



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 5, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

AEDP Entrepreneurship Program Funding Proposal.

ISSUE: Change in scope of the funding for the microloan program initially funded in the FY 2018 Approved Budget.

RECOMMENDATION: That City Council authorize using the \$100,000 in economic development contingent appropriations initially designated by Council for microloans instead on new strategies to support capacity building investments in Alexandria's entrepreneurs and startup community.

BACKGROUND: In the FY 2018 and FY 2019 Approved Budgets, City Council, at the initiation of Councilman Chapman, provided \$50,000 in each of those years to establish a microloan program for the purpose of assisting Alexandria entrepreneurs. The Alexandria Economic Development Partnership (AEDP) has reviewed the viability of a microloan program of this size and concluded that the funds were not sufficient for this purpose. A City administered microloan program would require a significant investment in new staff and/or outside expertise who would be responsible for screening applicants, making loans, managing repayments, and overseeing loan defaults. Additionally, it was recommended that a Loan Loss Reserve (LLR) be created to protect against uncollected loans. An LLR of 15% of the total loan program would align with best practices. These costs would be in addition to any money required to actually make loans and in total would be significant compared to the \$100,000 available.

AEDP staff and AEDP Board Members with expertise in the entrepreneurial space met with Councilman Chapman to discuss alternative strategies to microfinancing. AEDP believes other strategies will have more impact for a longer period of time than direct investments in small startup businesses. Since that time, AEDP has been developing a strategy to achieve this outcome with the intention of bringing an updated strategy framework to Council once it was developed.

DISCUSSION: Alexandria's Strategic Plan calls for the City to be a "business destination and center of innovation" with goals to increase local gross domestic product (GDP), reduce office vacancy, and increase the number of jobs in Alexandria. The City is home to thousands of small to mid-size companies. Research has consistently shown that entrepreneurs and young businesses are significant job creators and sources of innovation throughout the United States. However, to be successful these companies require a robust support network of other entrepreneurs, service providers, and investors especially during early stages of growth. Recognizing this, the Alexandria Economic Development Partnership's Board of Directors formed an Ad Hoc Committee on Entrepreneurship ("Committee") to focus exclusively on identifying strategies to support entrepreneurs and their companies. The Committee is comprised of AEDP Board and community members with expertise in starting and financing businesses and staff from AEDP, the

Alexandria Small Business Development Center (SBDC), and Capitol Post.

The Committee supports a strategy that builds the capacity of entrepreneurs and helps to expand Alexandria's startup community versus using limited public resources to make direct investments in companies. This strategy has proven successful in other jurisdictions with robust startup communities. The Committee recommends focusing Council's \$100,000 appropriation over the last two years in the following areas:

- **Educate** - continue and expand startup counseling and education programs designed to help entrepreneurs successfully form and scale their businesses. This includes leveraging and supporting existing programs at the Alexandria SBDC and Capitol Post.
- **Connect** - support events that bring together current and potential entrepreneurs to connect, share, and collaborate. Examples include regular meetups and interactive learning symposiums.
- **Promote** - sponsor events like an annual "Alexandria Startup Week" to promote the City's startup community, successful entrepreneurs/companies, and factors that make Alexandria favorable to entrepreneurs and startups. These efforts help to recruit new entrepreneurs, investors, and talent.
- **Service Providers** - improve connections between founders of early stage companies and the numerous professional service firms (i.e., law, accounting, marketing, etc.) in Alexandria. Early stage companies require professional guidance to start and scale, and Alexandria's professional services sector would benefit from more companies needing their services.
- **Funding Platforms** - explore partnerships with companies providing online funding platforms to improve startups access to capital. Research by the Kauffman Foundation has found that 81% of new businesses access capital through non-traditional sources such as personal net worth, family wealth, or connections to networks.

The overall goal of these strategies is to increase the number of new business starts and enable the long-term success of companies. The resulting outcome will be a more vibrant and innovative economy with more jobs and higher wages that will benefit those who live and work in Alexandria. This will lead to new revenues that will support improvements to Alexandria's quality of life. If Council approves the recommended change in scope, AEDP will continue to work with the Ad Hoc Committee, partner organizations, and entrepreneurs to develop an actionable plan that is aligned with current city resources.

FISCAL IMPACT: This measure does not require any new funding. Currently \$100,000 is available through the original FY 2018 funds (\$50,000) and the FY 2019 Approved Budget (\$50,000).

ATTACHMENT: Presentation on AEDP Entrepreneurship Program