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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 2011**
5 **SEMI-ANNUAL RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR**
6 **THE PERIOD ENDING MARCH 31, 2011, AND AUTHORIZING SUBMISSION OF SAID PLAN TO**
7 **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, 2011, 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 Planning and Development Department is hereby authorized and directed to
19 submit the 2011 Revolving Loan Fund Plan Certification for the period ending March 31, 2011, to
20 the Economic Development Administration of the United States Department of Commerce for
21 approval. The County Clerk is directed to transmit a certified copy of this resolution to the Racine
22 County Economic Development Corporation.
23

24 Respectfully submitted,

25
26 1st Reading _____

**ECONOMIC DEVELOPMENT AND LAND USE
PLANNING COMMITTEE**

27
28 2nd Reading _____

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30 BOARD ACTION:

31 Adopted _____
32 For _____
33 Against _____

Robert D. Grove, Chairman

Mark M. Gleason, Vice-Chairman

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36 VOTE REQUIRED: MAJORITY

Ronald Molnar, Secretary

37
38 Prepared by:
39 Planning & Development Dept.

Thomas Pringle

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43 _____
David J. Cooke

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45
46 _____
Joseph F. Bellante III

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48
49 _____
Monte G. Osterman

4 Respectfully submitted,

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7 **FINANCE AND HUMAN RESOURCES**
8 **COMMITTEE**

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11 _____
12 Robert N. Miller, Chairman

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15 _____
16 Mark M. Gleason, Vice-Chairman

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19 _____
20 Thomas Pringle, Secretary

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23 _____
24 Q. A. Shakoor II

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26
27 _____
28 John A. Wisch

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30
31 _____
32 Pamela Zenner-Richards

33
34
35 _____
36 Gilbert Bakke

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

39 **Approved:** _____

40 **Vetoed:** _____

41 **Date:** _____,

42 _____
43 **James A. Ladwig, County Executive**

44
45 **INFORMATION ONLY**

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

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



MEMORANDUM

TO: RACINE COUNTY BOARD OF SUPERVISORS
RCEDC EXECUTIVE COMMITTEE

FROM: GORDON KACALA, EXECUTIVE DIRECTOR
RACINE COUNTY ECONOMIC DEVELOPMENT CORPORATION (RCEDC)
CAROLYN ENGEL, PRESENTING STAFF

DATE: AUGUST 2, 2011

SUBJECT: RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN
CERTIFICATIONS

The Request

The purpose of this memorandum is to request Racine County approval of the March 31, 2011 semi-annual RLF Plan Certification. RCEDC is now required to prepare and have approved the RLF Plan Certification report on a **semi-annual** basis to certify to the Economic Development Administration (EDA) 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.

NOTABLE REPORT CHANGES

Overall, the RLF program is performing within the standards of the RLF plan or exceeding those goals set for the program. Exceptions are noted below along with notable changes between the September 30, 2010 and March 31, 2011 reports:

- 1) On page 2, item #1, the job cost ratio declined marginally for the portfolio over the last semi-annual period (\$9,768 RLF dollars lent per job to \$10,356 RLF dollars lent per job). However, the RLF continues to exceed the goal of \$35,000 RLF dollars lent per job;
- 2) On page 3, item #6, total RLF funds disbursed increased \$300,050 over the last semi-annual period. The RLF leveraged those dollars against \$1,064,673 of bank financing and equity participation. Two new loans were disbursed during the 6 month period, one to Eckmann Custom Products, a wholly owned subsidiary of A&E Hand Tools and one to BEI Electronics, LLC; and
- 3) On page 6, item #23, the Capital Utilization Standard has now been met for the last 2 semi-annual periods. The Capital Utilization Standard refers to the total dollars lent from the RLF funds compared to funding availability. EDA requires 75% of RLF capital to be in use at all times. If this requirement is not met for consecutive reporting periods, excess funds must be sequestered in a separate interest bearing account. The RLF sequestered \$25,612.53 into a separate account in 2010 (following the March 2010 semi-annual period). The RLF is now again in compliance, however, the funds can not be removed from the sequestered account until

they are needed for lending. This is anticipated to occur in August 2011 to accommodate a loan to SEDA North America, Inc.

The certification that the RLF Program is not meeting and has struggled to meet historically is:

- 1) On page 4, item #7, a minimum of 15% of the loan fund should provide financing to minority owned firms. As of March 31, 2011 less than 2% of the fund has been used for this purpose. Please see page 4 of the enclosed Plan Certification for further explanation as to the strategies RCEDC and other partner organizations are exploring to further promote minority small business lending throughout the County.
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MEMORANDUM

TO: RACINE COUNTY BOARD OF SUPERVISORS
RCEDC EXECUTIVE COMMITTEE

RACINE COUNTY
PLANNING & DEVELOPMENT

FROM: GORDON KACALA, EXECUTIVE DIRECTOR
RACINE COUNTY ECONOMIC DEVELOPMENT CORPORATION (RCEDC)
CAROLYN ENGEL, PRESENTING STAFF

DATE: AUGUST 2, 2011

SUBJECT: RACINE COUNTY REVOLVING LOAN FUND (RLF) PLAN CERTIFICATION FOR
THE PERIOD ENDING MARCH 31, 2011

Introduction

Racine County is now being 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 RCEDC maintains a service contract with Racine County to administer the County's RLF and, therefore, prepares the report for consideration by Racine County. The RLF provides secondary mortgage low-interest loans to businesses in Racine County.

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 cultivate an entrepreneurial culture in Racine County

Strategies:

- Ensure a comprehensive system of entrepreneurial services for both value-added and neighborhood businesses.

Challenge Two – To focus on the importance of technology and innovation relative to the growth of existing businesses and the attraction of new businesses to the community

Strategies:

- Continue to implement an aggressive and targeted existing business growth and business attraction program for Racine County that is based on: 1) industries with a recent history of competitiveness and export orientation and 2) emerging industries that show a potential for future growth.
- Provide secondary financing to existing and new companies that are creating jobs, tax base and personal income to Racine County.

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:

- Continue to implement industrial and commercial redevelopment projects in communities throughout Racine County.
- Monitor the local economy to identify and retain employers that are considering relocation outside of Racine County.

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:

- Advocate for programs that will impact the high unemployment rates in low-income and minority communities.

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, 2011.

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 portfolio is \$10,356. We are currently exceeding the guideline.
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 \$37,993,192 and total RLF funds disbursed is \$5,115,729 for a leveraging ratio of 7.43 to 1.0. **We are currently exceeding this guideline.**
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 15 loans in the active portfolio:

- A. 12 loans were made to existing businesses and 3 to new businesses (including company buy-outs).
- B. 10 active loans have been made to manufacturing companies, 1 loan has been 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 6.32 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 new 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 1.61 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.**

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, or not 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.

Following the Racine County Finance Committee meeting on December 1, 2009, the RCEDC staff met with Supervisor Q.A. Shakoor II- to discuss potential changes to the entrepreneurial system in the City and County of Racine that could result in an increase in minority business lending. Supervisor Shakoor and representatives of the Community Economic Development Corporation (CEDCO), Wisconsin Women's Business Initiative Corporation (WWBIC), the UW-Parkside Small Business Development and City of Racine staff also met to discuss the problem of loans to minority businesses and entrepreneurs. As a result of these meetings, the City of Racine hired EntreWorks Consulting to examine how the City could provide support and assistance to local small business owners and entrepreneurs, especially minority and women entrepreneurs. The report, which was released in August 2010, emphasizes the need for increased coordination and collaboration between WWBIC, CEDCO, and the Small Business Development Center (SBDC) so that residents can more easily access needed business training and assistance. The consultant also recommended that the City of Racine create a Small Business Ombudsman position to help raise the visibility and importance of entrepreneurship in the area. The City has requested that RCEDC manage the new small business development program with CEDCO, SBDC, and WWBIC serving as Lead Partners for the initiative going forward. Program planning began immediately following the presentation to the City Council with the goal of having the center opened by the end of the year.

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 61 loans to 53 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. Currently, the average active loan size is \$120,614 and the average for the total loan portfolio is \$83,864 both of which are slightly more than anticipated. The largest loan amount was \$200,000; 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, 14 percent of the RLF loans have been made for working capital purposes. **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 six 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. 55 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 2 previous semi-annual periods, thus \$25,612.53 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, 2011, the RLF fund had 78.3 percent of its capital in use. The percent of capital in use, net of committed RLF dollars, is 100 percent as RCEDC received approval for a loan in December 2010 that will deplete the RLF and is anticipated to disburse in August 2011. 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). Also, RCEDC increased marketing efforts in 2010 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.**