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3 **JOINT RESOLUTION BY THE FINANCE AND HUMAN RESOURCES COMMITTEE AND THE**
4 **ECONOMIC DEVELOPMENT AND LAND USE PLANNING COMMITTEE APPROVING THE**
5 **SEMI-ANNUAL RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR**
6 **THE PERIOD ENDING MARCH 31, 2014, AND AUTHORIZING SUBMISSION OF SAID PLAN**
7 **TO THE UNITED STATES DEPARTMENT OF COMMERCE'S ECONOMIC DEVELOPMENT**
8 **ADMINISTRATION**
9

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

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12 **BE IT RESOLVED** by the Racine County Board of Supervisors that Racine County hereby
13 adopts and approves the Revolving Loan Fund (RLF) Plan Certification for the period ending March
14 31, 2014, which has been prepared by the Racine County Economic Development Corporation and
15 is attached hereto and incorporated as Exhibit A.
16

17 **BE IT FURTHER RESOLVED** by the Racine County Board of Supervisors that the Director
18 of the Racine County Public Works and Department Services Department is hereby authorized and
19 directed to submit the Revolving Loan Fund Plan Certification for the period ending March 31,
20 2014, to the Economic Development Administration of the United States Department of Commerce
21 for approval. The County Clerk is directed to transmit two certified copies of this resolution to the
22 Racine County Economic Development Corporation, 2320 Renaissance Boulevard, Sturtevant, WI
23 53177.
24

25 Respectfully submitted,

26
27 1st Reading _____

**ECONOMIC DEVELOPMENT & LAND USE
PLANNING COMMITTEE**

28
29 2nd Reading _____

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32 **BOARD ACTION**
33 Adopted _____
34 For _____
35 Against _____
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Mark M. Gleason, Chairman

Robert D. Grove, Vice-Chairman

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38 **VOTE REQUIRED:** Majority

Mike Dawson, Secretary

39
40 Prepared by:
41 Public Works & Development
42 Services Department

Thomas Pringle

Monte G. Osterman

Tom Hincz

Thomas Roanhouse

4 Respectfully submitted,

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

7 _____
8 Q. A. Shakoor II, Chairman

9 _____
10 Robert N. Miller, Vice-Chairman

11 _____
12 Thomas Pringle, Secretary

13 _____
14 Donnie Snow

15 _____
16 John A. Wisch

17 _____
18 Janet Bernberg

19 _____
20 Russell A. Clark

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

33
34 **Approved:** _____

35 **Vetoed:** _____

36
37 **Date:** _____,

38
39 _____
40 **James A. Ladwig, County Executive**

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42
43 **INFORMATION ONLY**

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

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



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, PORTFOLIO MANAGER/CLOSER

DATE: JUNE 1, 2014

SUBJECT: RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR THE PERIOD
ENDING MARCH 31, 2014

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 March 31, 2014.

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 \$10,342.08 and for the active portfolio \$17,308.07. **We are currently performing better than the guideline set.**

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	\$17,308.07 (11 Loans)	\$16,849.46 (10 Loans)	\$23,944.01 (11 Loans)	\$16,552.74 (12 loans)	\$20,979.98 (12 Loans)
Total Portfolio	\$10,342.08 (65 Loans)	\$10,264.96 (64 Loans)	\$10,785.93 (64 Loans)	\$10,816.43 (64 Loans)	\$11,097.62 (62 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 a Workforce Development Center (WDC) Business Consultant in making jobs available to low- and moderate- income persons. To date, all recipients have signed this memorandum. The Specialist is located at the Racine County Workforce Development Center that is the "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. The Specialist is located at the Racine County Workforce Development Center that is the "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. 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 \$47,549,943 and total RLF funds disbursed is \$5,781,225 for a leveraging ratio of 7.26 to 1.0. **We are currently performing better than the guideline set for this.**

Historical Trends:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Active Portfolio	7.26 (11 Loans)	6.89 (10 Loans)	6.84 (11 Loans)	5.71 (12 Loans)	5.98 (12 Loans)
Total Portfolio	7.66 (65 Loans)	7.56 (64 Loans)	7.56 (64 Loans)	6.67 (64 Loans)	6.80 (62 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 11 loans in the active portfolio:
- A. 10 loans were made to existing businesses and 1 to new businesses (including company buy-outs).
 - B. 7 active loans have been made to manufacturing companies, 0 made to commercial/retail companies and 4 to service companies.

We are currently meeting this guideline.

A maximum of 10 percent of the loan portfolio can be loaned to commercial/retail firms. Based on our total portfolio 7.69 percent 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 1.44 percent of all the funds have been used for this purpose (includes repaid loans and the original loan balances). **We currently are not meeting this guideline with an explanation provided below.**

Historical Trends- Ethic Minorities:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
Total Portfolio	1.44	1.61	1.61	1.61	1.61

It is RCEDC’s experience 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 Community Economic Development Corporation (CEDCO) and the Women’s Business Initiative Corporation (WWBIC) as their programs are typically better suited to meet the needs of these entrepreneurs (see comparison below). RCEDC staff also refers minority entrepreneurs to UW- Parkside Small Business Development Center (SBDC) who has resources to assist these clients to grow their business to be successful. Importantly, during 2013 WWBIC has opened an office in downtown Racine that will better meet the needs of minority entrepreneurs.

Racine County has established the minority matching grant program to assist 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; financial services; marketing services; business operation services; legal services; information technology; and computer systems. In 2013 22 of these grants have been approved totaling \$46,355.48. All funds for 2013 and carryover from previous years were awarded.

If a potential loan recipient does not meet the EDA required guidelines for the County-RLF program RCEDC staff refers there individuals to our resource partners including Launch Box, CEDCO, and WWBIC.

Historical Trends for WWBIC Referrals:

	March 31, 2014	September 30, 2013	March 31, 2013	September 30, 2012	March 31, 2012
WWBIC Referrals for financing	17	30	29	49	N/A*

*information on referrals to WWBIC is not available for reporting periods before September 2012. During the September 2012 EDA plan certifications representative Q. A. Shakoor II request RCEDC track referrals made to WWBIC for financing.

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
Program Fees	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
Loan Amount	Up to \$200,000 (average \$150,000)	\$1,000-\$100,000
Loan Terms	Average 15 years	6-year maximum
Typical Use of Funds	Fixed Assets (Real estate and Equipment)	Working Capital (Lines of Credit available)
Bank Participation (Private Dollar Leverage)	Required. A 2:1 private dollar match is required; the City RLF can only finance up to 33% of a total funding need.	Not required.
Typical Total Project Amount	\$450,000	\$1,000-\$100,000

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 65 loans to 55 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 \$157,623 and the average for the total loan portfolio is \$90,586. The active loan size is slightly more than 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 15.38% 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 seven active loans, and balloon payments are typically offered. **We are meeting this guideline.**

14. Equity Requirements. The RLF program requires a 10 percent equity injection for each loan. Consideration will be given for individuals who have made substantial equity commitments to the business. 59 loan recipients have provided a 10 percent or more equity injection. 2 loan recipients have provided a 5 percent equity injection, and 4 loan recipients have provided 0% equity injection, due to other previous cash contributions to the Company. **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 50 percent 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 for the 3 previous semi-annual periods, thus \$25,669.98 of the RLF funds were 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 March 31, 2014, the RLF fund had 73.98 percent of its capital in use. RCEDC has worked diligently over the past year to improve the RLF by adjusting loan terms to better meet current economic conditions (i.e. longer terms and reduced interest rates). Currently, RCEDC has increased marketing efforts to make the public more aware of the RLF dollars and further assist in the expansion of small businesses in Racine County. **We are currently meeting this guideline.**