

**PROPOSAL: \$250,000 CDBG Capitalization of the Grow Olympia Fund - an Economic Development and Small Business revolving loan fund.**

**PURPOSE:**

1. To support existing Small Businesses that lack access to traditional capital to sustainably grow their business.
2. To leverage additional resources to strengthen economic development activities, particularly in distressed areas of the City, through use of the SBA 7a guarantee, which generates additional lending capital for eligible small business lending.
3. To build upon the existing local resources that already support the business community and economic development activities. The Thurston County Economic Development Council, Thurston County Chamber and the Olympia Downtown Association are all deeply networked into the business community with different insights into the needs of businesses, potential growth areas and issues of particular concern for local business owners. These groups can serve as referral sources and outreach platforms for the Grow Olympia Fund.
4. To fit into a continuum of potential capital resources that are available to local businesses as they start out and grow or as they sustain and expand their footprint in the community. A typical resource continuum consists of several different types of financial institution.

<b>Business Type</b>	<b>Historical Track Record</b>	<b>Capital Need</b>	<b>Resource</b>
Microenterprise (start-ups)	None	\$5-10k soft loans/grants to support capacity building	Venture Capital; public or private grants
Micro 2.0 (started up)	0-2 yrs	\$10k-100k loans (higher risk)	Venture Capital; public or private grants; nonprofit CDFIs
<b>Small Business (expanding/sustaining) with expected new jobs to be added</b>	<b>3+ years with positive cash flow &amp; retained earnings</b>	<b>\$100k - \$2M Real estate expansion; machinery &amp; equipment purchase; working capital or refinance of existing debt</b>	<b>Grow America Fund (SBA 7a)</b>
Small or large Business (expanding)	5+ years solid operating track record, strong collateral; positive cash flow & retained earnings	\$100k or more Real estate expansion; machinery & equipment purchase; working capital or refinance of existing debt	Conventional lending (often including SBA)

## **CDBG ELIGIBILITY:**

Each funded activity (business loan) that is made with CDBG funds in whole or in part will qualify as a Special Economic Development activity eligible under Section 570.203(b). Funds would not be drawn down until the closing of each business loan occurs. In addition, each activity funded with CDBG funds will meet the HUD National Objective of LMI Job Creation or Retention under Section 570.208(a)(4). Further, each activity funded with CDBG funds will meet the Public Benefit standard as required by Section 570.209(b) such that at least 1 FTE job is created per \$35,000 of CDBG assistance).

## **ADMINISTRATION:**

The Grow Olympia Fund would be established and operated by the Grow America Fund (GAF), an affiliate of the National Development Council that is a nationally licensed SBA 7a lender with Preferred Lender status. All outreach, marketing, underwriting, loan packaging and loan administration activities would be the responsibility of GAF. City staff would maintain primary responsibility for eligibility review and compliance monitoring activities related to the CDBG requirements.

GAF would carry out the following activities:

- Develop an outreach and networking plan building on existing local resources. Networking typically includes business groups, community lenders, realtors, brokers, leasing agents and accountants working with business owners.
- Market the Grow Olympia Fund
- Originate, underwrite and package loans
- Obtain GAF and U.S. Small Business Administration approvals
- Close, service, and collect loans
- Perform annual reviews of each loan
- Perform the fiduciary responsibilities of the corporation
- Provide periodic fiscal reporting to the client community
- Provide training and capacity building services to client community staff

City staff would retain the following activities:

- CDBG eligibility confirmation (following initial review by GAF)
- Establishing compliance requirements specific to each funded activity (and incorporating into loan documents)
- Ongoing compliance monitoring and reporting to HUD, as appropriate

## **PROPOSED GAF FINANCING STRUCTURE**

To scale the Fund to a reasonable level would require initial capitalization of \$250,000 - \$350,000. With capitalization of that size, the total lending capacity would be **\$1 million to \$1.6 million**.

Sources of capital can include any type of equity, grant funding (including CDBG), sales proceeds from property, general funds or fee revenue generated from other programs. In many cases, Cities have successfully accessed other public or private capital targeted to economic development by demonstrating the ability to stretch those dollars further with the benefit of the SBA's 75% Guarantee.

