

Review of Incentives Programs

Brought feedback received from stakeholders about CRA incentive programs to the CRA Board in October

First set of recommendations is to close two programs which are no longer needed

These programs not serving current district needs

- Created specifically to address the halt of bank lending for businesses
- Anticipate amending, adding and discontinuing programs to address specific needs as the market evolves

Background

- 2008** Real estate market shift; private development stalled
- CRA receives requests for business assistance
 - Prior CRA incentive programs geared to real estate developers plus façade grants and paint programs
 - These programs were not equipped to address business needs
- 2009** CRA contracted with National Development Council (NDC) to conduct a study and analysis of local economic development resources
- Six concepts were approved: Infrastructure Fund, Pre-development Fund, Leverage Fund, Jobs Grant, SBA 7(a) Loan Fund and SBA 504 Loan
- 2010** SBA 7(a) Loan Program (Grow Gainesville Fund) and SBA 504 Loan (Capital Access Program) implemented
- 2012** High Wage Job Creation and Company Relocation Incentive Programs approved
- 2014** Improved market/bank lending conditions, CRA begins review of incentive programs

Grow Gainesville Fund

SBA 7(a) Grow America Fund “Grow Gainesville Fund”

National Development Council (NDC) is nation’s largest SBA-licensed lending company via their Grow America Fund

- Established a CRA-specific version —Grow Gainesville Fund
- CRA districts contributed a total of \$250,000
- National Development Council (NDC) leveraged funds to make a pool of \$1 million

Provides loans of \$100,000 - \$500,000 to established businesses (in business for at least three years) located in the CRA

- Purchase land or buildings
- Construction/renovations
- Purchase equipment/inventory
- Working capital
- Refinance existing debt

Requires annual technical assistance contract with NDC

Grow Gainesville Fund Loans

Southern Charm Kitchen/ Reggae Shack

Used loan for interior build out
and working capital to open
Southern Charm

Opening third restaurant on SW
13th Street

Loan amount: \$315,000

Balance: \$258,335

Loan Start: August, 2011

Loan due: August, 2021 (6.66 years)



Grow Gainesville Fund Loans

The Top

Received loan for expansion and renovations to the bar area and addition of the Woolly banquet space

Refinanced last summer with a local bank

Recently opened Pop-a-Top corner bodega and a “bar that has no name”

Arrow’s Aim Records moved into their property

Loan amount: \$400,000

Balance: \$0

Loan start date: 2012

Loan paid off: June 2014



Grow Gainesville Fund

Very happy with having this fund during tough times and appreciate the ripple effect from the success of these two companies

Disappointed the fund was not able to help more companies within the CRA over the last four years

Fund was not used more because:

- Geared to established companies with 3+ year of history and profitable in recent year
 - Many prospective companies could not meet criteria
- CRA geographic area is a small pool of eligible companies
 - Typically see five companies apply per successful loan underwriting

Grow Gainesville Fund

Had many interested applicants that did not move to the loan underwriting stage for the following reasons:

- Company's financial status (not profitable)
- Start-up status (needed three year track record)
- Not a for-profit company
- Plans fell through/need for the loan went away
 - Got owner financing on a building
 - Company not ready to move ahead with construction
 - Retail store plans abandoned
 - Decided not to pursue franchise opportunity
- Discomfort with sharing personal financial information (public records)
- Level of paperwork required
- Loan size sought below \$100,000

Appropriate to discontinue the fund at this time

- Have seen a decrease in the need for the fund
- Bank lending has turned a corner
- NDC expertise can be more economically deployed with short term contracts for specific needs

Viable restaurant businesses can now get bank financing

Businesses have access to SBA 7(a) loans through local lenders

Grow Gainesville Fund

Details of closing the fund and returning the CRA investment:

One outstanding loan: Southern Charm

Loan balance: \$264,951.16

CRA investment portion of loan balance: \$64,583.63

- These funds will be repaid to over the remainder of the loan term
- Loan will be administered for remaining term without cost to CRA

\$183,762.21 would be returned to the CRA districts (proportional to initial investment) and appropriated in the amendatory budget

- ERAB ~\$20,395.76
- FAPS ~\$14,833.28
- CPUH ~\$101,978.80
- DRAB ~\$48,208.16

Capital Access Program

Designed to help borrowers qualify for SBA 504 loans for

- Expand, acquire, start a business
- Purchase or construct real estate
- Refinance existing debt,
- Working capital

SBA 504 loans are structured as:

- 50% Commercial bank
- 40% SBA 504 approved lender
- 10% Borrower equity

CRA program acted as a supplement to the SBA 504 loan

- CAP would help borrowers receive a loan for up to half of the borrower equity portion of the SBA 504 loan with a loan for \$5,000-\$35,000 at Prime Rate minus 2% but not less than 4%

Designed to encourage communication among bankers

- Involved an board to approve loans comprised of local bankers and CRA district board members and the CRA Manager

Capital Access Program

Did not see a lot of interest in the program in early years

Companies that were interested were not in financial shape to qualify for this loan structure

A few prospects went through initial discussions with lenders but could not qualify for an SBA 504 loan

Haven't seen interest in program since then

Program would have been very cumbersome to manage:

- Loan documentation
- Managing monthly loan repayments to external vendor
- Public records/public notice of loan committee meetings

There are no encumbered funds tied to this program

Next Steps

Staff wishes to continue research and formulating recommendations for current and potential new programs

- Transformational Projects Incentive Program
- Redevelopment Incentive Program
- Façade Improvement Incentive Program
- High-Wage Job Creation Incentive Program
- Company Relocation Incentive Program

Address needs not being met by current programs

Align programs with Strategic Plan and major initiatives in each district

Will bring back recommendations as they are ready

Recommendation

CRA Executive Director to CRA: Discontinue Grow Gainesville Fund and Capital Access Program