



City of Seattle
Office of Economic Development

MEMO

Date: July 1, 2013

To: Council President Sally Clark, Chair
Seattle City Council Committee on Economic Resiliency and Regional Relations
Councilmember Richard Conlin
Councilmember Tom Rasmussen

From: Steve Johnson, Office of Economic Development

Re: SLI 121-1-A-1 Report on the outcomes of OED's entrepreneurial training and micro-lending programs

Statement of Legislative Intent

This memorandum transmits the Office of Economic Development's response to a Statement of Legislative Intent (Green Sheet 121-1-A-1), which requested a report on entrepreneurial training and micro-lending activities. OED works in partnership with community-based organizations to assist with the development and capacity building of small businesses through entrepreneur training and access to credit. These organizations provide support to micro-enterprises across Seattle, with a special emphasis on low-income communities and entrepreneurs. Included below are: 1) the rationale about how these strategies address community needs, 2) a report on outcomes for CDBG funded microenterprise development activities and 3) the ongoing plan for measuring impact of this funding into the future.

Background

OED provides support and assistance to businesses across the spectrum of Seattle's economic ecosystem, from microenterprises to multi-national corporations. Ensuring the health and growth of businesses at all scales improves economic opportunities for Seattle residents. In an article by the Federal Deposit Insurance Corporation, it was noted that, 'microenterprise development is an effective strategy to help Low/Moderate Income, underserved, or otherwise disadvantaged entrepreneurs create or expand small businesses that have significant positive effects on the owner's financial well-being and the community at large.'¹ Micro and small businesses provide job creation, innovation, and wealth creation opportunities and are an important aspect of the economic fabric of our city.

Self-employment provides a pathway out of poverty by giving low-income entrepreneurs the means to build assets, generate income and create jobs. Although most micro-entrepreneurs are self-employed, at least 40 percent of those who work with microenterprise development programs create paid work for others as well as themselves.² Making microloans available, along with training, technical assistance, and

¹ Microenterprise Development: A Primer, FCIC Quarterly, Vol 5, No 1, 2011,
http://www.fdic.gov/bank/analytical/quarterly/2011_vol5_1/FDIC_Vol5No1_Article_1.pdf

² Edgcomb and Thetford, with Ilgar Alisultanov, Microenterprise as Job Creation, February 1, 2013, Aspen Institute

other services, helps those businesses grow, and sustains the households of disadvantaged owners and workers.

Role of CDBG funding in supporting microenterprise

Supporting entrepreneurs with appropriate technical support and training as well as access to capital is a critical part of ensuring the success and growth of their enterprises. The City of Seattle has historically utilized CDBG funding to support microenterprise development through technical assistance and lending that engage immigrant, minority and low-income business. This assistance furthers the City's larger goal of ensuring shared prosperity.

Since 2010, OED has provided entrepreneurial and business development training targeting immigrant business owners. Past City investments in this work include \$150,000 in 2010 Community Development Block Grant (CDBG) funds and \$75,000 in 2012 CDBG support. The 2013 Adopted and 2014 Endorsed Budgets include \$75,000 per year in continued CDBG funding for immigrant entrepreneurial training services.

For more than ten years, OED has partnered with community development financial institutions to increase access to capital for small businesses using CDBG funding. The City is concluding its commitment in 2013 to Rainier Valley Community Development Fund, which has represented a significant investment in small business lending in Rainier Valley. The 2014 Endorsed Budget includes \$375,000 to maintain support for micro-lending which will be made available to Community Development Financial Institutions (CDFIs) (See Page 3).

Microenterprise Training

Immigrants are twice as likely as native born Americans to start a small business, as noted in a report published in 2012 by the Partnership for a New America.³ Immigrant business owners also have unique barriers to address in accessing the myriad business services available; they benefit greatly from culturally appropriate and linguistically accessible entrepreneurial training and business development support.

OED has worked with community based organizations to design curriculum that is tailored to overcome these barriers. The Immigrant Entrepreneurial Training program, funded in 2011 with \$150,000 in one time CDBG funds and then in 2012 and 2013 with \$75,000 of CDBG dollars. OED requests an annual CDBG base of \$75,000 for the program. The funding has served nearly 100 immigrant entrepreneurs annually, who would otherwise not have access to entrepreneurial training.

Washington C.A.S.H and Community Capital Development have partnered with OED since 2010 to accomplish this work. Washington C.A.S.H. offers an intensive 6-week business development training course for entrepreneurs and home-based businesses looking to expand their markets and grow. In 2011, OED partnered with Washington C.A.S.H. to provide culturally and linguistically appropriate training to Somali, Ethiopian/Eritrean and Vietnamese clients. Washington C.A.S.H. partnered with the Horn of Africa Services and Washington American Vietnamese Association to provide the trainings. In

³ Open for business: How immigrants are driving small business creation in the united states, The Partnership for a New American Economy, August 2012, <http://www.renewoureconomy.org/sites/all/themes/pnae/openforbusiness.pdf>

2012, the Somali and Ethiopian/Eritrean trainings were continued and trainers were hired to Washington C.A.S.H. staff.

Outcomes on Immigrant Entrepreneurial Training Investments

In 2011 and 2012, OED's Immigrant Entrepreneurial Training had the following outcomes:

Businesses started or expanded	50
People served	179
Business workshops facilitated	18

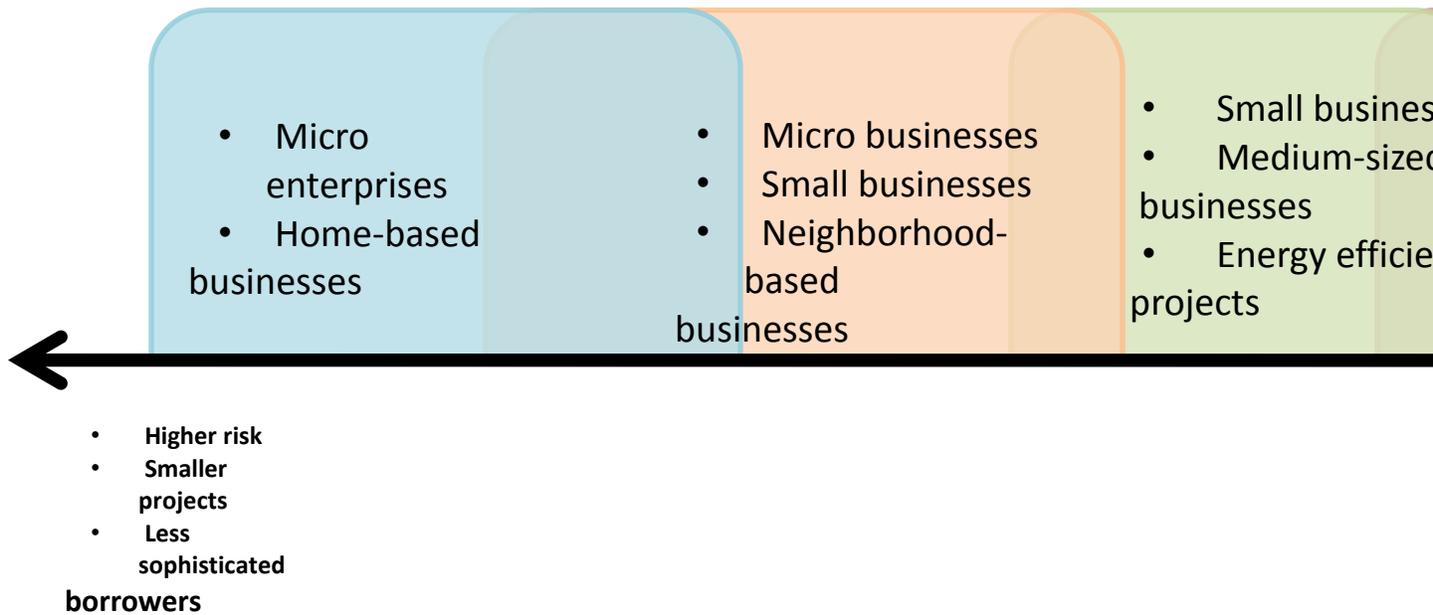
Washington C.A.S.H. has conducted follow-up calls with those participants who started or expanded their business with this program to determine if they are still operating. Washington C.A.S.H. is also participating in a microenterprise micro-tracker survey from Aspen Institute that will provide more thorough measurements and to better gauge progress. Washington C.A.S.H. staff reached out to 40 businesses who participated in their East African focused training programs in 2011 and 2012. Of the 34 businesses responding, 29 (85%) are currently operating their businesses. The rate is higher than the Bureau of Labor Statistics comparison data, which documents the typical two year survival rate at 76%.⁴ These results are not specific for immigrant microenterprises, but for all start up firms. Given the special barriers faced by this particular population of entrepreneurs, OED would expect survival rates to be lower than those for typical firms. These results demonstrate the effectiveness of Washington C.A.S.H.'s approach, its partnerships with community-based organizations and the additional support they provide for these nascent businesses.

Microenterprise Lending

Increasing access to capital for small businesses has been a critical component of the City's ongoing efforts to foster job creation and economic growth. Community Development Financial Institutions (CDFIs) play an important role in this, as they have the infrastructure and expertise to underwrite otherwise unbankable transactions and provide the necessary support to entrepreneurs to ensure their success. Continuing to use a portion of the City's CDBG allocation to provide loan capital to community-based lenders should be an on-going strategy in our economic development work.

⁴ http://www.bls.gov/bdm/entrepreneurship/bdm_chart3.htm

OED's Lending Continuum



The micro-lending funded by this program occurs at the left end of the spectrum, in the blue colored band, and serves higher risk, smaller projects for micro-enterprises and micro-businesses.

Status of ARRA lending

Between 2009 and 2012, OED managed a similar lending initiative using \$1.4 million in American Recovery and Reinvestment Act (ARRA) CDBG funds. OED partnered with Community Capital Development, Craft3 and the Rainier Valley Community Development Fund to deploy those resources, which were ultimately used to issue 22 loans with an average size of about \$60,000. Forty-six (46) jobs were created or retained as a result of that effort.

Three and a half years after the inception of the ARRA lending program, five companies have paid off their loans, 13 are paying as agreed and four have defaulted. Of the total funds, 5.5 percent were written off, which is on par with the average micro-lending loss rate for CDFIs of 5.8 percent.⁵ Lending institutions have revolved \$475,000, creating opportunities for new loans. Each lending organization has been able to relend these funds and use them to leverage additional capital. Because each of the partner organizations' missions are focused on serving disadvantaged communities and job creation, subsequent loans have served these communities as well. The lenders report strengthening demand for loans corresponding with the improving economy and increase in small business confidence.

Work Plan for Deploying 2014 CDBG Loan Funds

Through the 2014 lending initiative, CDFIs will use the \$375,000 in CDBG funds to make an estimated seven to ten loans with an average size of \$50,000. Each loan will be provided to low-income small business owners or businesses serving low-income communities, leading to the projected creation or

⁵ Opportunity Finance Institutions – Side by Side, Fiscal Year 2011 Data and Peer Analysis, Opportunity Finance Network

retention of about ten jobs. Outreach strategies will include an emphasis on businesses most impacted by major transportation construction. Loan funds are also expected to support lending activities that would be considered unbankable by conventional lenders.

OED plans to engage in a competitive process to choose a lending partner or partners for the CDBG funds (see Exhibit 1 for a draft *Request For Qualifications*.) A timeline for the deployment of funds is outlined below:

- RFQ to be issued in October of 2013.
- Responses due in November of 2013.
- Lending partner(s) chosen in December of 2013.
- Contract executed by February of 2014.

Selection criteria include the following:

- Experience in providing small business loans, deploying CDBG funding and working with disadvantaged communities
- Leverage of existing resources and programs
- Outreach strategies, including to businesses impacted by major transportation construction
- Loan terms and administrative efficiencies

A selection committee will include staff from the Office of Economic Development, Human Services Department Block Grant Unit, Council central staff and a community stakeholder.

Ongoing Outcome Tracking Plan

OED’s contracts with partners will require quarterly reporting of the following quantitative metrics and will also provide a qualitative narrative that highlights successes and challenges and describes outcomes.

Immigrant Entrepreneurial Training	
Metric	Targeted Annual Outcome
# of Businesses Started or Expanded	30
# of People Served	60
# of Business Workshops Facilitated	8
% of Businesses Sustained (1 year+)	85%

The above metrics are based on OED’s experience with our existing contract with Washington C.A.S.H. and the results of the follow-up survey of program participants.

Microenterprise Lending	
Metric	Targeted Annual Outcome
# of Business Loans	7 - 10
Total \$ Lent	\$375,000
# of Jobs Created and Retained	10

The Community Development Block Grant funds eligibility process requires that one job be created or retained for every \$35,000 lent. The annual lending metrics above are based on that required formula and assume an average loan size of \$50,000.

cc: Beth Goldberg, City Budget Office
Jeff Muhm, City Budget Office
Jeanette Blankenship, City Budget Office
Ben Noble, Council Central Staff
Susana Serna, Council Central Staff
Sara Belz, Council Central Staff
Jaline Quinto, City Council Liaison, Mayor's Office

Exhibit 1

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Request for Qualifications

Community Development Block Grant Funding for Small Business Lending

The City of Seattle is making \$375,000 available to community-based loan programs to provide small businesses in Seattle with access to credit. The City has prioritized that the funds will be focused on job creation and retention, and service to disadvantaged communities.

The \$375,000 in CDBG funds will be contracted to one or more Community Development Financial Institutions (CDFIs) selected by the City Office of Economic Development through a Request for Qualifications (RFQ) process. Businesses receiving loan funds will be required to:

- A. Ensure that 51% of jobs created or retained go to low-/moderate-income people; and
- B. Create or retain as many full-time jobs as possible
- C. Create or retain jobs at the HUD required cost per job ratio.

The availability of CDBG funding by the City of Seattle is contingent on City Council's approval of the 2014 Proposed Budget.

Preparing a Letter of Qualifications

The City of Seattle seeks one or more organizations engaged in small business lending to deploy these funds. If your organization is interested in competing for use of the funds, please prepare a letter outlining qualifications and respond to the following questions:

1. Provide a brief description of your organization, discuss your experience making small business loans, including but not limited to loans focused on job creation and retention. As part of this description, please describe:
 - a. Experience providing small business and micro-loans;
 - b. Experience working within disadvantaged communities; and
 - c. Experience with Community Development Block Grant funding; and
 - d. Experience working with any particular geographic area of Seattle.
2. How would CDBG funding leverage your existing efforts to support businesses in creating and retaining jobs?

3. Describe the types of businesses that your organization would target with these funds. Discuss your outreach strategy to low-income businesses/entrepreneurs; refugees or immigrants; limited English speaking entrepreneurs; businesses/entrepreneurs that serve low-income communities and those most impacted by the current recession; or businesses that are most impacted by current major transportation construction.
4. Describe sample loan terms that your organization could offer, including interest rate and a range of loan sizes.
5. The CDBG funds for small business lending may be allocated to one or more financial institution.
 - a. How quickly after approval of receipt of funds will lending begin to occur?
 - b. What is the time period anticipated to fully lend this amount of funding?
 - c. How many loans would be anticipated to be made?
 - d. What amount would be retained by your organization to pay for administrative or other internal expenses?
 - e. How much in additional funding would be leveraged?
6. If you plan to partner with other community based organizations in delivering this product, please describe their role and background.

CDBG Reporting Requirements:

Lending of CDBG funds must comply with all program and reporting requirements specific to use of CDBG as described by HUD. Included is quarterly reporting on funds received, status of projects and the number of jobs created or retained for that quarter.

Submissions:

Three copies of your response must arrive no later than 5:00 p.m. on Monday, November 4, 2013 to:

Tina Vlasaty
Office of Economic Development
City of Seattle
700 Fifth Avenue, Suite 5752 (deliveries)
P.O. Box 94708 (postal mail)
Seattle, WA 98124-4708

- The City of Seattle retains the right to reject any responses and is not required to award any funds if in its opinion the response failed to meet its requirements.
- All documents and any attachments should be 8-1/2" by 11" and should be printed on both sides of the paper.
- Electronic submissions will be accepted at tina.vlasaty@seattle.gov.

Schedule:

Proposals due to Office of Economic Development: November 4, 2013

Notification of selection: December 2, 2013

Contract executed by: February 28, 2014

A selection committee will review the responses to this Request, followed by selection of one or more organizations. If you have any questions about this Request please contact Tina Vlasaty, City of Seattle's Office of Economic Development, (206) 684-3348 or tina.vlasaty@seattle.gov.