

Memorandum



DATE April 16, 2010

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

SUBJECT **Southern Dallas Small Business Lending Program**

The Economic Developed Committee will be briefed on April 19, 2010. The Briefing is attached.

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


A.C. Gonzalez
Assistant City Manager

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

Southern Dallas Small Business Lending Program

Economic Development Committee
April 19, 2010

PURPOSE

- Highlight small business capital access challenges and address ECO Committee concerns from February 16, 2010
- Recommend guidelines and parameters to expand Small Business Lending Program currently administered by the Southern Dallas Development Corporation (SDDC) (See Appendix A)
- Seek Council approval to provide funding in the form of a Chapter 380 grant from the Public Private Partnership program in the amount of \$1,000,000 (two \$500K increments - FY 2010 and FY 2011).

BACKGROUND

- ❑ The Mayor's Southern Dallas Task Force Small Business Team made a series of recommendations to support small businesses in southern Dallas
- ❑ Improved access to capital for small businesses was the highest priority
- ❑ Staff briefed the Economic Development Committee on February 16, 2010 on small business lending in southern Dallas

Briefing Highlights

- According to the SBA, 95% of employers start their businesses with less than 20 employees and nationally 90% of employers have less than 20 employees
- 93% of businesses in Dallas employ less than 20 people, representing 30% of the Dallas workforce (Dun and Bradstreet 2009).
- According to SBA, small businesses represent 98% of all employers nationally, create over 80% of new jobs and account for 45% of private payroll.
- Small businesses play a major role in job training and retraining, especially in low/moderate income communities (key to job replacement in economic downturn)
- Access to capital and procurement opportunities are highest stated needs of small business owners.



Briefing Highlights

- ❑ Many formerly bankable businesses are no longer able to access capital
 - Banks have higher loan loss reserves, require lower loan to value ratios, higher credit scores and higher debt service coverage ratios
 - It is more difficult to provide sufficient loan collateral or forecast sales revenues due to falling real estate values and consumer demand
 - Municipalities are plagued by drops in revenue due to lower property values and sales tax volumes

Briefing Highlights

- ❑ Small businesses are turning to non traditional lenders (the dilemma is “how to serve traditional underserved markets with newly underserved knocking at the door”) (See Appendix B Non Traditional Lender Profile Grid)
- ❑ SBA’s recent actions to reduce fees and increase Loan Guarantees have helped banks increase lending, but are limited due to temporary nature of the ARRA
- ❑ Networks often as important as money for success of entrepreneurs and small business owners

Recommended Parameters for Existing Small Business Lending Program Administered by SDDC

- ❑ Contract for \$1,000,000 Public Private Partnership grant to be disbursed over two (2) year period - \$500K in FY 10 and \$500K in FY 11. Second \$500K disbursed after May 2011, subject to the following conditions:
 - \$350K of initial \$500K tranche fully funded or committed
 - Total portfolio Loan Loss Ratio (% of loan losses/ total portfolio) < 5%
 - Unsecured Delinquency Ratio < 8%; total Delinquency Ratio 12%
 - At least one (1) job created OR retained per \$50K loaned
- ❑ Program oversight through City of Dallas Office of Economic Development

Recommended Parameters for existing Small Business Lending Program Administered by SDDC cont'd

- ❑ Parameters continued:
 - Loan Program governance by Board of Directors with at least three (3) board members appointed by Council
 - Lenders overhead cost not to exceed 10% of funds loaned plus marketing expense
 - Payments collected less overhead and marketing to be used to make new loans
 - Lender to provide operating reports quarterly to City of Dallas Office of Economic Development include delinquency and loss reports

Recommended Parameters For Existing Small Business Lending Program Administered by SDDC cont'd

- Loan applicants must meet target area criteria (located south of Trinity River to downtown and south of I 30 to the city limits)
- Lender must develop curriculum and provide at least three (3) three module technical assistance and/or procurement information per year
- Loan applicants with less than 5 years operating history must attend at least one three module information session before being approved for a loan
- Fixed Interest Rate determined by Loan Committee – not to exceed 8%
- Flexible repayment terms suggested as follows:
 - Guaranteed Contract Working Capital 2 years
 - Permanent Working Capital 5 years
 - Fixed Assets 7 years
 - R.E. 7 – 10 year Note /15 year Amortization

Recommended Parameters for Existing Small Business Lending Program Administered by SDDC cont'd

- Loan Uses
 - Working capital
 - Fixed Assets (for R.E. – 51% of space for borrowers business operation)
- Collateral based on established Policies and Procedures
- Loan structure and terms determined by the Board of Directors (established in Policies and Procedures Manual approved by ECO Dept)
- Fees no more than 50 basis points of amount borrowed
- Loan related cost paid by borrower (appraisal, environmental, legal, etc.)
- Loan amount \$15K - \$150K (exceptions on case by case basis)

Recommended Next Steps

- ❑ ECO Committee approval of recommended parameters for expanded small business lending program administered by SDDC
- ❑ ECO Committee recommendation for Council approval on May 12, 2010 to expand the small Business Lending Program currently administered by the Southern Dallas Development Corporation (SDDC) by providing a Chapter 380 grant from the Public Private Partnership program in the amount of \$1,000,000 (two \$500K increments – FY 2010 and FY 2011) with second increment funding subject to loan portfolio quality and job creation/retention conditions.

Appendix A

Southern Dallas Development Corporation (SDDC) Profile

- ❑ SDDC contracted with City of Dallas to manage CDBG program in 1989
 - ❑ Currently contracted to manage CDBG program through 9/31/10
 - ❑ CDBG program is governed by board of 15 Directors
 - ❑ Three (3) members are appointed by City Council
 - ❑ SDDC Manager Charles McElrath
 - Former VP Commercial Lending (Comerica/B of A) – 20 years
 - 5 years with SDDC
 - ❑ Staff Size 4
 - ❑ Average staff tenure 8 years
 - ❑ 169 CDBG loans since inception
 - ❑ \$18,600,000 loaned since inception
 - ❑ Leveraged over \$42,000,000
 - ❑ Created over 4800 jobs
 - ❑ Current loans outstanding \$3,118,178
 - ❑ 12/31/09 Loan Delinquency 11.44%* (\$366.6K/\$3,116.2)
 - ❑ 12/31/09 Annual Loan Loss 3.13%
- * One delinquent loan \$240K - fully secured 1st Lien R.E. – Value \$1,142.7K

Appendix B

Non Traditional Lenders Profile Grid

Lender	Accion TX	The Plan Fund	SDFDTF	Texas Mezzanine	SDDC/CDBG	SDDC/SDDF
Yr Est.	1999	1999	1989	1999	1989	1994
Loan Size	\$5M - \$100M	\$500 - \$6,000	\$5,000 - \$50,000 (higher for Eco Dev)	\$50,000 - \$300,000	\$35M - \$300M	Maximum \$50 - \$250M
Average Interest Rate	> 10%	8% - 12%	3%	> 9%	6% - 8%	Average 6.5%
\$ Loans Since Inception	\$13,148,015	\$775,000	\$949,000	\$34,875	\$18,600,000	\$11,769,544
Capital On Hand	Not Available	\$31,000	\$1,400,000	Not Available	\$420M	\$687,244
# Loans Outstanding	Not Available	\$49,000	\$105,000	\$13.3K	\$3,116,178	\$2,347,074
12/31/09 Loan Delinquency Ratio	Not Available	Not Available	Loan program recently reinstated. Currently no delinquency.	Not Available	11.44%	4.18%
12/31/09 Loan Loss Ratio	Not Available	Not Available	Loan program recently reinstated. Currently no Losses.	< 2%	3.13%	< 1%
Governance	Board of Directors	Board of Directors	Advisory Board/City Council	Investor Board	Board of Directors/HUD	Investor/Board of Directors
Type Entity	Non Profit	Non Profit	City Department	For Profit	Non Profit	For Profit
Target Market	DFW/Arlington	Dallas	South Dallas/Fair Park	Texas	LMI Beneficiaries	Southern Dallas County