

DRAFT Memorandum

Date: November 10, 2017
To: CRA Board
From: Tom Evans, Executive Director
RE: CRA Small Business Loan Program Research

Introduction:

Based on previous discussions with Board members and from results of the City of Cambridge's 2017 Retail Strategy Report (Retail Report), CRA staff has conducted some initial research toward the formation of a business grant program to assist with retail business attraction and retention.

Step one of this research was to discuss the results of the retail Report by Larisa Ortiz Associates, the City's consultant and then to investigate other small business and retail lending program models. The second step is to set up target goals for the CRA program for discussion with the CRA Board. The third step will be to design a program in collaboration with potential partners.

http://www.cambridgema.gov/~media/Files/CDD/EconDev/retailstrategy/retailstrategy_finalreportaugust2017.pdf

The Retail Report conducted a thorough investigation of City-wide demographic and economic conditions as well as district-by-district analysis of the City's retail environment. The research was also informed by national trends in retail and small business development. The initial conclusion was that retail business health in Cambridge is generally strong. However changes in the retail economy and high costs pose a threat to the health of Cambridge's commercial corridors, especially locally owned businesses. An excerpt from a Strengths Weakness, Opportunities and Threats (S-W-O-T) Analysis is described below:

Citywide S-W-O-T: Business Environment + Structural Challenges

There is currently strong demand for retail spaces throughout the City of Cambridge, particularly in districts with strong institutional and commercial anchors such as Harvard Square and Kendall Square. There is also a strong presence of small businesses in Cambridge, creating a promising picture for local entrepreneurs trying to open storefronts.

However, a problem faced by many small businesses today is the rising cost of operations, including higher rents (as a result of the demand for space), taxes, and utilities (due to Triple Net leases). This is compounded by high build-out costs, outdated regulations and unclear permitting processes that constrain small entrepreneurs early on in the process of starting a business.

It is therefore important to consider opportunities to decrease financial and regulatory barriers for new businesses and to reduce complexity in dealing with permits at various City departments. The current City project of integrating these departments into a single online portal, for example, will greatly assist

business owners. The rapidly changing behaviors and habits of consumers also require that business owners keep up-to-date with omni-channel retailing and retailing best practices. Technical assistance for small businesses via local business associations can be a helpful tool to engage businesses to adapt to changing consumer behaviors. Technical assistance in building online presence through review websites such as Yelp or TripAdvisor, for example, can boost businesses in commercial districts.

According to the Report, Cambridge currently has a citywide commercial vacancy rate of 4%, although not all districts are equally healthy. The Report projects that retail vacancies may increase due to local market softening or contraction in the retail sector. The Report suggests that the City pursue a program to support new retailers to open up in vacant storefronts.

Some recent analysis from the Local Initiative Support Corporation (LISC), based on work in Chicago and Philadelphia, points to the value of retail lending programs in commercial corridors, such as start-up loans, working capital, real estate, and façade improvement loans. Access to capital can be a major barrier to entrepreneurs. Their experience determined that forging productive partnerships with local banks and other financial institutions is an essential component of robust corridor development initiatives.

https://www.philadelphiafed.org/community-development/publications/cascade/88/03_lessons-on-revitalizing-commercial-corridors

Program Models:

The Community Development Department already operates a retail grant program funded through CDBG funds. The Cambridge Storefront Improvement Program provides technical and financial assistance to property owners or tenants seeking to renovate or restore commercial building exterior facades. The Program seeks to increase accessibility into storefronts, improve the physical appearance of independent businesses and enhance the commercial districts of Cambridge. Reimbursement grant limits vary from year to year. Currently the City's façade renovation program is limited to CDBG defined priority areas.

This program provides:

- 90% matching grant up to \$20,000 for ADA improvements to entrance, including ramps, lifts, doors hardware and automatic openers, accessible parking, and signage.
- 50% matching grant up to \$15,000 for other façade improvements, including better windows, paneling, architectural details and restoration of historic features.
- 50% matching grant up to \$2,500 for signage, lighting and awning improvements.

<http://www.cambridgema.gov/CDD/econdev/resourcesforbusinesses/smallbusiness/storefront>

Listed below are programs described in the Retail Report as Best Practices in retail lending for commercial corridor investment.

- **City of Laurel Main Street Business Relocation Grant Program (Maryland)** – <https://www.cityoflaurel.org/e cd/main-street-development-programs/main-street-business->

[relocation-grant-program](#)

Applicants receive reimbursement grants up to \$10,000 if relocating to the boundaries of the City of Laurel. If businesses meet goals of the City, they may also receive property tax credits up to 100% toward property improvements. Eligible costs include moving costs, utility connections, equipment installation, remodeling, and signs. Eligible costs may also include rent differential from other similar locations, professional design services, and permit fees.

• **City of Rochester Targeted Business Assistance Program (New York) –**

<http://www.cityofrochester.gov/businessResources/>

Targeted small businesses located within or moving into City of Rochester received financial assistance including low interest loans and interest rate subsidy grants and 50/50 matching equity grants for projects including furniture, fixture, and equipment, construction and renovation. Funds are to provide small businesses facing barriers to obtaining the capital for business growth and development and must contribute to job creation or retention. Eligible costs may also include working capital and acquisition of real estate.

• **Downtown Raleigh Alliance Retail Up-Fit Grant (North Carolina)**

<http://www.godowntownraleigh.com/dtretail/dra-retail-up-fit-grant>

This program aims to create an incentive to attract new retailers and aid in the expansion of existing retailers in downtown Raleigh. The Downtown Raleigh Alliance offers a 50/50 matching grant on property improvements up to \$5,000. Tenant build-out improvements that qualify include design work, drawings, renderings and mechanical/electrical/ plumbing work, HVAC, fire suppression, flooring, lighting, accessibility compliance, utility upgrades, construction or demolition. Eligible applicants include all retail businesses looking to locate within the Municipal Services District (MSD)/ BID or retail property owners located within the MSD boundaries, with preference given to those new businesses occupying first-floor space with a street-front presence, which complement the downtown retail mix and strengthen the existing retail clusters. In addition, existing retail businesses looking to expand by 30% or more in downtown are also eligible for grants.

In addition to the programs listed above, CRA staff have researched other programs in urban areas seeking to provide capital to retail or small businesses.

• **Northeastern / LISC Impact Lending (Boston)**

<https://www.northeastern.edu/impact-lending/>

The mission is to support small businesses across the city that might not qualify for traditional bank financing, especially those that are minority- and women-owned. LISC provides loan options with flexible rates, terms, and credit criteria and free technical assistance. One target is to connect businesses to vending opportunities at Northeastern University. Impact Lending provides financing from \$1,000 to \$1 million to small businesses across Boston in need of capital. Supported by [Northeastern University](#), Impact Lending is a collaborative of mission-based lenders, led by LISC Small Business, that wants to support and expand the local businesses that create jobs, drive economic growth, and add character to Boston's neighborhoods with the goal to build a more inclusive economy that increases

access and opportunity for Boston entrepreneurs.

- **City of Minneapolis Two-Percent Loans**

http://www.minneapolismn.gov/cped/ba/cped_two_percent

Two-Percent Loans provide financing to small Minneapolis businesses (retail, service or light manufacturing) to purchase equipment and/or to make building improvements. A private lender provides half the loan at market rate and the City provides the rest, up to \$50,000 at 2 percent interest (up to \$75,000 in [designated neighborhood commercial districts](#)). The loan term is set by the private lender and can be for up to 10 years.

Discussion. Listed below are some initial policy considerations for the Board to consider, followed by technical implementation issues to be addressed as program concepts are developed.

Program Goals:

- How would a CRA lending program compliment existing CDD programs?
- Is there a geographic target area for loan program?
- Does the CRA want to target a specific type of investment (Fire protection, energy conservation / efficiency)?
- Does the program target the development of new businesses or retention of existing retailers?
- What level of return and what level of principle risk should the CRA expect for loan program?

Program Mechanics:

- How much money would be committed to the loan fund? Annual or lump sum commitment?
- Would individuals or on-profit (501c3) be eligible to borrow in addition to small businesses?
- Is there a minimum or maximum size for any one loan?
- How many loans per year would the CRA have the capacity to screen and manage?
- What are the terms of loan repayment?