

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 3, 2013

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER /s/

DOCKET TITLE:

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Consideration of an allocation of \$50,000 in Community Development Block Grant (CDBG) Program funds to the ECDC Enterprise Development Group (EDG) to support the continuation of the Microenterprise Loan Program in Alexandria.

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ISSUE: Consideration of an allocation of \$50,000 in Community Development Block Grant (CDBG) Program funds to the ECDC Enterprise Development Group (EDG) to support the continuation of the Microenterprise Loan Program in Alexandria.

RECOMMENDATION: That City Council: (1) set this item for public hearing on Saturday, April 13 to receive public comment on the following proposed budget transfer from the federally-funded CDBG Home Rehabilitation Loan Program of \$50,000 to the ECDC EDG Microenterprise Loan Program and (2) on April 23, 2013 approve this recommended budget transfer of CDBG funds.

BACKGROUND: CDBG funds to be allocated to this activity are available as a result of a combination of unanticipated program income generated from repayments of prior loans and unobligated funds in the City's Home Rehabilitation Loan Program. While activity in the Home Rehabilitation Loan Program has mirrored recent years, the average loan amounts have been smaller than projected in FY2013, thereby allowing the requested transfer. The proposed activity is eligible under the federal CDBG Program guidelines as an economic development activity.

In 1999, the City allocated \$50,000 in CDBG funds to ECDC, then called the Ethiopian Community Development Council, for the development of a microenterprise loan program. City funding provided \$25,000 to establish a loss reserve account and \$25,000 was provided for general operational support to ECDC. The microenterprise loan program now provides loans ranging from \$500 up to \$50,000 to small businesses in the City that cannot access traditional

financing. EDG leverages private financing for its lending pool, as well as other resources such as loan guarantees provided through the Small Business Administration's (SBA) Community Advantage Program. The loss reserve account funded by the City in 1999 currently has a balance of \$9,606. EDG reports that, through calendar year 2012, 121 loans have been issued to small businesses in Alexandria since the inception of the City-funded program and 184 jobs have been created or retained. The average loan amount has been \$14,500 with a repayment rate of 90%.

In response to a proposal from EDG requesting additional City support for the Microenterprise Loan Program, staff is recommending that the City allocate \$50,000 in CDBG funds to EDG to continue this highly successful program. Because this is considered a new activity not included in the City's FY 2013 One-Year Action Plan for Housing and Community Development, HUD rules require a program amendment with a 30-day public comment period (which began March 21) and one public hearing. Under the proposed program, EDG will continue its administration of the program and it projects that 11 loans will be originated in FY 2014 and 16 jobs will be created or retained through the program.

Other elements of the proposal include training and technical assistance to assist borrowers in developing a business plan, counseling on permit and licensing requirements, and counseling on cash flow projections and overall financial management. EDG projects that 90% of borrowers will meet HUD's definition of low and moderate income. Economic development activities funded with CDBG funds must meet the Low/Mod Benefit National Objective, which requires that at least 51% of the jobs will be held by, or made available to, low- and moderate-income persons. In addition, EDG projects that 90% of borrowers are racial or ethnic minorities.

Private lending partners currently participating with EDG include Wells Fargo, PNC, and Capital One Bank. Public sector funding includes the SBA Microloan Program and the Department of the Treasury's Small Business Loan Fund. EDG estimates that, as of mid-March 2013, approximately \$550,000 is available for loans in Virginia from these sources. The current request for funding is proposed to be allocated with \$40,000 to cover EDG loan staffing costs for at least a 12 month period and \$10,000 for a loan loss reserve which could last as long as a decade. When the City's monies to cover staffing run out, ECDC expects to continue to leverage other resources for staffing costs and, as in the past, continue to offer loans to City entrepreneurs.

The City will continue its role in onsite monitoring of EDG's performance in meeting lending and job creation targets as well compliance with HUD requirements related to the CDBG Program. City staff will also assist in marketing the loan program and facilitating EDG interactions with other City business development resources such as the Alexandria Economic Development Partnership (AEDP) and the Small Business Development Center (SBDC). Both AEDP and the SBDC were provided copies of the proposal by EDG and each provided input in the development of this funding recommendation. These organizations noted that microenterprise loans, such as those provided by EDG, are a niche product and that borrowers of these loans typically would not qualify for traditional sources of credit.

FISCAL IMPACT: Allocation of \$50,000 in CDBG Home Rehabilitation Loan Program funds. As of March 19, the CDBG Home Rehabilitation Loan Program has a balance of \$650,000, of which \$550,000 is committed to specific cases or reserved for pending cases, leaving an unreserved balance of \$100,000. This budget transfer is also an opportunity to help meet an upcoming HUD expenditure deadline for the CDBG Program of May 2, 2013. Following the April 13 public hearing, City Council will act on this recommendation at its April 23, 2013 legislative meeting.

ATTACHMENTS: Program Amendment, New Table 3C, Consolidated Plan Listing of Projects for the period July 1, 2012 to June 30, 2013.

STAFF: Mark Jinks, Deputy City Manager
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