

# Memorandum



DATE: February 10, 2010

TO: Members of the Economic Development Committee  
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Dwaine Caraway Linda Koop  
Sheffie Kadane, Ann Margolin, Jerry R. Allen, Steve Salazar

SUBJECT: **Small Business Lending in Southern Dallas**

On Tuesday, February 16, 2010 the Economic Development Committee will be briefed on the Small Business Lending in Southern Dallas. The briefing is attached.

Should you have any questions, please contact me at (214) 670-3314.



A.C. Gonzalez  
Assistant City Manager

C: Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Deborah A. Watkins, City Secretary  
Tom Perkins, Jr., City Attorney  
Craig Kinton, City Auditor  
Judge C. Victor Lander, Administrative Judge Municipal Court  
Ryan S. Evans, First Assistant City Manager  
Forest Turner, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Dave Cook, Chief Financial Officer  
Jeanne Chipperfield, Director, Office of Financial Services  
Karl Zavitkovsky, Director, Office of Economic Development  
Hammond Perot, Assistant Director, Office of Economic Development  
Helena Stevens-Thompson, Assistant to the City Manager

# Small Business Lending in Southern Dallas

February 16, 2010

# PURPOSE

- Describe Mayor's Southern Dallas Task Force Small Business Team Recommendation
- Explain why small business is important to the Dallas economy, particularly southern Dallas
- Discuss small business challenges, issues and capital access
- Review the City's existing programs and determine the appropriate Public Sector role in facilitating access to capital
- Receive ECO Committee guidance on parameters for use of Public Private Partnership funds to support small business lending

## Mayor's Task Force Small Business Team Identifies Access To Capital as Highest Priority

- ❑ Composed of 17 members including business owners, bankers, chambers of commerce representatives, alternative lenders and others interested in small business success
- ❑ Met over 12 months
- ❑ Convened a Focus Group and did a SWOT analysis
- ❑ Developed a comprehensive list of issues and challenges
- ❑ Identified improved access to capital as a major challenge and high priority
- ❑ Made a series of recommendations to support small businesses in southern Dallas communities by establishing additional parameters for use of Public Private Partnership funds

## SMALL BUSINESS IMPACT

- The Small Business Administration (SBA) defines small businesses by industry, number of employees and/or gross revenue. The US Treasury Department definition is less than 100 employees. Banks generally break at revenue under \$10 million
- Small businesses employ a large percentage of the workforce and contribute significantly to tax revenues.
  - According to the SBA, in 2000, small businesses represented 98% of all employers nationally, created over 80% of new jobs and accounted for 45% of private payroll.
  - 93% of businesses in Dallas employed 20 people or less, representing 30% of the workforce (Dun and Bradstreet, 2009)

## SMALL BUSINESS IMPACT (cont'd)

- ❑ Small businesses are fundamental to economic and workforce development, especially for minority and immigrant communities.
  - Training ground for underemployed workers
  - Provide needed services and amenities
- ❑ Southern Dallas has the largest minority and immigrant population in the City.
- ❑ According to three (3) recent nationally published articles, small businesses added the greatest number of jobs to the national economy

# Small Business Challenges

- ❑ Small business owners generally lack requisite management expertise and adequate capital
- ❑ In certain industries, small business failure is as high as 90% within 5 years
- ❑ Four factors have the greatest impact on small business success.

- **Access to capital**
- **Procurement Opportunities**
- **Business Education**
  - strategic planning
  - financial management
  - technology training
  - marketing
  - supply chain management
  - human resource management
- **Access to a Talented Workforce**

Access to capital and Procurement rank highest among the stated needs of small business owners.

# Access To Capital: Equity

- ❑ Many small businesses are funded by equity rather than debt. There are numerous equity funders in the North Texas market. According to news accounts, investments have been greatly reduced over the past 18 months. Equity funds generally fall into two categories.
  - Angel Funds – invest between \$25k and \$100K usually in non technology businesses. Stalled economies slow investment opportunities
  - Venture Capital Funds – Very selective; high returns expected; invest amounts above six figures. Favor high tech companies. Reduced activity in stalled economy
- ❑ Angel Funds and Venture Capital Funds often invest under ownership and management terms.



## Access to Capital: Commercial Bank Debt

- ❑ Most commercial banks have Small Business Lending programs
- ❑ They generally target businesses that have revenues <\$10 million dollars
- ❑ Underwriting tends to be standardized
- ❑ Most decisions are based on the credit score of the business owner

# Access To Capital: Alternative Lender Debt

- ❑ Alternative lenders have developed underwriting criteria and guidelines to address impediments to debt capital for small businesses. They generally have limited capital and are challenged to recapitalize their funds.
- ❑ The most active alternative lenders are:
  - Accion Texas
  - Small Business Administration (SBA) Loan Guaranty Program
  - South Dallas/Fair Park Trust Fund
  - The Plan Fund
  - Texas Mezzanine Fund
  - Southern Dallas Development Corporation
  - Factoring Companies
- ❑ Individual loan program parameters are shown in Appendix A

## Access To Capital: Issues

- ❑ Equity investors on the sidelines
- ❑ Commercial banks limit lending activity through stringent, rarely negotiable underwriting criteria
- ❑ Large banks use standardized lending models with minimal on site decision making
- ❑ There are few community banks in southern Dallas communities
- ❑ Small and minority business owners typically have fewer alternative funding sources



# Access to Capital: Issues cont'd

- ❑ Alternative lenders have limiting guidelines and dwindling capital reserves
- ❑ Small and minority business borrowers face historical borrowing challenges and often hesitate to approach banks
- ❑ Economic downturns put more pressure to survive on cash strapped businesses
- ❑ Small businesses in southern Dallas need access to capital to grow and survive
- ❑ Survival of existing businesses in southern Dallas is critical for availability of amenities as well as job retention

## Existing City of Dallas Small Business Loan Programs

- ❑ Currently the City engages in lending to small businesses in the following ways:
  - Management and oversight of the SDDC CDBG loan program annually (estimated \$600K from payments collected less overhead cost)
  - Provides CDBG funds to Business Assistance Centers for micro businesses in low income communities(\$640K)
  - Provides CDBG funds to the Plan Fund, a micro lender in low income communities for technical assistance(\$40K)
  - Manages the South Dallas/ Fair Park Trust Fund(\$1.4K for grants and loans)

## Existing City of Dallas Procurement Program

- ❑ Small business owners often lack the requisite knowledge to navigate the process to become suppliers.
- ❑ Most major companies and government entities have departments dedicated to procurement. Most have a particular focus on small businesses and M/WBE businesses.
- ❑ The City of Dallas through its Business Development and Procurement Services (BDPS) has well developed procurement programs aimed at increasing the number of businesses that sell goods and services to the City. BDPS has a special focus on contracting with Minority and Women Owned Businesses (M/WBE).

## Existing City of Dallas Procurement Program cont'd

- ❑ BDPS programs and efforts include vendor recruitment and education, a good faith effort policy to include to the extent possible M/WBEs on the City's construction, procurement and professional services programs and partnerships that focus on vendor education, awareness and information on doing business with the City
  
- ❑ Resources available to guide small business owners through the certification process:
  - Business Assistance Centers
  - Minority Business Development Council
  - The North Central Texas Regional Certification Agency
  - Small Business Administration

## Public Private Partnership (PPP) Small Business Program

- ❑ Currently PPP program for southern Dallas requires a minimum investment of \$1 million dollars or creation of 25 jobs
- ❑ Most small business investment is significantly less
- ❑ Small Business Task Force Team identified a number items for funding; their immediate action request was to provide \$1 million dollars to support alternative lending in southern Dallas
- ❑ City is not positioned to be a direct lender, capital but support for Alternative Lenders under managed parameters is viable
  - can be tied to a job creation/retention multiple
  - allows for additional lending upon loan repayment
  - may lever with matching funds from private institutions



## Suggested parameters for Use of PPP Program Funds To Support Small Business Lending in Southern Dallas

- ❑ Program managed through Office of Economic Development
- ❑ Funds channeled through Grant or Forgivable Loan to Alternative Lender with successful track record for minimum of 5 years
  - Governance by Board of Directors under program parameters
  - Overhead cost not to exceed 5% of funds loaned plus marketing
  - Payments collected less overhead and marketing to be used to make new loans (or returned to PPP)
  - Lender to provide operating reports quarterly to include delinquency and loss reports

## Suggested Parameters For Use of PPP Program Funds to Support Small Business Lending in Southern Dallas cont'd

- Borrowers must meet target area criteria
- One job created or retained per multiple of \$35K loaned
- Lender must develop curriculum and provide at least nine (9) technical assistance and/or procurement information sessions per year
- Borrowers with less than 5 years operating history must attend at least one information session before being approved for a loan
- Below market interest rates
- Flexible terms

## Suggested Parameters for Use of PPP Program Funds To Support Small Business Lending in Southern Dallas cont'd

- Loans for fixed assets, working capital and business purpose
- real estate (non housing)
- Loan structure and terms determined by the Board of Directors
- Fees no more than 50 basis points of amount borrowed
- Cost paid by borrower (appraisal, environmental, etc.)
- Loan amount \$25K - \$300K ( exceptions on case basis)

## Next Steps

- ❑ Receive ECO Committee Guidance on recommended parameters for providing capital support to alternative lenders
- ❑ Seek Council support of amended PPP program that incorporates a small business component (April)
- ❑ Seek Council approval for a grant to an Alternative Lender under approved parameters (April)

## Appendix A

### ❑ Loan Programs

#### **Accion Texas**

- ❑ Program funded from grants and low interest loans
- ❑ Statewide Fund with offices in major Texas cities
- ❑ Limited presence in southern Dallas
- ❑ Loan amounts from \$5,000 - \$100,000
- ❑ Interest rates typically above 10%
- ❑ Received \$1.2K grant from Rees – Jones Foundation specifically for loans to businesses in West Dallas

## Appendix A cont'd

### Loan Programs cont'd

#### **SBA (Loan Guaranty)**

- ❑ Loans made through Commercial Banks
- ❑ Must meet credit score and minimally reduced underwriting criteria
- ❑ Fees can be significant

#### **South Dallas/Fair Park Trust Fund**

- ❑ Limited to designated Census Tracts in South Dallas/ Fair Park community

## Appendix A cont'd

### Loan Programs cont'd

#### **The PLAN FUND**

- ❑ Micro Lender
- ❑ Maximum loan \$6,000

#### **Texas Mezzanine Fund**

- ❑ Funded by statewide financial institutions
- ❑ Makes loans throughout the state of Texas
- ❑ Makes limited number of loans in Dallas
- ❑ Fewer number of loans in southern Dallas

## Appendix A cont'd

### Loan Programs cont'd

#### Southern Dallas Development Corporation (SDDC)

- ❑ Located in southern Dallas
- ❑ Manages three (3) Loan Programs
- ❑ Non profit Community Development Corporation
- ❑ Established in 1989
- ❑ Total capital available in two funded programs \$910K(est.)
- ❑ Following Loan Programs

#### ❑ SBA 504

- Real Estate financing where borrower occupies 51 % of space
- Borrower must have bank financing of 50%
- Required borrower equity 10%



## Appendix A cont'd

### Loan Programs cont'd

#### SDDC

- ❑ Southern Dallas Development Fund (SDDF)
  - For profit fund
  - Commercial bank investors
  - Capitalization closed
  - \$2.3 million in outstanding loans
  - Payments collected used for overhead and new loans
  - \$490K available to loan
  - Maximum loan \$250,000
  - No start up businesses, contract financing, construction lending

## Appendix A cont'd

### Loan Programs cont'd

#### **SDDC**

##### ❑ **CDBG Business Revolving Loan Program**

- Must create/retain one job per \$35K loaned
- 51% of ALL jobs created/retained must go to low/moderate income persons
- Low/moderate income criteria determined by household not individual
- Complex job retention test
- \$3.2K loans outstanding
- Payments collected less overhead used for new loans
- \$420K currently available to loan

## Appendix A cont'd

Loan Programs cont'd

### Factoring Companies

- ❑ Very high interest
- ❑ Selective Accounts Receivables
- ❑ Minimal loan to value
- ❑ Control of assets pledged