

..Title

Addie Hill Status Report/Prospective Business Loan Program (B)

..Explanation

At the December 13, 2004 City Commission meeting, the City Commission directed staff to provide a report on the status of the Addie Hill project and a prospective Business Loan Program.

Addie Hill Status Report

Ms. Hill attended a First Step meeting on July 6, 2004 regarding proposed development of property located at 360 Waldo Road. The subject property fronts on to Waldo Road south of the Shand's Eastside Clinic and is approximately .32 acres in size. A regulated creek runs on the north side of the property; to the west lies NE 12th Street and a residential neighborhood. Ms. Hill indicated that she planned to develop the property as a beauty shop and retail center that seemed to be allowable based upon the property's zoning designation of MU-1. At the time of the First Step meeting, Ms. Hill indicated that she was not the owner, but did indicate that she had a contract pending on the subject property.

Highlights of issues raised in the meeting concerned setback requirements from the regulated creek (a minimum of 35' from top of bank); level of review indicated as Intermediate requiring a Development Review Board hearing; on-site requirements for stormwater management; the fact that sewer is not readily available to the property; the need to potentially install a fire hydrant; the requirement for a neighborhood meeting; the property's location in the Enterprise Zone; and, the need to secure the services of a licensed architect, engineer and State Certified Contractor.

Since the First Step meeting, staff met with Ms. Hill on November 3, 2004 regarding progress made on development of the property. At that meeting, Ms. Hill indicated that she had subsequently been working with the Small Business Development Center on a business plan for her proposed establishment. As a result of this meeting, staff strongly advised that Ms. Hill seek the professional services of either an engineer or architect to ensure that her development proposal was feasible. Furthermore, staff recommended that Ms. Hill continue to work with SBDC to secure a viable business plan that would be an initial step required in order to secure project financing.

As of the December 13, 2004 City Commission meeting, and a subsequent meeting with Ms. Hill on December 20, 2004 with Interim City Manager Barbara Lipscomb, Ms. Hill related that she now owns the subject property; she continues to work with the SBDC on business plan development; and, would be meeting shortly with UF DCP staff to discuss site design issues. Planning staff has indicated that no site development submissions have been made as a consequence of the July 6, 2004 First Step meeting. With respect to Ms. Hill's December 10, 2004 request for \$25,000 for the prospective project, staff feels that provision of such funding is premature at this stage due to questions regarding the feasibility of the proposed project in both development and business terms.

Prospective Business Loan Program

The City of Gainesville currently does not administer a business loan program. Based upon a review of past City efforts in this regard, it appears that the City has provided assistance to intermediaries (non-profits), specifically the now dissolved United Gainesville CDC, in order to meet the micro-loan financing requirements of several small businesses throughout the community. These past efforts had less than stellar results (see attached 3/24/04 memo) and this micro-lending tool is no longer available.

In December, 2003, the Economic Development Director, with the assistance of the Gainesville Area Chamber of Commerce, convened a lender's meeting to discuss prospects for filling "access to capital" gaps in the community and presented a few programs (see attached Power Point/meeting agenda) pursued by other communities particularly the Access Loan program implemented by the Greater Lexington Chamber of Commerce. The direction from the lenders was that this effort should be pursued within the context of Gainesville Area Chamber of Commerce Small Business Council activities and be applicable Citywide.

Recently, the City Commission has provided \$25,000 per year in the FY 05 and FY 06 Economic Development Department budget to seed future loans to be made via the Entrepreneurial School concept championed by County Commissioner Rodney Long. The plan for this contribution is for the City and County to jointly establish an Entrepreneurial Economic Development Trust Fund over four years at \$200,000 with an additional \$300,000 sought from the private sector. The Trust Fund's proceeds are to be used to provide the equity portion of SBA loans to participants enrolled in the Entrepreneurial Charter School.

Finally, approximately \$46,000 has been received for a loan payoff for a previous United Gainesville loan that was recently assigned to the City. Several other United Gainesville loans are in the process of being assigned to the City as well and could, over a period of time, provide additional resources for a business loan program designed to assist existing businesses.

Based upon this information, it is recommended that the following parameters for a prospective business loan effort be taken into consideration. These parameters, to a certain degree, replicate those that adhere to the SBA's established micro-loan program:

- 1) The goal of the program is to fill a micro-lending gap currently encountered by a representation of the business community.
- 2) The program is targeted at private, for-profit business only with the applicant the owner of the business. Businesses must be established for a minimum of three years.
- 3) The program is initially available to businesses located in the Eastside Community Redevelopment Area on a pilot basis. Since the initial source of funds is federal CDBG dollars, limiting the program to this area would assist with compliance issues such as conformance with national objectives of the CDBG program.
- 4) The program is intended to assist business owners with capital improvements including new or existing building/site improvements or purchase of machinery/equipment.
- 5) Maximum loans are \$10,000 and require submission of personal financial statement; tax returns for prior 3 years; business plan; marketing plan; and, 3 years of financial projections. Collateral sufficient to cover the loan amount and personal guarantee of the business owner shall be required.
- 6) Applicants must attend business development/entrepreneurial classes through the East Gainesville Development Corporation or Small Business Development Center.
- 7) A loan committee would be established consisting of representatives from the City, Gainesville Area Chamber of Commerce and lending community.
- 8) Any building construction or site development financed through the program must adhere to applicable City Development and Building Codes and Davis Bacon Act requirements.

Keeping the aforementioned parameters in mind, the City Commission needs to determine whether the City should have a direct role in the provision of business micro loans or whether the effort should be tied to the provision of loans by the lending community as is the proposed model for the Entrepreneurial School effort. The former course may create some issues regarding the provision of confidential financial information regarding micro-loan applicants and may serve as a deterrent to participation. In addition, City staff obviously does not have the same underwriting skills that the lending community possesses. City Commission direction regarding this matter will provide Economic Development Department staff, including the Small and Minority Business Development Coordinator, with information to be employed in the refinement of the prospective program.

..Fiscal Note

As mentioned, the Office of Management and Budget has indicated that there is approximately \$46,000 in loan payback that has been received on a recently City assigned United Gainesville outstanding loan. This source could be utilized to seed a business loan fund should the City Commission wish to move in this direction. This source of funds is subject to federal Community Development Block Grant regulations.

..Recommendation

The City Commission: 1) hear a brief presentation from staff regarding the status of the Addie Hill project and prospects for a business loan program; and 2) provide direction to staff.

INTEROFFICE MEMORANDUM

TO: HONORABLE MAYOR AND CITY COMMISSIONERS

THRU: WAYNE F. BOWERS, CITY MANAGER AND *MB*
 BARBARA W. LIPSCOMB, ASSISTANT CITY MANAGER *AL*

FROM: ERIK A. BREDFELDT, ECONOMIC DEVELOPMENT DIRECTOR *CB*

SUBJECT: STATUS OF UNITED GAINESVILLE COMMUNITY DEVELOPMENT CORPORATION AND CITY OF GAINESVILLE PARTICIPATION IN THE SBA MICRO-LOAN PROGRAM

DATE: 3/24/2004

STATUS OF UNITED GAINESVILLE COMMUNITY DEVELOPMENT CORPORATION

Per the direction of the City Commission at its March 1, 2004 Special Meeting, the Economic Development Department was directed to prepare a report on the role that the City of Gainesville can play in the SBA micro-loan process and/or the transition of United Gainesville Community Development Corporation to the Gainesville Housing Authority or some other entity.

As the City Commission is aware, United Gainesville Community Development Corporation has recently encountered financial problems. These problems stem from a failure to cover operating expenses associated with the organization as recently reported to the City Commission by Board Chairman Ted Nichols. As reported to City staff by United Gainesville CDC staff, this operating gap consists of approximately \$3,000 - \$4,000 per month.

With respect to existing prospects for transition/absorption of United Gainesville CDC's activities by the Gainesville Housing Authority (GHA), the following information was recently reported to City staff:

The Board of Commissioners of the Gainesville Housing Authority met recently to consider and discuss the possibility of establishing some form of formal association with United Gainesville CDC. It was decided the Gainesville Housing Authority is not willing to create any formal legal relationship with the United Gainesville CDC corporate entity or to assume responsibility for any of the ongoing operations or current or potential financial liabilities of United Gainesville CDC corporate entity.

The Gainesville Housing Authority had been willing to become involved with United Gainesville CDC business operations, depending on any work-out terms offered by the SBA relative to United Gainesville CDC's outstanding loans and any discounted terms offered by Bank of America relating to United Gainesville CDC's outstanding line of credit.

However, in recent conversations with the Gainesville Housing Authority Executive Director John Cherry, he relates that SBA staff has indicated that the Gainesville Housing Authority is not eligible

to assume the SBA portfolio nor can it become an SBA micro-lender. Furthermore, Mr. Cherry indicates that the Bank of America line of credit is secured by the United Gainesville owned Porter's property and does not appear to be transferable.

The Gainesville Housing Authority had originally proposed that in the event that United Gainesville CDC elects to wind-down its business operations, and move toward formal corporate dissolution, Gainesville Housing Authority was interested in establishing a separate 501(c)(3) nonprofit entity which would be partially dedicated to United Gainesville CDC's current core function of administering small business enterprise opportunities. However, based upon the latest information, it appears that only United Gainesville's portfolio of CDBG funded small business loans may be absorbed by the Gainesville Housing Authority.

According to United Gainesville CDC staff, the active SBA portfolio consists of seven (7) loans, three (3) of which are performing, two (2) of which are in foreclosure and two (2) of which are not in foreclosure but are non-performing. United Gainesville CDC staff does indicate that they believe that there is sufficient loan/loss reserve in place to guarantee payment on the SBA portfolio for an extended period of time. In addition, according to Community Development Department staff, United Gainesville Development Corporation also has an existing portfolio of six (6) loans funded through the CDBG program. Of these, three (3) are performing, while three (3) are reportedly not on solid ground.

United Gainesville CDC staff has indicated to City of Gainesville staff that corporate closeout procedures have been drafted and are in the process of being activated. Meanwhile, the \$10,000 allocation made recently by the City Commission for this purpose is being budgeted. Finally, Community Development Department staff has indicated that United Gainesville recently submitted an application for FY 2005 CDBG dollars in the amount of approximately \$280,000.

TRANSITION OF UNITED GAINESVILLE CDC TO GAINESVILLE HOUSING AUTHORITY

As reported above, United Gainesville CDC is currently in discussions with the Gainesville Housing Authority regarding transitional issues. In addition, based upon a recent status report provided to City staff, United Gainesville CDC is in the midst of corporate closeout procedures. The City Commission recently provided United Gainesville CDC with \$10,000 for implementation of these closeout procedures related to their ultimate transition.

Barring reconsideration by the City Commission to fully fund United Gainesville CDC in the future, closeout procedures will continue and in the short term, there does not appear to be any further action that can be taken by City staff to effectively remedy or reverse this situation. There will however, need to be coordination between City staff and United Gainesville staff regarding disposition of the existing CDBG loan portfolio and structuring of the additional \$10,000 recently provided by the City Commission.

ECONOMIC DEVELOPMENT DEPARTMENT ROLE IN SBA MICRO-LOAN PROCESS

There is a need for the City to recognize that the small business micro-lending activity provided by United Gainesville CDC is an important tool to serve the needs of small business in the community and to ultimately alleviate poverty. The Economic Development Department can assist in playing a role in determining how, and in what form, the small business micro-lending function is most effectively provided to those it serves. This is a longer-term proposition and must be framed in the

context of an examination of the existing non-profit landscape that is devoted to providing community/economic development services to the community. Right now, there are several of these entities in the community and an analysis of what role they play in the facilitation of economic development opportunities is sorely needed.

In some respects, this examination has already been initiated in a limited manner. In mid-December, 2003, a meeting was held at the Chamber of Commerce with approximately fifteen (15) lenders and representatives of both the City and County Commission to discuss access to capital issues. The group agreed that access to capital was important and that the Chamber of Commerce's Small Business Council that has identified financial assistance to small business as a primary Council objective would take up the issue.

Furthermore, the recent proposal for a funding source for future entrepreneurial activities associated with the Entrepreneurial School will require an administrative entity to implement such activities. If this is to be pursued by the City Commission, it should be made clear how such an entity will be structured and how it might not only serve the needs of future generations but current ones as well. Importantly, it must be shown how this type of entity is to function as a business proposition rather than simply an organization that survives from year to year based upon annual public agency outlays.

SUMMARY

To reiterate, based upon the current financial situation confronting United Gainesville CDC as reported by United Gainesville and City of Gainesville staff, and based upon action recently taken by the City Commission, there does not appear to be any additional action in the short term that can be taken to reverse close-out and transition of United Gainesville CDC to some other entity.

Some limited assistance may be needed in order to budget and account for the recent \$10,000 City injection of funds provided to facilitate closeout. The matter of the CDBG loan portfolio will need to be addressed cooperatively by United Gainesville CDC and City staff.

In the longer term, the Economic Development Department can play a role in determining how best to serve the needs of small business owners that would normally benefit from United Gainesville small business lending services. This should include an analysis of the current status of various non-profit economic/community development organizations and the role they play in fostering small business development through access to capital.

As mentioned, the discussion of the small business community's access to capital has begun in limited fashion within the context of the Chamber of Commerce Small Business Council. However, the role played by existing economic and community development non-profits has not been examined to date.

The recent proposal for an Entrepreneurial School and associated entrepreneurial funding mechanism may be best discussed within the parameters of the Small Business Council and utilized as a vehicle to discuss the entire subject of the most effective means/entity for promoting economic development through micro-lending in the community.

Only through these discussions and an evaluation of the non-profit landscape, small business needs and lender capacity, can the role of the Economic Development Department in small business lending be firmly determined.

AGENDA

GAINESVILLE AREA LENDERS' MEETING

DECEMBER 15, 2003

- I. Introductions**
- II. Overview (Why are we here?)**
- III. Local Economic Development Financing System**
- IV. Private/Public Partnership Leveraging Component -
Loan Pool – CEI Inc. CDC – City of Pensacola**
- V. Technical Assistance Component - Access Loan Program**
- VI. Lender Input**
- VII. Proposed Future Direction**
- VIII. Adjourn**

Gainesville Area Lenders' Meeting

Hosted by the City of Gainesville and Gainesville Area Chamber of Commerce
December 15, 2003

- ## Gainesville Area Lender's Meeting
- ▣ Introductions
 - ▣ Overview (Why are we here?)
 - ▣ Local Economic Development Financing System
 - ▣ Private/Public Partnership Leveraging Component – CEI Investments Inc. GAP Loan Pool Program
 - ▣ Technical Assistance Component - Access Loan Program
 - ▣ Lender Input
 - ▣ Proposed Future Direction
 - ▣ Adjourn

- ## Overview (Why are we here?)
- Four (4) Driving Factors:
- ▣ Gainesville Area Chamber of Commerce Small Business Council
 - ▣ Plan East Gainesville Implementation
Banker/Real Estate Focus Group – June 2002
 - ▣ Perceived small business financing gap
 - ▣ High poverty rate

- ## Overview (Why are we here?)
- Long term goal
- ▣ To improve the existing economic development finance system available to small business
- Today's goal
- ▣ To discuss/brainstorm an improved economic development financing system available to small business

- ## Local Economic Development Financing System
- (1) Local ED Financing System is:
- ▣ A component of a continuum;
 - ▣ Crucial to prospects for small business start-ups and expansions;
 - ▣ Essential for attainment of community development/improvement goals

- ## Local Economic Development Financing System
- (2) Small Business:
- ▣ Creates most new jobs;
 - ▣ Creates cost effective jobs;
 - ▣ Employs capital productively;
 - ▣ Has a local orientation

Local Economic Development Financing System

- (3) Access to Capital provides financing for:
- Acquisition of land and improvements;
 - Plant, equipment and inventory;
 - Working capital

Local Economic Development Finance System

- (4) Potential disincentives to economic development lending:
- Credit risk;
 - Collateral risk;
 - Maturity risk;
 - Longer term lending;
 - Perception of "bad loans"

Local Economic Development Financing System

- (5) Components of a successful ED financing system:
- Public/private partnership;
 - Provide incentive to lenders/borrowers;
 - Lender support;
 - Market aggressively to borrowers;
 - Capable EDP's and performance goals

Local Economic Development Financing System

- (6) Non - conventional resources
- SBA 504 Loan Program – FFCFC;
 - SBA Micro-loan – United Gainesville;
 - SBA 7(a) – Local lenders;
 - Venture capital, Emergent Growth Fund;
 - SBDC, SCORE, other local entities

Local Economic Development Financing System

- (7) Anecdotes
- Restaurant start-up – East Gainesville;
 - GTEC tenants;
 - Residential/Commercial Developer

Public/Private Leveraging Component – CEI Investment Inc. Program

- Overview:
- Community Equity Investments Inc. (CEI) administers several SBA micro-loan programs including GAP Loan Program;
 - GAP Loan Program capitalized by several banks at \$1.6 million;
 - Banks loan money to CEI at 3%-4%; CEI loans to small business at 8%-10%;
 - This program is utilized for businesses whose loan requests do not "fit" existing loan programs

Technical Assistance Component Access Loan Program

Overview:

- ▣ Program of Lexington, KY Chamber;
- ▣ Loan Packaging and funding prep. program;
- ▣ Participating Entities include 15 lenders, SBDC, SCORE, Mayor's Office of ED;
- ▣ Mayor's office provides targeted below market and subordinated loan program to fill gaps;
- ▣ Participants work to prepare applicant's to receive funding

Lender Input

- ▣ Do Lender's perceive there to be a lending gap in the local economic development financing system? Can various entities throughout the community partner to plug the gap?
- ▣ If so, how can the public and non-profit sector most efficiently leverage private sector resources?
- ▣ Is there merit in pursuing the CEI Inc. and/or Access model? other models?

Proposed Future Direction

- ▣ Reconvene representative group of interested participating EDF partners;
- ▣ Explore various partnership/leveraging models; invite Access program and CEI contact to speak to group;
- ▣ Refine model to align with local circumstances;
- ▣ Recommend refined model to reconvened group in calendar year 2004; present to the City Commission during the upcoming budget cycle

Adjourn

Thank-you for attending and Happy Holidays!



CITY OF GAINESVILLE

Office of the City Manager

10882

December 28, 2004

Ms. Addie Hill
1424 SE 17th Drive
Gainesville, FL 32641

Dear Ms Hill:

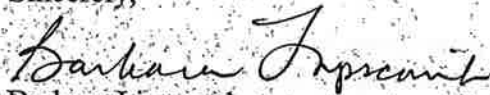
This is to recap my meeting with you and Economic Development Director Eric Bredfeldt on your request for a \$25,000 loan to develop a beauty shop and a retail center on land that you own at 360 Waldo Road. A summary of the discussion is as follows:

- The City of Gainesville has a business retention program that provides limited assistance relating to infrastructure improvements and utility connections to retain those companies in the City of Gainesville.
- Because your property is located in the Enterprise Zone, you may be eligible for a 50% reduction in the cost of development fees; refunds on building materials (sales tax refund); and reductions in corporate income tax for your employees. These items have certain limitations on which the Economic Development Director may advise you.
- We discussed that the business loan program is not yet developed, but that the recommendation would probably tie the provision of city business loans to business training and an approved business plan. You indicated that you are currently developing your business plan. We also indicated that we envisioned loans in the \$5,000-10,000 range due to level of resources available for lending. I have requested that Erik move forward on program development so that we can report back to the City Commission in January, 2005.
- You indicated that you want to put up the land as collateral for the business loan. City staff indicated that we would be proposing that the city loans be a part of an equity package for a commercial loan. I have requested that Erik research how collateralized loans would work as part of the city loan program.
- You pointed out that you are cutting trees on the property and it was determined that you need a permit for this activity. I provided you with the name and telephone number of the Parks staff person, Ms. Meg Niederhofer, that you should contact to rectify this situation.

- We also discussed land development issues, including the 35' setback relating to the creek that runs adjacent to the property, the need for a fire hydrant, the need to provide sewer, and other requirements from the First Step meeting. You indicated that you plan to speak with Mr. Mike Kurtz regarding the utility connections.
- You indicated that the land had been approved for development in the past and that many of these requirements were not recommended in the past. I contacted the Building Inspection Department and determined that a previous building permit and tree permit had been granted in 1990. Although the permits were issued, the property was not developed. We explained that there are probably new regulations and requirements since 1990.
- You indicated that you and your son plan to serve as general contractors for the project and that you would be working with the University of Florida on design for the project. We advised that you contact an architect, engineer, or other professionals who may help you advance your project.

You stated that you plan to continue your work to bring this project to fruition. There appear to be a number of developmental issues that still need to be resolved. Ms. Hill, if I may be of further assistance, please advise me. We will inform you when the business loan program is developed.

Sincerely,



Barbara Lipscomb
Interim City Manager

Cc: Mayor Pegeen Hanrahan
City Commissioners
Erik Bredfeldt, Economic Development Director
Meg Niederhöfer, Arborist