every \$35,000 lent	1 FTE for every \$10,181.14
Leverage Private Dollar Investments (financial institution loans or borrowers own dollars)	\$2.00 in private funds for every \$1.00 in RLF funds	\$7.48 in private funds for every \$1.00 in RLF funds

During this six month reporting period:

- No new loans were closed; and
- One loan was paid in full.

The one certification the RLF program is not meeting is:

	<b>GOAL</b>	<b>CURRENT RESULT</b>
Capital Utilization	More than 75% of RLF dollars should be outstanding in loan balances or committed to projects	66.18% of funds are outstanding as loan balances or committed to projects.

Since the reporting period RCEDC did close one additional loan from this fund which improves the capital utilization rate. When financing inquiries are received by RCEDC the staff evaluates all 13 loan programs it manages to pair the business with the best fit. In 2017 many of the projects were

located in the City of Racine and that fund was utilized first and is now almost depleted. Given the current capital utilization rate the EDA RLF will be targeted for projects in 2018.

In addition to this loan fund RCEDC staff manages 13 other loan programs in Racine County and throughout the State of Wisconsin. One of these programs is the United States Small Business Administration 504 (SBA) which has 219 organizations administering this program nationwide. One of the requirements to participate in SBA lending is to undergo an independent third party file review on an annual basis. RCEDC's last review was completed in December 2016 and the file reviewer indicated:

*"RCEDC processes and file management are superior to many CDC's in its peer group and industry-wide. The recommendations made within this report reflect the current SBA environment, because SBA has greater expectations of CDCs than ever with respect to prudent lending, portfolio management and risk mitigation. RCEDC underwriting processes and portfolio/risk management appears to be active, professional and prudent."*

**MEMORANDUM**

**TO: RACINE COUNTY FINANCE & HUMAN RESOURCES COMMITTEE  
RACINE COUNTY ECONOMIC DEVELOPMENT & LAND USE PLANNING  
COMMITTEE  
RACINE COUNTY BOARD OF SUPERVISORS  
RCEDC EXECUTIVE COMMITTEE**

**FROM: JANELL TOPCZEWSKI, COMPLIANCE/CLOSING SPECIALIST**

**RE: RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR THE  
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**DATE: DECEMBER 1, 2017**

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Introduction

In 1991 the Economic Development Administration (EDA) and Racine County established this low interest loan fund. The fund addresses the goals of business retention and small business development by utilizing RLF funds to create employment opportunities through the retention and expansion of existing, and the development of new, manufacturing and service-related businesses in the County. As these loan dollars are repaid, they are retained in the RLF and are available for relending to another eligible business. RCEDC maintains a service contract with Racine County to administer the County's RLF and has been administering these funds on behalf of the County since the inception in 1991.

Racine County is required to certify to the Economic Development Administration (EDA) on a semi-annual basis that:

1. The Racine County RLF Plan is consistent with and supportive of the area's current economic adjustment strategy; and

2. The RLF is being operated in accordance with the policies and procedures contained in the RLF Plan, and the loan portfolio meets the standards contained therein.

### **The RLF Plan is Consistent with the Racine County Economic Development Plan**

Only those Challenges and Strategies that are applicable to the RLF Program have been included below:

Challenge One – To create an entrepreneurial culture in Racine County

Strategies:

- Existing programs will be maintained and new financial capital programs and resources will be attracted which address fundamental gaps preventing the start and growth of Racine County entrepreneurs.

Challenge Two – To focus on a proactive business recruitment program and a business retention and expansion (BRE) program that will create and retain jobs, create additional tax base and increase personal income in Racine County.

Strategies:

- Continue to implement a targeted and proactive business recruitment program.
- Maintain an active business retention and expansion (BRE) program that meets the needs of existing employers in Racine County
- Continue to provide staff assistance to business and local units of government to support business recruitment and business retention and expansion.

Challenge Four – To take advantage of the development opportunities that exist as a result of the Chicago-Milwaukee Corridor and to properly link land use with future business development county-wide.

Strategies:

- Provide high value real estate development opportunities that link Racine County with the Southeast Wisconsin Region and Northern Illinois, including an update of the Racine County Industrial Lands Absorption Study

Challenge Five – To link education and training in a manner that provides a competitive workforce to meet the present and future needs of local employers and to create opportunities for low-income, disadvantaged, and minority individuals to prepare for and obtain employment.

Strategies:

- Provide the infrastructure for new and expanding business and industry in areas of high unemployment and identify appropriate business targets with the potential to locate in and/or expand in these areas in order to employ the unemployed and underemployed persons that will be educated and trained through the programs identified elsewhere in the plan.

**The RLF is Being Operated in Accordance with the Policies and Procedures of the RLF Plan and the Portfolio Meets the Projected Guidelines Contained Therein.**

The following provides the original RLF standards, and the current status of the RLF as of September 30, 2017.

1. Job Cost Ratio. An average of one full-time equivalent job will be created and/or retained for every \$35,000 of EDA-RLF investment. Currently, the job cost ratio for the total portfolio is \$10,181.14 and for the active portfolio \$10,056.67. **We are currently performing better than the guideline set.**

Historical Trends:

	September 30, 2017	March 31, 2017	September 30, 2016	March 31, 2016	September 30, 2015
Active Portfolio	\$10,056.67 (12 Loans)	\$10,724.72 (13 Loans)	\$10,623.58 (12 Loans)	\$10,623.58 (12 Loans)	\$11,044.42 (11 Loans)
Total Portfolio	\$10,181.14 (73 Loans)	\$10,181.14 (73 Loans)	\$10,168.36 (72 Loans)	\$10,168.36 (72 Loans)	\$10,024.78 (70 Loans)

2. Assisting Long-Term Unemployed. All loan recipients are required to sign an "Employment Memorandum of Agreement" which requires that the business work with Racine County Workforce Solutions Business Consultant in making jobs available to low- and moderate-income persons. To date, all recipients have signed this memorandum. The Business



Consultant is located at the Racine County Workforce Solutions which is a “one-stop” shop for meeting the needs of the unemployed. The Center serves persons involved in the welfare-to-work transition as a part of other activities. **We are currently meeting this guideline.**

3. Low- and Moderate-Income Benefit. All loan recipients are required to sign an “Employment Memorandum of Agreement” which requires that the business work with a WDC Business Consultant in making at least 51 percent of new and retained jobs available to low- and moderate- income (LMI) persons. To date, all recipients have signed this memorandum. As part of the efforts of making jobs available to LMI persons, the WDC also provides the job posting to community based organizations that could help reach LMI persons. **We are currently meeting this guideline.**
  
4. Private Sector Leverage Ratio. A minimum of two private sector dollars for each RLF dollar is required of business participants. To date, total RLF bank financing and equity participation in projects is \$49,440,583.90 and total RLF funds disbursed is \$6,607,557.94 for a leveraging ratio of 7.48 to 1.0. **We are currently performing better than the guideline set for this.**

Historical Trends:

	September 30, 2017	March 31, 2017	September 30, 2016	March 31, 2016	September 30, 2015
Active Portfolio	6.04 (12 Loans)	5.75 (13 Loans)	5.19 (12 Loans)	5.19 (12 Loans)	6.17 (11 Loans)
Total Portfolio	7.48 (73 Loans)	7.48 (73 Loans)	7.54 (72 Loans)	7.54 (72 Loans)	7.59 (70 Loans)

5. Types of Activities Eligible for Funding. All loans must be for fixed assets and working capital. All loans have been for these purposes. **We are currently meeting this guideline.**
  
6. Types of Businesses Eligible for Funding. The RLF strategy is to retain existing, and develop new, manufacturing and service-related businesses. The following is the distribution of the 12 loans in the active portfolio:
  - A. 12 loans were made to existing businesses and 0 to start-up businesses.

- B. 6 active loans have been made to manufacturing companies, 0 made to commercial/retail companies and 6 to service companies.

**We are currently meeting this guideline.**

A maximum of 10% of the loan portfolio can be loaned to commercial/retail firms. Based on our total portfolio 6.85% of the RLF loans have been made to commercial/retail businesses. **We are meeting this guideline.**

The RLF Plan prohibits certain types of business financing. No loans or loan guarantees can be made to EDA Title II recipients. In addition, the RLF may not finance any equity, subsidize interest payments on existing loans, refinance loans made by other lenders, or contribute equity required by other loan programs. **We are meeting this guideline.**

There are several restrictions with regard to the types of businesses that can receive RLF loans:

- A. All loan recipients are located in the County of Racine.
- B. No loans have been made to businesses that have relocated jobs from outside the Racine labor market area to the County of Racine.
- C. No loans have been made that are not related to job creation or retention.
- D. No loans have been made that would create a conflict of interest for existing or former RCEDC Board members or staff.
- E. RLF funds have not been used for speculative activities.

**All of the above guidelines have been met.**

- 7. Standards to Achieve Economic Objectives and Benefits for the County of Racine. The RLF plan requires that all loans include an analysis of why other public sector loan programs were not used prior to using the RLF funds. All loans subject to this EDA regulation have included this in

the loan write-up that is provided to the Loan Committee. **We are currently meeting this guideline.**

A minimum of 15 percent of the loan funds should provide financing for minority owned firms. Currently, a total of 1.37 percent of all the funds have been used for this purpose. **We currently are not meeting this guideline with an explanation provided below.**

Historical Trends- Ethic Minorities:

	September 30, 2017	March 31, 2017	September 30, 2016	March 31, 2016	September 30, 2015
Total Portfolio	1.37	1.37	1.39	1.39	1.43

The RCEDC experience has been that a significant number of minority entrepreneurs have sought funding for small loans for retail and commercial operations that are generally not permitted, nor cost effective, through the RLF program. Often, RCEDC makes referrals to the Women’s Business Initiative Corporation (WWBIC) as their programs are typically better suited (working capital) to meet the needs of these entrepreneurs (see comparison below). RCEDC staff also refers minority entrepreneurs to the appropriate microloan programs, UW- Parkside Small Business Development Center (SBDC), and Gateway Technical College’s Business and Workforce Solutions division (which includes LaunchBox) who has resources to assist these clients to grow their business to be successful. Some of the resources include “Growthwheel” and small business Accelerators.

Gateway, SBDC, and WWBIC create a pool of resources to connect companies with one-on-one counseling and programs like Growthwheel and the accelerator to launch and expand local companies. RCEDC maintains a close partnership with all of these organizations in order to make appropriate referral but also be a resource once the company’s expansion a line with the RLF program requirements.

In addition, Racine County has established the Racine County Matching Grant Program (MGP) to assists minority owned businesses. Businesses which are 51% or more minority owned can apply for this \$2,500 matching grant to assist with: training and/or consulting services, marketing initiatives, or participation in the CEO Roundtable or the Living as a Leader program.

Historical Trends for WWBIC Referrals:

	September 30, 2017	March 31, 2017	September 30, 2016	March 31, 2016	September 30, 2015
WWBIC Referrals-financing	6	2	19	13	11

One significant reason for not reaching this goal is that the entrepreneurs contacting us to discuss their financing options tend to be a better fit for the Wisconsin Women’s Business Initiative Corporation’s (WWBIC’s) micro-loan program. Most businesses in the Racine area that have contacted us and that are owned by racial minorities tend to be commercial/retail businesses, which primarily have financing needs specific to working capital such as the need for a line of credit. RCEDC makes referrals to WWBIC when appropriate for the customer’s needs.

Below is a table that provides a comparison between the WWBIC and EDA RLF loan programs which explains why the EDA RLF program was not designed for certain funding needs and explains why WWBIC’s program is better suited for those purposes.

	EDA – RLF	WWBIC*
<b>Program Fees</b>	Approx. \$3,350 (legal fees and 1.5% processing fee, would be \$2,250 on a \$150,000 example) plus out-of-pocket costs	\$375-\$1,275 based on loan amount
<b>Loan Amount</b>	Up to \$200,000 (average \$150,000)	\$1,000-\$100,000
<b>Loan Terms</b>	Average 15 years	6-year maximum
<b>Typical Use of Funds</b>	Fixed Assets (Real estate and Equipment)	Working Capital (Lines of Credit available)
<b>Bank Participation (Private Dollar Leverage )</b>	Required. A 2:1 private dollar match is required; the EDA RLF can only finance up to 33% of a total funding need.	Not required.
<b>Typical Total Project Amount</b>	\$450,000	\$1,000-\$100,000

\*WWBIC is now a participant in the SBA's Community Advantage program. If a borrower opts into this program they can have access to high loan amounts and longer terms.

It is noteworthy that in January 2015, the RCEDC Executive Committee made the decision to retain the goal of targeting minority and women owned business as a priority but removing the goal of 15%. These applications would continue to be considered a priority over other applications when funding availability is limited. This change would be considered by the Economic Development Administration with the next update to each RLF Plan. The County Plan has been with EDA for consideration since October 2014 (with the January 2015 amendment subsequently provided). Once this draft is approved by EDA, the new RLF Plan would then come before the County Board for approval.

8. Assurances for Maximum Private Sector Leverage. The RLF program will maximize private sector leverage and private equity contributions and ensure that RLF funds are not substituted for private financing. To this end, the RLF program requires: 1) financial institutions participating in the project to submit a letter stating that the financial institution is providing the maximum amount available and that the loan is contingent upon the receipt of RLF financing, and 2) equity contributions must be documented with a letter from contributing source that commits to the injection of the equity upon receipt of an RLF loan. **This guideline has been met for each loan and has been included in the loan write-up that is provided to the Loan Committee.**
9. Total Number of Loans in Initial Funding Cycle. A total of 73 loans to 62 companies have been made from the original grant, the recapitalization and loan program income. The number of loans required has been met. **We have met this guideline.**
10. RLF Loan Size. The anticipated average loan size is \$100,000, with a minimum loan size of \$5,000 and a maximum loan size of \$200,000 (unless approved on a case-by-case basis by EDA). Currently, the average active loan size is \$132,413 and the average for the total loan portfolio is \$90,514. The active loan size is larger than originally anticipated. The largest loan amount was \$470,000 (approved by EDA); with the smallest loan size being \$6,600. **Currently we are meeting this guideline.**

11. RLF Loan Proportions. Working capital loans cannot exceed 50 percent of the portfolio. Currently, zero percent of the active RLF loans have been made for working capital purposes and only 14% of the total portfolio has been used for working capital loans. **We are meeting this guideline.**
12. Standard Terms and Rate of Interest. The terms and interest rates of the loans have not exceeded the standards included in the RLF plan. Interest rates on all active loans are set at a fixed rate. **We are meeting this guideline.**
13. Special Financing Techniques. Special financing techniques the RLF program can offer to applicants include: 1) deferral of principal payments during the first year of an RLF loan, 2) the subordination of the RLF security position to private sector lenders that participate in the RLF program, and 3) the use of balloon payments. The RCEDC has subordinated its collateral to financial institutions, has deferred payments of the principal portion for loans, and balloon payments are typically offered. **We are meeting this guideline.**
14. Equity Requirements. The RLF program will require a 10 percent equity injection for each RLF loan, when appropriate. Consideration will be given for individuals that have made substantial equity commitments to the applicant business, as well as to individuals who do not have sufficient financial resources to contribute to the RLF project. All equity contributions must be provided through private sources. The RLF program will not be used to purchase or finance equity. **We are meeting this guideline**
15. Collateral Requirements. The current goal of the RLF is to provide a 1:1 collateral coverage ratio on each loan. Personal guarantees and mortgages on non-project assets are often used to increase the collateral coverage when project assets are not sufficient. The goal of 1:1 collateral coverage is always sought but given the nature of the program is rarely achieved. In those cases, new project assets are often taken as additional collateral. Therefore, **we have met this guideline.**
16. Restructuring RLF Loans. One RLF loan was restructured. Racine Precision Machining is no longer an operating concern. The principal had agreed to make yearly payments of \$2,400 through June of 2006. In 2000, RCEDC filed a legal judgment against the borrowers to collect the outstanding principal balance of the loan. One half of the judgment was paid off and a

judgment in the amount of \$13,429.31 is still active although it is unknown if RCEDC will be able to collect this money in the future. **We are meeting this guideline.**

17. Elements of a Loan Guarantee Program. The RLF may establish a loan guarantee program with recycled or second-generation RLF funds to reduce the risk of private lenders and thereby persuade lenders to provide financing that otherwise would not have been available. **The RLF has not provided any loan guarantees.**

18. Interest Payments on Recycled RLF Funds and Sales of RLF Loans and Loan Origination Fee. The RLF program will utilize a maximum of 100 percent (approved by Racine County as Resolution 2014-161 on 4.21.2015) of any and all program income for expenses associated with the administration of the RLF and will not charge more than 1.5 percent loan origination fees on all EDA-RLF loans. **This guideline has been met.**

19. RLF Program Coordination with SBA 504 and Other Programs. The RLF program will utilize private sector financial institutions and the local SBA 504 Certified Development Company program, as well as other public sector financing programs, in packaging loans. **This guideline has been met** and has been included in the loan write-up that is provided to the Loan Committee.

20. Time Schedule for Loan Closings. All of the original RLF funds have been utilized within the three-year time period for disbursement. **This guideline has been met.**

21. Technical and Management Assistance. The RLF program utilizes the services of the Small Business Development Center (SBDC), as well as other providers of technical assistance. A significant degree of coordination between the RLF and the SBDC is currently being achieved. **We are currently meeting this guideline.**

22. Loan Packaging and Referral Services. The staff for the RLF program is responsible for all aspects of the RLF program, including program and policy development, finance, law, marketing, credit analysis and loan packaging, processing and servicing. The RCEDC staff prepares all loan packages for review by the Loan Committee. **We are currently meeting this guideline.**

23. Capital Utilization Standard. During the revolving phase, at least 75 percent of an RLF's capital should be in use. At any time subsequent to a second consecutive report showing that the applicable standard has not been met, EDA may require the grant recipient to deposit excess funds in an interest bearing account and EDA approval will be required to withdraw the sequestered funds. This goal was not met in previous semi-annual periods, thus \$25,706.23 of the RLF funds are sequestered in an interest bearing account. When those funds are needed for new project disbursements, RCEDC will seek EDA approval to release those funds into the RLF operating account. For the time period ending September 30, 2017, the RLF fund had 66.18% percent of its capital in use. RCEDC has worked diligently over the past few years to improve the RLF by adjusting loan terms to better meet current economic conditions (i.e. longer terms and reduced interest rates). **We are currently not meeting this guideline.**