Minneapolis
City of Lakes

Small Business Program Review

December 2019

Contents

Executive Summary

Over the summer and fall of 2019, a Community Planning and Economic Development (CPED) staff team reviewed the breadth, purpose, and effectiveness of the City on Minneapolis' small business support programs. Staff from the Business Development and Small Business teams reviewed five small business lending programs, two components of the Great Streets program, and the Business Technical Assistance Program to gauge impact and alignment with new City policies from the Minneapolis 2040 Plan and Strategic & Racial Equity Action Plan (SREAP). For each program, and the program portfolio overall, the review asked:

1. What's the objective? How's it connected to City goals?
2. What's working?
3. What's not working?
4. What's missing in the portfolio?
5. What's the racial equity intent and/or impact?

Scope

This report reviews the following programs administered through the City's Department of CPED:

- Small business lending
  - 2% Loan
  - Alternative Financing
  - Homegrown
  - Health and Safety
  - Working Capital Guarantee
- Great Streets
  - Façade Grant
  - Business District Support
- Business Technical Assistance Program (B-TAP), core program

Related City Goals[1] and Policy Priorities[2] from the Strategic & Racial Equity Action Plan

- **Economic Development:** The City prioritizes economic inclusion so that all workers and families are supported and People of Color, Indigenous and Immigrant (POCII)-owned businesses in all sectors can thrive.
- **Strategic Need for Economic Development**: Increase the number of Minneapolis-based businesses owned by Black, Indigenous, and People of Color (BIPOC); and increase businesses with BIPOC ownership that are still in business after 5 years.
- **Statement:** BIPOC business ownership is an important strategy for increasing community and household wealth and contributes to overall economic growth. Despite increases in new BIPOC businesses over time, racial gaps in business ownership, revenues, and employment persist. Reducing these gaps requires targeted support for both new business creation and retention of existing BIPOC businesses.

Key related policies from the Minneapolis Comprehensive Plan 2040[3]

- POLICY 34 Cultural Districts: Strengthen neighborhoods by prioritizing and accelerating economic development, public transit, and affordable housing policies, practices, and resources to protect the racial diversity and uplift the cultural identity of the city's areas where a significant portion of the population is comprised of POCII communities.

[1] https://lims.minneapolismn.gov/Download/File/2091/Strategic%20and%20Racial%20Equity%20Action%20Plan%20Goals%20Amendment-Gordon.pdf
[2] https://lims.minneapolismn.gov/Download/RCA/9825/SREAP%20Policy%20Priorities.pdf
[3] https://minneapolis2040.com/

- POLICY 55 Business Innovation and Expansion: Promote and support business creation, innovation, entrepreneurship, and expansion.
- POLICY 56 Supporting Small Businesses: Support the development, growth, and retention of small businesses.
- POLICY 58 Business Districts and Corridors: Support thriving business districts and corridors that build on cultural assets and serve the needs of Minneapolis residents.
- POLICY 64 Food Businesses: Support food-related businesses to improve access to healthy food and advance economic development.

Methodology

For this review, we chose a mixed methods approach, gathering information from:

- Interviews with staff
- Interviews with external partners
- Document review
- Data analysis, using existing sources

Key Findings

- Existing programs all connect generally to one or more Minneapolis 2040 policies.
- While the programs do not necessarily have explicit goals related to racial equity, in practice, our financial and technical assistance programs serve a higher percentage of BIPOC clients than the proportion of BIPOC business owners in Minneapolis.
- The Great Streets and B-TAP programs provide needed tools which support community-based organizations across the City.
- Our small business lending programs are weighted towards investment in buildings and equipment. Over 70% of the City's investment in small business support programs is tied to investments in physical capital. These types of investment are a necessary component to small business support, and the City's programs fill an important gap in the private market, but physical capital is only one component of what small businesses need to succeed.
- The implementation of our programs is highly partner-dependent, which has benefits and risks.
    - Key benefits include:
        - The City's funds can go further by eliminating the need for direct administration and leveraging private and other philanthropic money raised by partners.
        - Community level work can allow for more culturally responsive, geographically relevant services and outcomes.
    - The downsides of this model include:
        - Clients sometimes do not realize that the City sponsors the program since they primarily interact with partners and those partners hold the relationship with businesses in large part.
        - Organizational capacity is not consistent across organizations or geography. A business' experience may be different depending on where its located or which organization the business engaged, opening room for variation in service.
- We don't have complete data about the results of our programs and investments. While we track certain *outputs* from our programs (e.g. numbers of loans made, entrepreneurs coached, etc.), there aren't methodologies in place or available to track business *outcomes* or measure the impact of our investments (e.g. growth in sales, jobs, business ownership, etc.)
- Demographic data of participants, too, is incomplete.

Recommendations

Adoption of Minneapolis 2040 and SREAP formalize focus on equitable economic development. Making change is not without challenges. Without added resources, any changes will necessarily involve tradeoffs within existing resources and programming. The high-level priority recommendations are:

1. Establish consistent mechanisms for all small business programs to track demographics of participants, and meaningful outcomes for the businesses.
2. Encourage collaboration between our partners, both within and across programs, to connect clients to the services they need.
3. Explore ways to increase businesses' access to direct professional services (e.g. accounting, architects, design, legal).
4. Implement targeted, coordinated communication, marketing, and promotion of City programs with a specific focus on BIPOC entrepreneurs.
5. Continue to examine barriers to capital access, especially ways to address the working capital needs of emerging businesses and to support opportunities for established businesses to own their real estate.

Acknowledgements

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- *Hmong American Partnership- Kim Facile, Chong, Tee (Fouatee) Yang, Susan Pha*
- *Lake Street Council- Allison Sharkey, Theresa Swaney*
- *Latino Economic Development Center- Henry Jimenez*
- *Metropolitan Consortium of Community Developers- Lee Hall, Mara O'Neil, Greg Gramza*
- *Metropolitan Economic Development Association-Dan Holmquist, Uri Camarena, Verena Getahun*
- *Native American Community Development Institute- Robert Lilligren*
- *Neighborhood Development Center- Shahir Ahmed*
- *New American Development Center- Asad Aliweyd*
- *Northeast Bank- Dusten Johnson*
- *Northeast Minneapolis Chamber- Christine Levens*
- *Northside Economic Opportunity Network- Warren McLean, Stephen Obayuwana, Ann Fix*
- *Powderhorn Park Neighborhood Association- Tabitha Montgomery*
- *Seward Redesign- Renee Spillum, Shaina Brassard*
- *Southwest Business Association- Roger Worm*
- *Sunrise Bank- David Scott*
- *West Bank Business Association- Jamie Schumacher*
- *West Broadway Business and Area Coalition- Devon Nolan, Felicia Perry*

The core project team included the following CPED staff

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- *Rebecca Parrell, Sr. Project Coordinator*
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Small Business Lending Programs

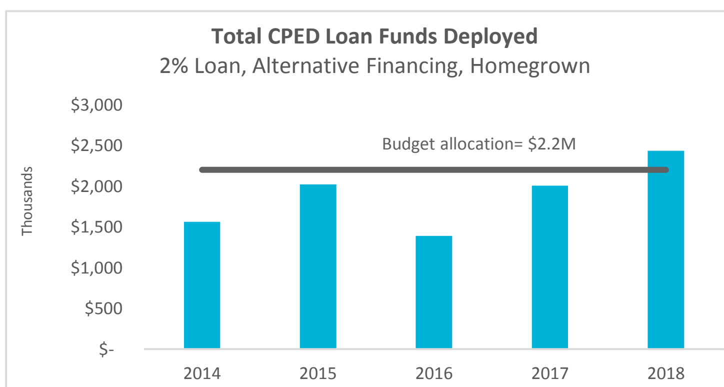
Background

The City has several small business lending programs, listed below. This lending is done in partnership with private lenders, i.e. banks and nonprofit Community Development Financial Institutions (CDFI).

Program Name	Year created	Purpose	Usage
2% Loan	1986	2% Loan provide financing to small Minneapolis businesses (retail, service or light manufacturing) to purchase equipment and/or to make building improvements.[4]	46 loans- $2.4M CPED amount; $16.5M private leverage (2018) Total CPED amount 2000-2019 $39M
Alternative Financing	2007	The Alternative Financing program provides Islamic-compliant financing without interest to small businesses to make building improvements and/or to purchase certain equipment.[5]	1 loan - $25k CPED amount; $25k private leverage (2018) 73 loans (2007-2019)
Homegrown	2011	Homegrown Small Business Fund provides financing to small food producers, manufacturers, growers and certain farmer's market vendors that process, grow and manufacture food products.[6]	2 loans (2018) - $20k CPED amount; $25k private leverage (2018) 9 loans (2011-2019)
Health and Safety	2013	The Business Health and Safety Loan Program provides financing to small businesses to make minor improvements to achieve health and safety code requirements.[7]	0 loans (2018) 5 loans (2013-2019)
Working Capital Loan Guarantee	N/A	N/A[8]	1 guarantee (2019) 110 Guarantees (2000-2013)

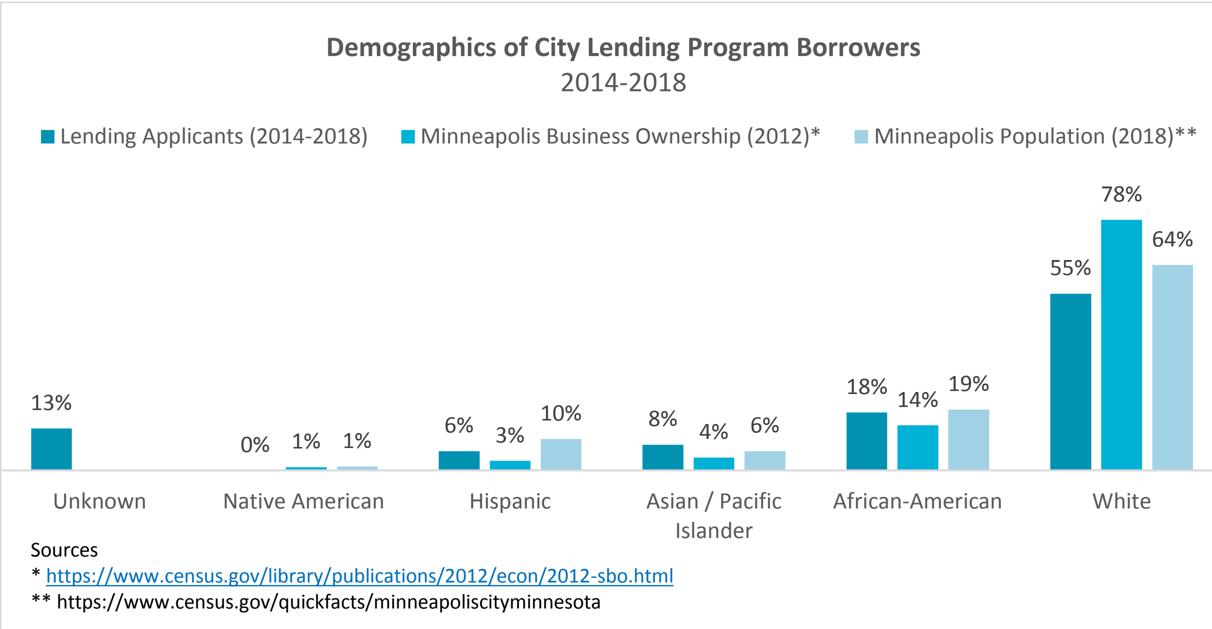
Analysis

The City's small business lending programs all draw from an overall $2.2M annual budget allocation. The small business loan fund is generally well-used. Over the previous 5 years, an average of 86% of the allocated funds have been deployed. The 2% Loan program accounts for a large majority of the small business loans that the City makes.



[4] http://www.minneapolismn.gov/cped/ba/cped_two_percent
[5] http://www.minneapolismn.gov/cped/ba/cped_alternative_financing
[6] http://www.minneapolismn.gov/sustainability/homegrown/WCMS1P-129854
[7] http://www.minneapolismn.gov/sustainability/homegrown/WCMS1P-129854
[8] While guarantees have been used at various points in time, there has not been a formal/defined program

In Minneapolis, 23% of all business owners are BIPOC. Taking all the lending programs together, BIPOC borrowers account for 32% of borrowers, compared to 55% white and 13% unknown/not applicable[9]. Lending to BIPOC borrowers in the program exceed BIPOC business owners as a proportion of overall businesses in the city. Further disaggregating the data, individual BIPOC groups were overrepresented in the City's program compared to the business ownership percentages, except for Native Americans, which as a group had zero participation across small business lending programs during this time.



[9] City staff began collecting demographic information on borrowers in 2014 as an optional field on the application. Some borrowers do not report their demographic data and for some it's not applicable, e.g. a nonprofit organization.

2% Loan Program

Background

The 2% Loan program has been in use continuously since 1986. The 2% Loan program is a participation loan program where the City's loan combines with a private lender's loan into a single loan for a borrower. The City partners with lender when that lender identifies a gap between the amount of funds needed for a project and the amount the lender is willing to lend to the borrower. The 2% Loan program can fill gaps up to $50,000 or $75,000 depending on where the business is located within the city. The private lender's portion of the loan has a market interest rate and the City's loan has a below market interest rate fixed a 2%. Eligible uses include investments in physical, fixed capital such as tenant improvements and equipment. It does not cover working capital (e.g. inventory, staff costs) or vehicles. Building purchases are deemed eligible on a case-by-case basis.

The City relies on partner lenders to complete the underwriting and service the loan. The borrower makes one payment to its primary lender at a blended rate (between the primary lender's rate and the 2% City portion). The primary lender submits repayments back to the City.

The 2% Loan program aligns with the current Comprehensive Plan policies 55 and 56 of promoting business creation and expansion, generally, by supporting investment in physical space. It also aligns with a specific action step in policy 58, *Business Districts and Corridors:*

> *Support thriving business districts and corridors that build on cultural assets and serve the needs of Minneapolis residents. Action step: Reinvest in existing commercial building stock to retain its viability and contribute to a high-quality and distinctive physical environment.*[10]

While the 2% Loan program is complementary to the goals of increasing business ownership and success among BIPOC, it was not explicitly designed or targeted towards those ends.

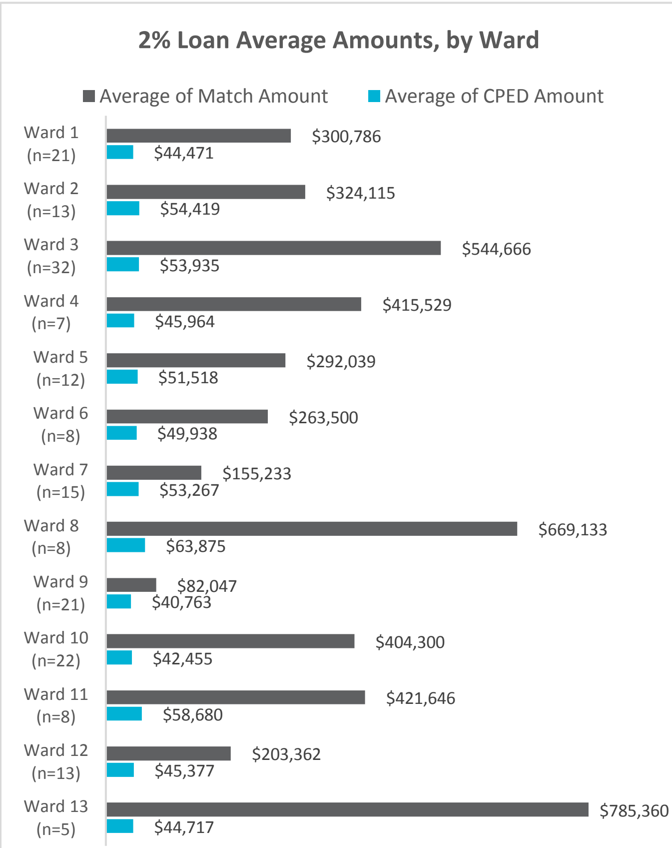
Situation	Inputs	Activities	Outputs	Outcomes
Small businesses need access to capital to make investments in equipment and property, and lenders are not able to lend the full amount.	$2.2M annual funding across lending products Approximately 2-3 FTE	Matching loan funds available at a 2% interest rate	Average of 38 loans per year 28% BIPOC	Small businesses sustain or grow

[10] https://minneapolis2040.com/policies/business-districts-and-corridors/

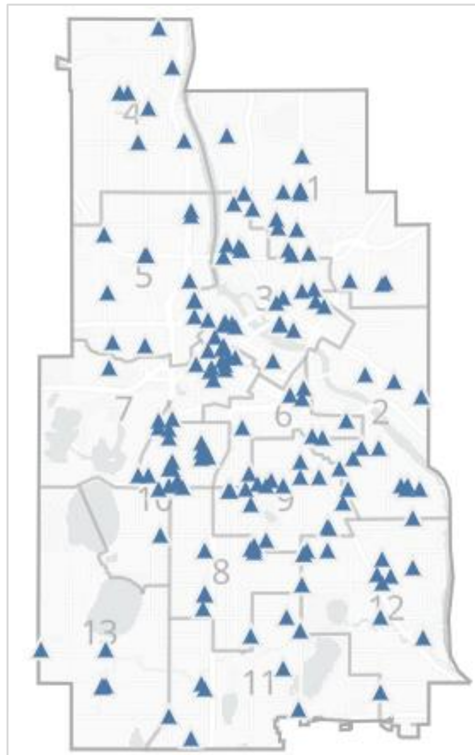
Analysis

The 2% Loan program is the most used City lending tool. 94% of all lending applications for City small business loans over 5 years were for the 2% Loan program.

2% Loans are broadly distributed geographically across the city, largely reflecting the density of commercial districts. The City portion of loans is similar by ward, with averages ranging from $40k to $58k. The private match ranges are much wider, from a low of $82k in Ward 9 to a high of over $785k in Ward 13.[11]



2% Loans, by location
2014-2018

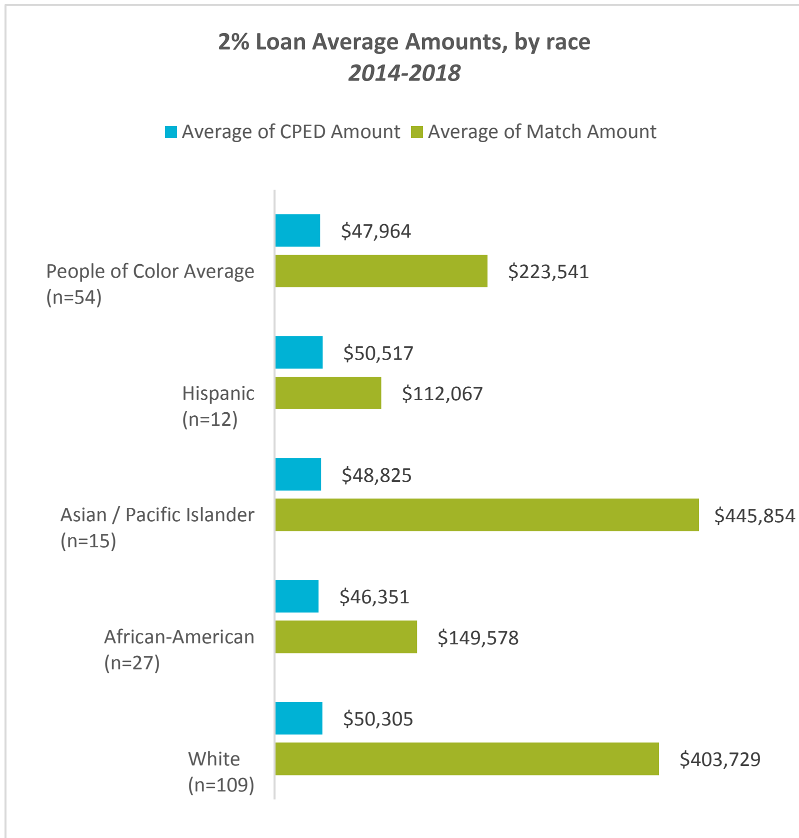


The 2% Loan program is open to all lenders. Between 2014 and 2018, the City worked with 40 partner lenders. Twenty of those lenders only participated on 1 loan, 15 lenders participated on between 2 to 10 loans, and 5 lenders participated in more than 10 loans. The top 5 lenders listed below made up 60% of the overall loan volume during this time. Lenders are a primary source of referrals to the 2% Loan program. Small business owners and entrepreneurs who do not bank with one of the City's active partner lenders would have to seek out one that did or be referred e.g. by a B-TAP provider.

[11] Ward 13 data includes one project in 2018 with a match amount of $3M, which dramatically impacts the ward average.

Top 5 Lending partners by volume, 2014-2018	Loans
Venture Bank[12]	29
Metropolitan Consortium of Community Developers (MCCD)	26
Sunrise Banks	26
Northeast Bank	16
Highland Bank	14

Since 2014, about 40% of borrowers are BIPOC, 60% white or unknown/not applicable. On average, the amount of the City portion of a loan is very similar for BIPOC borrowers, $47,964, compared to white borrowers, who averaged $50,305. The private match amount, however, is on average 80% higher for white borrowers than people of color. This difference is greatest for Hispanic and African American borrowers. While the data set is too small to draw conclusive findings, it would seem to indicate that borrowers of color have less access to capital through private lending and that the 2% Loan program contributes to closing those financing gaps. It may also indicate that the projects that borrowers of color are financing are smaller.



The partner lenders interviewed had positive opinions about the program and believe it provides significant benefits to the borrowers. They find it to be very simple administratively, appreciate that the City accepts their loan decision documents and has a predictable City approval process, with responsive and helpful City staff.

The 2% Loan program structure is a useful tool to incentivize private investment in commercial properties, particularly in geographies with weaker real estate markets. Lenders citied low appraisals as a key factor in deals that would not happen without the 2% Loan, an issue seen more frequently in low-income areas of the city. Lenders use the 2% Loan to reduce their risk on deals, specifically citing that the City's portion of the overall financing funds items that lenders find difficult to cover because these items do not easily provide collateral such as tenant improvements or restaurant equipment.

The 2% Loan program also allows borrowers to finance costs that might otherwise need to be paid from working capital. For a lender like MCCD, the 2% Loan frees up their more flexible sources of money to cover working capital.

According to two partners' informal estimates, about half of the deals done using the 2% Loan program wouldn't otherwise happen. In the other half of cases, the 2% Loan match provides borrowers a better

[12] Acquired by Choice Financial in 2018, http://www.startribune.com/venture-bank-will-be-acquired-by-choice-financial-of-north-dakota/474487863/

rate, but was not make-or-break for the loan to happen. There is not a reliable, objective way to measure this distinction.

Partners wanted the 2% Loan to remain essentially the same. Increasing in the loan amounts (per loan) and clarification and/or expansion of eligibility of building acquisition, which is currently done on a case-by-case basis, are two suggestions for improvement.

The charge-off (default) rate for the 2% Loan is very low, under 3%. There is not a definitive reason for this, however, there are a few plausible explanations:

a) The nature of the loan reduces risk and increases the business' ability to make payments because it allows the borrower to finance improvements that would otherwise have to be paid in cash,
b) The level of risk taken in the lending decisions is very low to begin with, because of the criteria that partner lenders use and/or,
c) A borrower will avoid defaulting on a loan serviced by a bank.

We do not have a way of knowing what proportion of potential borrowers get turned down by a private lender, or the demographic characteristics of those potential borrowers. Both bank partners interviewed indicated that the reasons for turning away borrowers are typically because they don't have a business plan that would support a lending decision, and both indicated they refer this type of client to MCCD, which can both provide technical assistance and is the primary lender in our market for higher-risk, flexible use business lending.

Recommendations

- Increase maximum loan amounts, in particular for building acquisition in cases of owner-occupancy
- Increase flexibility on eligible uses, such as business-purpose vehicles for emerging businesses, a frequent request received by staff
- Build awareness of the program for potential borrowers

Alternative Financing

Background

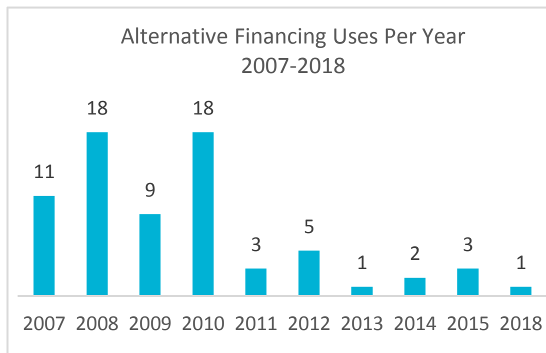
The City developed the Alternative Financing Program in 2007 to address the needs of entrepreneurs who have a cultural or religious prohibition against paying interest, particularly Muslim East-African immigrants. Financing done through the Alternative Financing Program uses the same funds and eligibility as the 2% Loan program, with lending costs structured as fixed fee amounts rather than interest. In this way, it is an intentionally racial equity-focused tool to provide the same benefits of the 2% Loan program to communities that would otherwise face cultural barriers to access it.

The Alternative Financing Program aligns to the same comprehensive plan goals as the 2% Loan program, but with the added economic inclusion effect of facilitating access to capital to a group of BIPOC business owners and entrepreneurs.

Situation	Inputs	Activities	Outputs	Outcomes
Entrepreneurs with cultural prohibition on interest	Access to the $2.2M yearly funding	Matching funds for private lending, lender agreements	73 financings between 2007 and 2018	Small businesses sustain or grow

Analysis

Since 2007, there have been 73 financings made through this program. In the first few years, there were between 9 and 18 financings made-per-year, however, that volume dropped off significantly in 2011, following staff changes at the main partner organization, the African Development Center. In recent years, there have been only 1 to 3 per-year. Most of the participants have not provided race information with 90% of participants (since 2007) indicating race as 'unknown'. Anecdotally, and because of the availability of the 2% Loan program, these financings are almost entirely to African immigrants.



There are several challenges in the implementation of the Alternative Financing Program. First, there are a limited number of financing partners who participate. Nearly all financings completed (67 of73) have been in partnership with the African Development Center, though several other CDFIs have participated in one or more financings.

Unlike the 2% Loan program, traditional banks do not participate in this program, and very few banks nationally have any kind of non-interest-based product at all. This limits the potential pool of participating lenders to CDFIs only. Also, unlike a traditional loan, there is no benefit to paying off a financing early, since the fees associated are fixed over the term of the financing. Finally, it can be complex to structure an alternative finance product that meets both the borrower's cultural restrictions and the business needs/eligible uses. Given this context, it is generally better financially for the borrower to take on a traditional loan if their personal beliefs allow for it.

Recommendation

Given the importance of having a product that meets the unique needs of the East African immigrant community it is worth offering an interest-free product and explore changes in the eligible uses and/or financing structure.

Homegrown Small Business Fund[13]

Background

CPED, in collaboration with the Homegrown Minneapolis program developed the Homegrown Small Business Fund in 2011 to support small scale food producers. Businesses working with local food products, who are currently operating at very small scale (e.g. cottage foods, farmers markets), and who need additional capital to scale up are the typical users of this program. Businesses can receive up to $10,000 at a 2% interest rate, with a 10% equity (collateral) requirement. Eligible expenses include processing equipment and/or supplies, distribution, marketing, and working capital.

The Homegrown Small Business Fund aligns closely to the Comprehensive Plan policy 64.

> *Food Businesses: Support food-related businesses to improve access to healthy food and advance economic development; Action item: Develop or expand business financing programs to help with startup and capital costs for food processing businesses and food stores.*

It is complementary to the City goals of increasing BIPOC business ownership and success, but not explicitly designed or targeted towards those ends.

Situation	Inputs	Activities	Outputs	Outcomes
Food production businesses operating at a small scale (e.g. at farmers markets) who need additional capital to scale up	Access to the $2.2M yearly funding	Contract with MCCD to administer program	9 loans since 2011 $74k in City funds, $51k in matching funds ($125 total)	Food producers grow production, sales Increase in availability of local food

Analysis

The initial design of this program included requirements that 90% of the food products being used had to come from Minnesota, and it required a 1:1 match from the borrower. In 2017, the City Council adopted changes to make it more useful to the intended audience by reducing the borrower match requirement and eliminating the requirement that 90% of the ingredients used were local.[14]

To date, this loan has been used a total of 9 times, or about 1-2 per year, since it started in 2011. The loan administrator, MCCD, has found it challenging to find projects that are a good fit for this program, and if these loans did not exist, there are other funds that could be used instead. With the support of the Homegrown Minneapolis program, the Northside Economic Opportunity Network (NEON) secured a grant from the United Way to develop a pilot program providing entrepreneurs with grant funds alongside the Homegrown Loan to launch or grow their food business.

Recommendation

Monitor the outcomes of the pilot program incorporating business grants and reassess in 2021.

[13] http://www.minneapolismn.gov/sustainability/homegrown/WCMSP-215173

[14] https://lims.minneapolismn.gov/RCA/1547

Health and Safety

Background

The Health and Safety Loan program was developed in 2013, in partnership with the Minneapolis Department of Health as a response to interactions that health inspectors have with small business owners. Specifically, this program addresses small food establishments' need to correct health code violations such as improper equipment, flooring/finishes, etc. discovered during routine inspections.

The City of Minneapolis contracted with MCCD to administer the program, using around $140,000 one-time funding from the Health Department. Through this program, small businesses are eligible for up to $15,000, with no match requirement, at up to 7% interest.

The Health and Safety Loan program is general aligned to the comprehensive plan policy 56, supporting the retention of small businesses.

Situation	Inputs	Activities	Outputs	Outcomes
Small food establishments with health code violations, but without the funds to address repairs	$139,750 in one-time funds from the Health Department	Contract with MCCD to administer loan program	5 loans to date for a total for $55,558.	Goal: businesses in compliance with health code

Analysis

The Health and Safety Loan program is not well used. Since 2013, these funds have only been used for five loans, totaling $55,558. The loan administrator, MCCD, has found it challenging to identify projects that are a good fit for this source of funds. Where businesses do have eligible needs, this fund may not be the most cost effective.

In concept, an unsecured loan, not tied to credit or other "bankability" factors for small food businesses could have benefits to BIPOC owned businesses. As implemented, the scope of this program is too narrowly defined to be effective.

Recommendations

Discontinue the Health and Safety Loan as a specialized, standalone fund and explore options for converting this to a more flexible use, in consultation with the Health Department.

Working Capital Loan Guarantee

Background

Lack of sufficient working capital can stifle small business growth and is a barrier for some to enter the market and stay in business. A loan guarantee program does not involve direct lending to borrowers, but rather, sets up an agreement where the guarantor (the City) would pay the lender for a certain portion of a loan on behalf of a borrower in case of default. The idea is to increase private lenders' willingness to make loans to businesses that might not otherwise be approved.

Situation	Inputs	Activities	Outputs	Outcomes
Small businesses who need working capital, but are not approved for a loan by a private lender	Commitment to repay some portion of a loan by a lender if the borrower defaults; set-aside pool of funds to cover loan loss	Agreements with lenders	Successful working capital loans to small businesses	Businesses are able to launch or grow

Analysis

The City has used working capital guarantees in the past, however, it was done on an ad-hoc basis and not a part of an overall program. There were 110 guarantees done between 2000-2013; only one has been done in the last 5 years. Reliable data on the outcomes from previous guarantees is not available, though staff have some documentation that indicates high numbers of defaults.

Access to working capital is a significant gap for small businesses, especially those owned by BIPOC people. Working capital loans can be challenging to access, as opposed to loans for e.g. equipment since there is not the same level of collateral, absent the borrower having personal assets such as a house.

There are working capital loan guarantees available in the marketplace through the Small Business Administration (SBA), however, there are gaps in the type of businesses and loans that are eligible. Most significantly, startups (those that have been in business less than two years), cooperative businesses, and non-profits are not eligible.

The previous ad-hoc City guarantees of working capital typically occurred during recessionary periods or in tight capital markets. Without more reliable data on the specific reasons for the high default rates, staff speculate that many were due to the ease for lenders to collect from the City rather the borrower. Pursing a formalized program will need to consider the collection risk the City bears. A formal program should consider working with community-based partners to establish or strengthen independent working capital loan funds, such as loans available through MCCD, and require technical assistance advice through B-TAP to mitigate default rates.

Recommendation

Information about the City's prior experience with working capital loan guarantees is insufficient to set recommendations about future program choices. Given the importance of working capital to small businesses, and the current lending programs focus on physical capital, additional work is needed to identify ways the City could most effectively increase access to working capital.

A future program could include one or more of the following strategies:

- Further assess the barriers to working capital access through additional data collection.
- Implement a formal loan guarantee program with partner organizations.
- Expand eligible uses for the 2% Loan program to include working capital.
- Fund direct working capital lending administered by a partner.
- Provide additional support for businesses to navigate and access existing sources for working capital.

Great Streets

Background

The City developed the Great Streets neighborhood business district support program in 2007. This umbrella program includes three sub-programs, all with the goal of revitalizing and sustaining neighborhood business districts[15]:

- Business District Support Grants
- Façade Improvement Matching Grants
- Real Estate Gap Financing Loans

Only the Business District Support and Façade Grant programs are included in this review.

Program Name	Year Created	Purpose	Usage	Participant Demographics
Façade Grants	2007	The Façade Improvement Matching Grant Program helps revitalize and sustain the economic vitality of the city's commercial districts through public/private investments in façade projects for commercial properties.[16]	100 grants in 2018	Not available
Business District Support Grants	2007	Business District Support (BDS) grants fund not-for-profit organizations with the capacity and mission to perform business district revitalization and economic development work.[17]	18 contracts awarded in 2019 with business support organizations	Not Applicable

[15] http://www.minneapolismn.gov/www/groups/public/@council/documents/webcontent/convert_263269.pdf
[16] http://www.minneapolismn.gov/cped/ba/cped_great_streets_home
[17] http://www.minneapolismn.gov/cped/ba/cped_great_streets_home

Great Streets Façade Grant

Background

The City established the Great Streets Façade Improvement Matching Grant program as one strategy to support revitalization of businesses districts across the City. This program reimburses businesses and/or commercial property owners for investments made to the exterior of commercial buildings in Great Streets eligible areas. Great Streets eligible areas are based on the areas designated for commercial activity in the City's previous comprehensive plan – The Minneapolis Plan for Sustainable Growth. Eligible improvements include signage, murals, window replacement, brickwork, and other improvements to the building façades that are visible from a public sidewalk. The total grant amount and match requirement depends on the commercial district where the property is located.

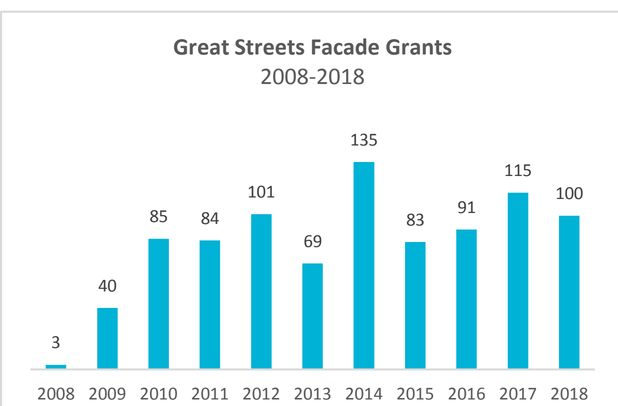
The façade grant program is primarily administered by local business associations or other community organizations, who apply for funding through an annual RFP process. In 2017, the City took on direct administration of select commercial districts that did not have a local administrator.

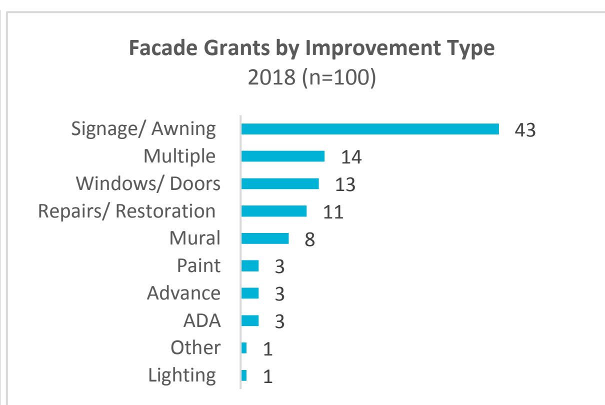
The Great Streets Façade Improvement Matching Grants align most closely to the new Comprehensive Plan – Minneapolis 2040 policy 58 Business Districts and Corridors: Support thriving business districts and corridors that build on cultural assets and serve the needs of Minneapolis residents. Indirectly, the façade grant can also support Policy 8, Public Safety Through Environmental Design, since the improvements funded include lighting and windows.

Situation	Inputs	Activities	Outputs	Outcomes
Commercial buildings in need of façade improvements	$320k in contract dollars (2018) ~.5 FTE	Issue RFP and administer contracts with business organizations; limited direct administration	Approximately 100 grants per year, demographics unknown Leverage an average of $2.50 for each grant dollar spend	Vibrant business districts and stronger community-based organizations

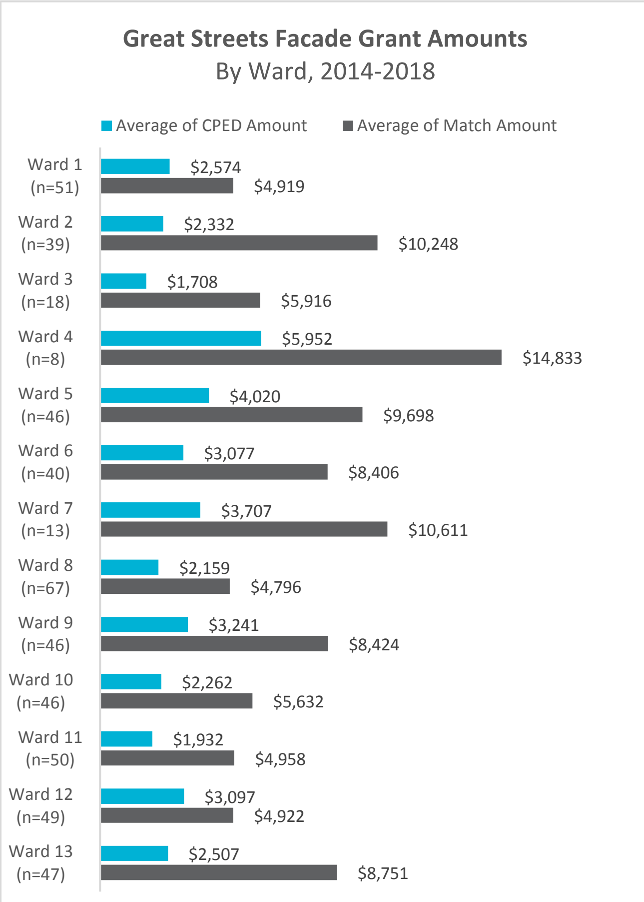
Analysis

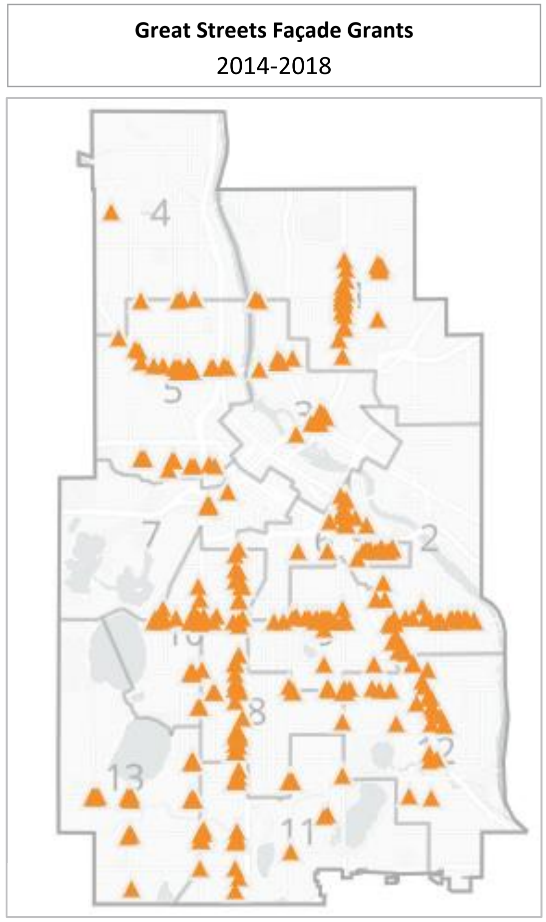
The usage of the façade grant program overall is steady, at about 100 grants per year. Demographic data on recipients has not been routinely collected. The most common use of façade grant funds in 2018 was for signs and awnings (43%).





Grants are broadly distributed across the City, closely reflecting the eligible areas. There is variability in the grant amounts and private match, however.





Overall, administering partners have a very positive opinion of the façade grant program and identify many benefits, including:

- Facilitating relationships with businesses
- Good public relations for the City
- Saving businesses money
- Incentivizing building improvements, including energy efficiency, e.g. window replacement
- Contributing to a sense of place, e.g. with murals
- Making businesses more appealing to consumers

In different neighborhoods and contexts, however, there is variation in how well it works.

- For straightforward signage and paint projects it seems to work well. In cases where there are structural building problems, knowing what is needed for a project and getting the design and/or architectural resources needed can be more complex.
  - Related to design, one administrator indicated they were not sure if and how to evaluate the quality or aesthetics of a project proposal.
- Partners who work with a lot of immigrant-owned businesses find it challenging to meet the requirement to get at least 2 bids for the work. Sometimes this is because business owners have a contractor that they are already comfortable working with, and in other cases it is challenging to get a prompt response and bid from the contractors themselves.

- Multiple administrators indicated that the biggest barrier to accessing the program for BIPOC business owners is the availability of matching funds.
- There are other challenges that are unique to specific geographies:
  - In the West Bank service area, there are properties where the primary entrance is from the parking lot/back side of the building, which is not covered by the façade grant.
  - In the Northeast service area, recent developments have outpaced the designated eligible areas, and in the Southwest service area, there are small commercial properties not part of an eligible district that would most benefit from the façade grant funds, versus the more fully established corridors/nodes.
- There is also variation in the spend rate for the administering organizations. While most administrators in most years spend down about 85% of their allocated amount, others are significantly higher or lower.
  - In Southwest, where representatives of the business association do in-person visits to promote this program, the spend rate has been 99-100% in recent years.
  - For areas served by CPED directly, which relies on business/property owners knowing about the program and reaching out to the City, the spend rate was only at 31%.

Recommendations

- Open up geographic eligibility to all commercial areas identified in the new comprehensive plan.
- Consider lowering the match amount in certain districts.
- Examine the 2-bid policy to determine if it is legally required or if alternate means of ensuring a fair price could be used instead.
- Encourage and support collaboration among administrators about effective practices for promotion, project evaluation/approval, and contractor lists.
- Improve data collection on recipient demographics and property owner or tenant data.

Great Streets Business District Support

Background

The City established the Great Streets Business District Support (BDS) program to fund local non-profits that organize, activate, and promote neighborhood commercial districts. Through the program community-based organizations perform a variety of activities with these grants including the creation of marketplaces (farmers markets, pop-up shops), networking (e.g. West Broadway Business Lunch), branding and marketing for a commercial area (e.g. Destination Northeast), investments in physical infrastructure (banners, trash cans), and facilitating community safety meetings.

The Great Streets BDS program is most closely aligned to the Comprehensive Plan policy 58 *Business Districts and Corridors: Support thriving business districts and corridors that build on cultural assets and serve the needs of Minneapolis residents. Action steps:*

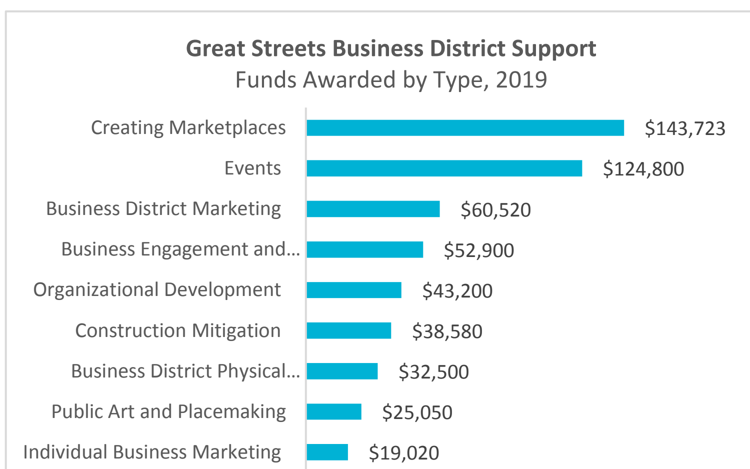
> *b. Support institutions that contribute to the vitality of commercial districts and corridors, such as local business associations, arts venues, and cultural organizations.*
> *c. Support community efforts to brand and market retail districts and corridors as cultural districts and cultural corridors.*[18]

Depending on the geographic context and grant activities funded, Great Streets BDS is complementary to the City priority to increase BIPOC businesses and success.

Situation	Inputs	Activities	Outputs	Outcomes
Unique needs of neighborhood business districts	$538k in contract dollars (2019) City staff resources to administer program, ~1FTE	Manage RFP and contract process	Contracts with 18 organizations for a variety of activities (2019)	Vibrant business districts and stronger community-based organizations

Analysis

Partners were generally very positive about the Great Streets BDS program. They appreciate the flexibility and range in eligible uses and find that it significantly helps them build their organizational capacity. For the most recent funding round, the largest portion of funds awarded was for creating marketplaces, primarily farmers markets and pop-up shops.



Some partners found it challenging to identify new ways to propose using Great Street BDS funds from year-to-year and would like to see a baseline amount awarded for core activities. Many would just like to see greater dollar amounts made available.

[18] https://minneapolis2040.com/policies/business-districts-and-corridors/

The wide variety in the funded activities makes it very difficult to evaluate the impact of the program or track how many/which businesses benefited. Whether a given business benefits depends on being in an area with a strong business support organization.

Recommendations

- Explore ways to better track and analyze outcomes for the program overall. Recent changes standardizing event tracking will allow for more aggregation of data across partner organizations and over time.
- Reevaluate how the program determines and communicates that repeat activities are less compelling than new activities during the review process.
- Consider designing a two-tiered funding pool. Pool A might continue to be structured in a similar fashion to the current program. Pool B might be for smaller amounts for more operational costs.

Business Technical Assistance Program (B-TAP)

Background

The City used to support technical assistance to businesses and entrepreneurs through the Great Streets Business District Support Program as well as annual contracts to MCCD, NDC and ADC. In 2012, the City established the Technical Assistance Program to allow for a more competitive bid process, along with providing technical assistance activities to businesses city-wide. The following year in 2013, the program was rebranded to the Business Technical Assistance Program (B-TAP). Over time, new programs were developed (e.g. C-TAP, D-TAP) to meet the needs of specific types of businesses and housed under the umbrella of B-TAP. The original B-TAP is identified here as B-TAP Core, and is the only program included in this review.

Program Name	Year created	Stated Purpose	Usage	Participant Demographics
B-TAP (Core)	2012	The City of Minneapolis Business Technical Assistance Program (B-TAP) funds community-based organizations to provide business consulting services to support new business development, retention, and growth. B-TAP allows the City to expand its capacity by contracting with local, non-profit, business development organizations that already have community organizing power, cultural competency and technical skills. B-TAP contracts are given annually[19]	391 participants (2018)	85% BIPOC
C-TAP	2015	The Co-operative Technical Assistance Program (C-TAP) provides assistance to groups interested in creating a co-op to existing co-ops within the City of Minneapolis.	25 participants (2018)	35% BIPOC
D-TAP	2016	The Small Developers Technical Assistance Program (D-TAP) offers a training course to give real estate developers the technical knowledge to assess and implement their real estate projects.	118 participants (2018)	79% BIPOC
E-TAP	2018	With support from the City's Sustainability Office, the Energy Technical Assistance Program (E-TAP) supports the implementation of energy cost-savings practices into everyday operations in small businesses located in the City of Minneapolis.	50 participants (2018)	N/A
B-TAP Professional Series	2017	A series of events where local professional experts provide training or technical assistance on topics that help take businesses to the next level, or address opportunities to support small business growth.	65 participants (2018)	N/A
B-TAP Plus/101	2014	A training opportunity for community partners and city employees to learn how different departments within the City of Minneapolis interact with businesses.	35 (2018)	N/A

[19] https://lims.minneapolismn.gov/Download/PriorFileDocument/-41263/WCMS1P-134674.PDF

B-TAP Core

Background

B-TAP Core has a goal to provide small-to-medium sized businesses in Minneapolis with access to technical assistance they need to start, sustain, or grow their businesses.

The City issues an annual RFP to local non-profit business consulting organizations and awards a two-year contract to those selected. Each contract specifies the grant amount and the category of services they can be reimbursed for by the City.

<table>
<tr><th>Category</th><th>Reimbursement Rate</th><th>Maximum Hours</th><th>Funding Source</th><th>Funded Activities</th></tr>
<tr><td>A- Feasibility</td><td>$50/hr</td><td>10</td><td rowspan="2">CDBG (restricted to microenterprise businesses and low-income clients)</td><td rowspan="4">• Business planning and training
• Business registration, licensing, and regulation
• Loan packaging and lending
• Marketing and branding
• Financial counseling, bookkeeping and cost analysis
• Business certification
• Real estate acquisition, leases, and site selection
• Legal services</td></tr>
<tr><td>B- New Business</td><td>$5,000: brick-and-mortar
$2,500: home based</td><td>N/A- Flat Rate</td></tr>
<tr><td>C- Retention</td><td>$75/hr</td><td>20</td><td rowspan="2">General Fund</td></tr>
<tr><td>D- Expansion</td><td>$5,000</td><td>N/A- Flat Rate</td></tr>
</table>

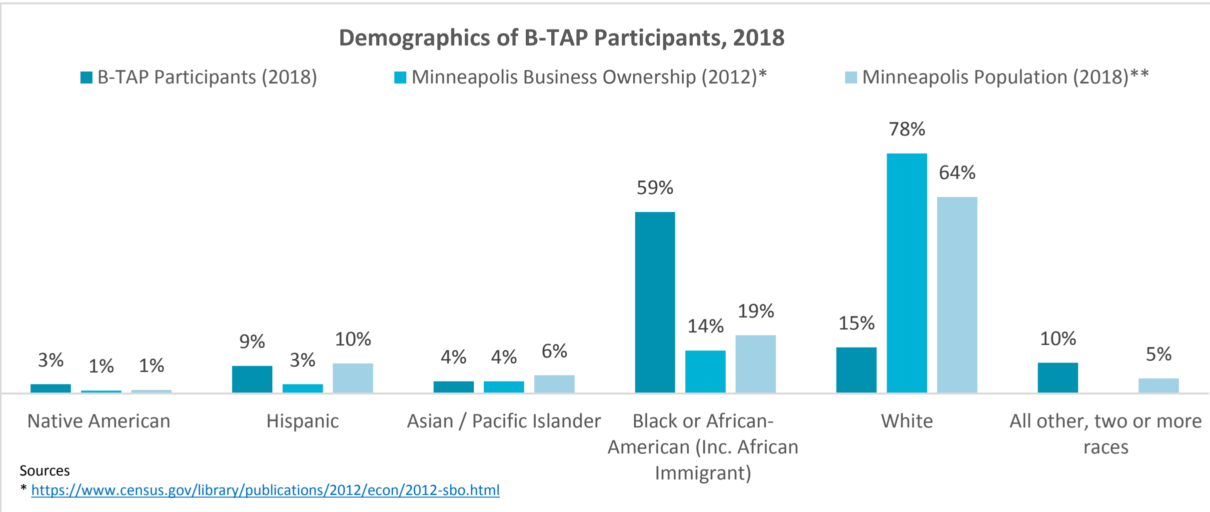
While some organizations have specific eligibility criteria, e.g. geography, clients can go to any of the service providers they are eligible for to receive services.

B-TAP directly connects to the City and SPREAP goals of supporting the growth of new BIPOC owned businesses, and the retention of existing businesses.

Situation	Inputs	Activities	Outputs	Outcomes
Entrepreneurs and small business owners need expert guidance and consulting for developing business plans, marketing, financing, and more. Target audience: • Small- to medium-size businesses and entrepreneurs in Minneapolis • Low income and racially diverse	$512,500 contract amount +1 FTE	Manage contacts with non-profit organizations for provision of technical assistance services	Contracts with 14 organizations (2018-20 contract round) Businesses and entrepreneurs served • 2016- 413 • 2017- 301 • 2018- 391	• New businesses start • Existing businesses stay and grow • Increase in sales • Job creation

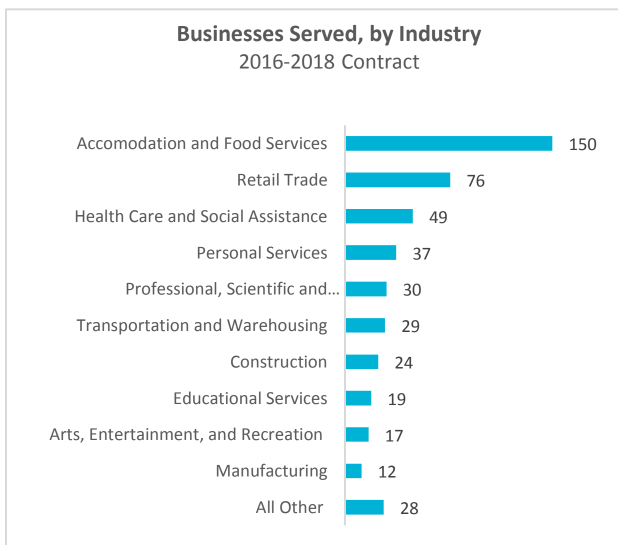
Analysis

B-TAP Core funds 19 organizations (2018-19 contract year) who serve about 400 entrepreneurs and business owners each year, of which 85% are BIPOC**.** In serving a majority BIPOC clientele, a core aim of B-TAP is to reduce the gaps in business ownership by race. By design, all the entrepreneurs receiving feasibility or new business assistance are low-income. The decision to use CDBG funds for the feasibility and new business categories limits eligibility in those categories to low-income entrepreneurs with the aim of increasing income and opportunities for wealth creation. Among the many root causes for the disparities in business owners, B-TAP is designed to address gaps in knowledge and information through 1:1 business consulting and group training, as well as gaps in access to capital through guidance on loan packaging and financing.



The largest industry served by B-TAP are food-based businesses, followed by retail, health care, and personal services.

Not all providers spend down all of their contract amount within the two-year window. This is important to monitor as it may indicate problems in the structure of contracts or in engagement and awareness of services. In the 2016 to 2018 contract period, providers overall spend 70% of the contract amounts awarded. Two providers spent 100% of their contract dollars, while three providers spent less than a third. The highest performing category was business retention at 89% spent and the lowest category was business expansion at 60%. CDBG funds were at a slightly lower spend rate, 68%, compared to flex funds, at 75%.



In interviewing B-TAP providers, they all indicated that B-TAP funding is important to their organizations and they see the services that clients receive as delivering value.

For most providers, B-TAP only represents a portion of the overall businesses receiving technical assistance; they do not differentiate their services between "B-TAP Clients" and "non-B-TAP clients"

- Some reported that they will provide the technical assistance and later determine if the client fits the reimbursement eligibility of B-TAP, while others identify at the beginning of the engagement that they will be using their B-TAP contract to fund the services. All the providers we spoke to will provide services to individual clients regardless of B-TAP funding.
- In general, clients are unaware of the B-TAP program or that the services provided to them was offset by B-TAP funding; instead, they experience being a client of the specific provider. B-TAP providers do not market their services with the B-TAP name or branding.
- Only some clients are made aware of the City's role in funding services. These are typically for services reimbursed by CDBG funds as they need to sign the income verification form with the City logo.

The client experience varies widely depending on the service provider.

- Some providers use their B-TAP funding to pay for 3rd party vendors, such as web developers, graphic designers, or accountants, while others do not (though they may make referrals). Others were surprised to discover that this is a permissible use of their B-TAP funds.
- Some providers will accept any client that walks in the door, while others have specific eligibility criteria. For those that have eligibility criteria, the most common filter is geography, but a few are more specific, e.g. scalability. Providers also have varying intake processes when accepting clients for technical assistance.
- Group training plays a key role in the services some organizations provide for feasibility, and at least one requires participants to complete a training in order to receive 1:1 services.
  - For the most part, providers will offer their services free of charge to the clients, however, there are known cases where the clients are charged a fee, particularly for training.
  - A creative approach to the need to charge some fees for services one organization uses is to create an invoice/estimate for their clients which shows the services that can be provided, and itemizes the portion covered by B-TAP or other grants, and the difference that the client would have to pay on their own to receive additional support.
- It's extremely difficult to understand and evaluate the client experience from provider-to-provider.

Clients often work with more than one service provider, which can pose a challenge for reimbursement of services and creates a sense of competition, rather than collaboration, across providers

- Some service providers feel a "race to invoice" as soon as they start work with a client, to make sure that no one else bills first. Several providers recalled instances of not being able to invoice for a client they had spent significant time with because another provider had already invoiced for services (that may or may not have been related).
- In looking at data from 2016 to 2019, there was just over 50 clients who received services from multiple providers. These recorded entries only reflect instances where providers were successfully reimbursed so there is certainly an undercount.

Providers identified the need for an additional category, or some other mechanism for acknowledging the significant amount of work that can happen conceptually in between feasibility and new business.

- Some indicated that feasibility can take longer than 10 hours and can overlap with the activities included in a new business. This seemed especially important for providers who have limited outside sources of funds.

- The new business category is less straightforward in a retail environment with trends moving away from owning or leasing a physical storefront and towards new businesses coming out of homes, as pop-ups, and even as vendors at a farmer's market.

Data collection and reporting requirements are generally accepted as reasonable, with some exceptions.

- Several reported challenges with the CDBG form, specifically the discomfort of asking the personal questions around income. Two providers reported that some entrepreneurs would decline to receive services in order to not share their information with the City.
- For organizations with their own intake forms, or with forms required for other funding sources, the paperwork for any one client can add up.

Evaluating outcomes for the program remain a major challenge. No one has outcome tracking completely figured out, though some providers do have mechanisms for follow up with clients. These are usually done in either a formal survey-based way or through informal relationships.

Recommendations

- Allow more than one organization to submit reimbursement requests for clients within the same category and contract year, provided the technical assistance is different with each submission.
- Set an expectation that providers may not charge clients for services that are reimbursed with B-TAP dollars.
- Clarify the option for providers to use B-TAP dollars to pay for third-party direct services, such as designers, accountants, etc. Additionally:
  - Develop a shared list of professional services contractors (business-to-business services), leveraging providers' networks and the City's Target Market program; and
  - Determine how to best incorporate direct service reimbursement into the contract model.
- Explore options for simplifying the contracting and reimbursement model without losing necessary accountability. Options to accomplish this include, but are not limited to:
  - Move to a consistent hourly rate reimbursement, with or without the service categories;
  - Allow providers to get reimbursed across any of the categories up to a total dollar amount vs. setting in advance how many hours/businesses will be served in each category; and
  - Move to annual contracts vs. overlapping two-year contracts.
- Implement outcome tracking mechanism to better understand the program impact and provider performance.
- Review regularly whether we have the right mix of service providers and if there are gaps in which business types (industry, scale, complexity, location) are being well served.

Appendix

Program Specific Recommendations, All

PROGRAM NAME	RECOMMENDATIONS	PAGE
2% LOAN PROGRAM	• Increase maximum loan amounts, in particular for building acquisition in cases of owner-occupancy by established businesses • Increase flexibility on eligible uses, such as business-purpose vehicles for emerging businesses, a frequent request received by staff • Build awareness of the program for potential borrowers	12
ALTERNATIVE FINANCING	Given the importance of having a product that meets the unique needs of the East African immigrant community it is worth offering an interest-free product and explore changes in the eligible uses and/or financing structure.	13
HOMEGROWN SMALL BUSINES FUND	Monitor the outcomes of the pilot program incorporating business grants and reassess in 2021.	14
HEALTH AND SAFETY LOAN PROGRAM	Discontinue the Health and Safety Loan as a specialized, standalone fund and explore options for converting this to a more flexible use, in consultation with the Health Department.	15
WORKING CAPITAL GUARANTEE	A future program could include one or more of the following strategies: • Further assess the barriers to working capital access through additional data collection. • Implement a formal loan guarantee program with partner organizations. • Expand eligible uses for the 2% loan program to include working capital • Fund direct working capital lending administered by a partner. • Provide additional support for businesses to navigate and access existing sources for working capital	16
GREAT STREETS FAÇADE GRANT	• Open up geographic eligibility to all commercial areas identified in the new comprehensive plan. • Consider lowering the match amount in certain districts. • Examine the 2-bid policy to determine if it is legally required or if alternate means of ensuring a fair price could be used instead. • Encourage and support collaboration among administrators about effective practices for promotion, project evaluation/approval, and contractor lists. • Improve data collection on recipient demographics and property owner or tenant data.	20

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<tr><td>GREAT STREETS BUSINESS DISTRICT SUPPORT</td><td>Explore ways to better track and analyze outcomes for the program overall. Recent changes standardizing event tracking will allow for more aggregation of data across partner organizations and over time.
Reevaluate how the program determines and communicates that repeat activities are less compelling than new activities during the review process.
Consider designing a two-tiered funding pool. Pool A might continue to be structured in a similar fashion to the current program. Pool B might be for smaller amounts for more operational costs.</td><td>22</td></tr>
<tr><td>BUSINESS TECHNICAL ASSISTANCE PROGRAM (B-TAP) CORE</td><td>Allow more than one organization to submit reimbursement requests for clients within the same category and contract year, provided the technical assistance is different with each submission.
Set an expectation that providers may not charge clients for services that are reimbursed with B-TAP dollars.
Clarify the option for providers to use B-TAP dollars to pay for third-party direct services, such as designers, accountants, etc. Additionally:
Develop a shared list of professional services contractors (business-to-business services), leveraging providers’ networks and the City’s Target Market program; and
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Allow providers to get reimbursed across any of the categories up to a total dollar amount vs. setting in advance how many hours/businesses will be served in each category; and
Move to annual contracts vs. overlapping two-year contracts.
Implement outcome tracking mechanism to better understand the program impact and provider performance.
Review regularly whether we have the right mix of service providers and if there are gaps in which business types (industry, scale, complexity, location) are being well served.</td><td>27</td></tr>
</table>