



2018 Annual Report of the Emerging Entrepreneur Loan Program

Office of Business Finance
12/05/2018

Total cost of salaries, printing, and supplies in
developing/preparing this report is \$2,734
(reported as required by Minn. Stat. 3.197)

Table of Contents

Contents

Table of Contents	2
Program Background.....	3
History.....	3
Loan Activity.....	3
Targeted Groups.....	4
Race and Ethnicity.....	5
Gender.....	6
Location of Businesses Receiving Loans.....	6
Leveraged Funds.....	7
Stage of Businesses Receiving Loans.....	8
Industry of Businesses Receiving Loans.....	9
Jobs Created by Businesses Receiving Loans.....	9
Lender Activity.....	10
Recommendations.....	12

Program Background

The Minnesota Emerging Entrepreneur Loan Program (ELP) supports the growth of businesses owned and operated by minorities, low-income individuals, women, veterans and/or persons with disabilities. DEED provides grant funds to a network of nonprofit lenders, which use these funds for loans of \$5,000 to \$150,000 to start-up and expanding businesses throughout the state. As businesses repay the loans, lending partners return the ELP share of principal to the program's revolving loan fund so that DEED can fund additional loans. Each loan is approved by DEED individually to ensure it fits within program parameters. The program has additional goals of providing jobs for minority and/or low-income persons, creating and strengthening minority business enterprises, and promoting economic development in low-income areas. This report is submitted as directed under Minn. Stat. 116M.17, Subd. 4.

History

ELP was created by the legislature during the 2016 session. ELP is the successor program to the Minnesota Urban Initiative Loan Program, which was created in 1994 to assist small businesses located in low-income areas of the Twin Cities Metro. Under ELP, the program was expanded to the entire state and became focused solely on the identified underserved targeted groups.

In September 2016, DEED solicited nonprofit lenders through an RFP process to participate in the program and deliver ELP funds to businesses. Applications were received from 25 organizations and 23 were approved by the grant review panel, which included DEED staff and community reviewers. Funds are disbursed to lenders as DEED approves loan packages submitted by lenders. The first loan under the program was approved in March 2017.

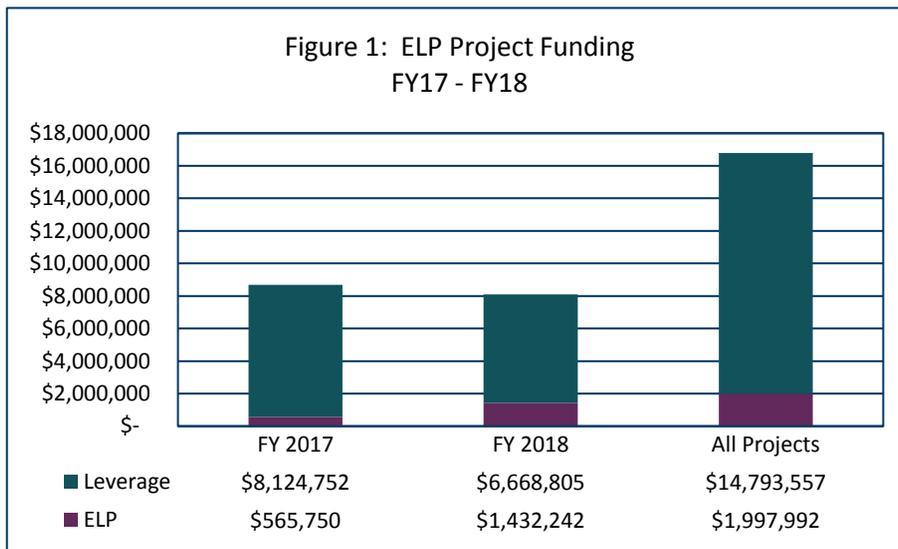
The program has received \$1,733,000 in appropriations for the period FY16 – FY18. The Legislature authorized about \$60,000 to be used for program administration resulting in \$1,673,000 in loan funds available for lenders participating in the program. The funds are supplemented by repayments made under the Urban Initiative Loan Program and an additional \$500,000 appropriation for FY19 activity.

Of the \$857,000 appropriation the program received for FY17, \$357,000 was dedicated to the Twin Cities area with half going to businesses located in Dakota, Ramsey, and Washington; and half going to businesses located in Anoka, Carver, Hennepin, and Scott. All other funding for loan activity must be split between the 7-county Twin Cities area and Greater Minnesota with the caveat that as of March 31 of each fiscal year lending can occur without regard to business location.

Loan Activity

Since 2017, ELP has awarded loan funds to 67 qualifying projects for a total of \$1,997,992 and attracted an additional \$14,793,557 in non-DEED financing. During the fiscal year ended June 30, 2018, ELP awarded \$1,432,242 for 52 projects, leveraging \$6,668,805 in non-DEED financing. ELP funds have been part of the financing for projects ranging in size from \$10,000 to \$3,750,000. Table 1 on page 4 displays all loans provided by the program since March 1, 2017. Figure 1 on page 5 shows leverage of ELP funds (by dollars) since 2017.

Table 1: ELP Loan Activity

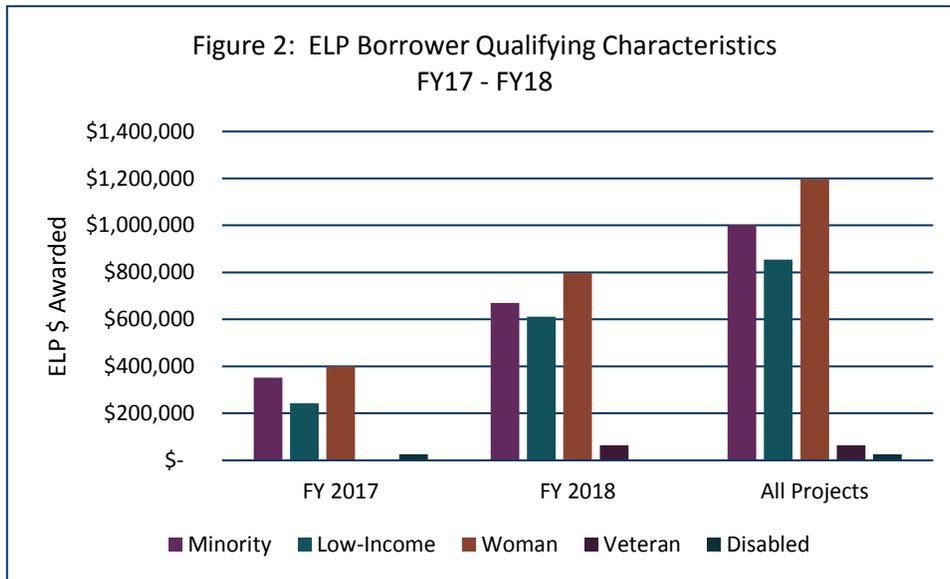


Targeted Groups

ELP funds must be used to finance businesses owned and operated by individuals with qualifying characteristics. The business owner must certify that they belong to one of the targeted groups. In order to qualify as low-income, the borrower must be below 80% of income for their county of residence as of their most recent tax return. Veterans must demonstrate honorable discharge and may have served at any time. Disabled individuals must fit within the Americans with Disabilities Act definition of disabled. The program required verification of eligibility from these three groups. Minority individuals and women self-certify that they qualify.

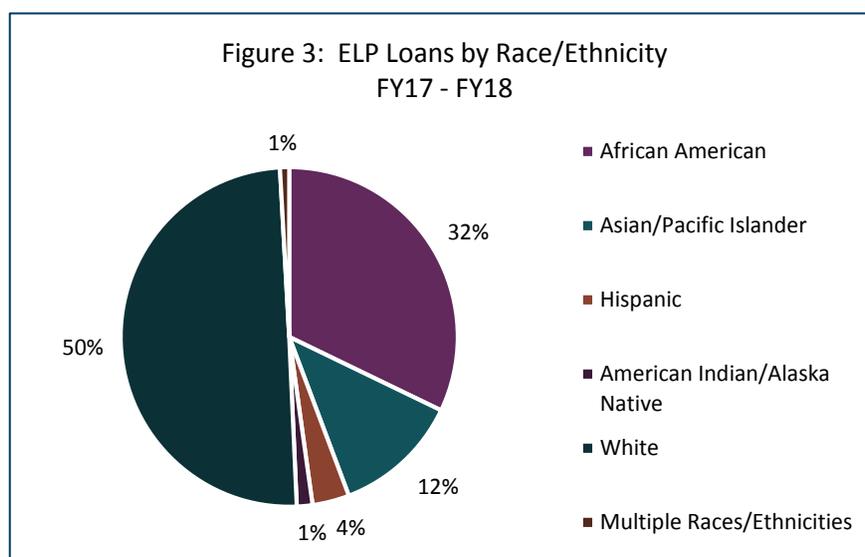
The three groups most served by the program statewide are minority individuals, women and low-income individuals. In Greater Minnesota, the primary group served has been women (66%) and in the Twin Cities Metro, the primary group served has been minority individuals (79%). Businesses may claim more than one qualifying characteristic.

The number of awards made since 2017 to each demographic group is: minority – 39; low-income – 33; women – 40; veteran – 4; and disabled – 1. During FY 2018 the breakdown of each group served was: minority – 28; low-income – 24; women – 30; veteran – 4; and disabled – 0. Note: Since many businesses are owned by individual(s) who have more than one qualifying characteristic, the sum of these numbers does not reflect the number of projects financed. In fact, 43 or 64% of the awards made were to businesses where the owner(s) fell into more than one characteristic. The chart below outlines the distribution of program dollars to each targeted population. Figure 2 on page 6 shows the breakdown of borrower qualifying characteristics (by dollars) since 2017.



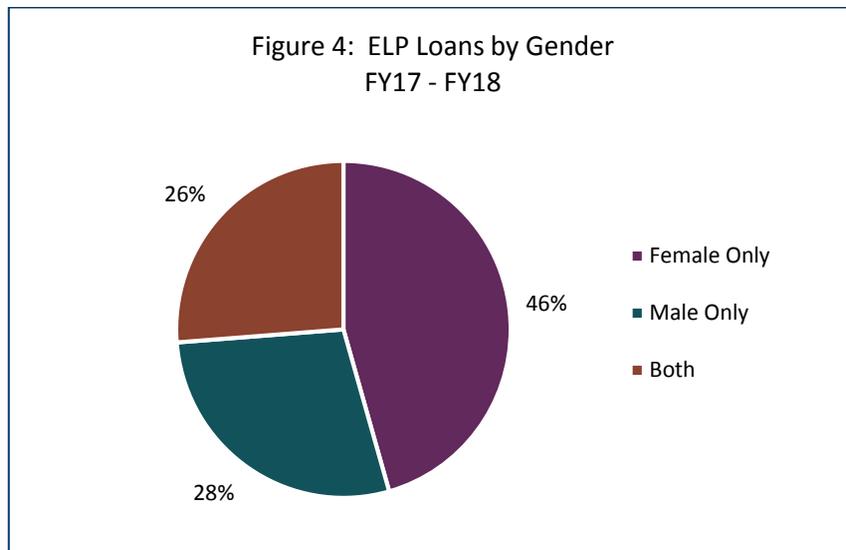
Race and Ethnicity

Due to the nature of the program, ELP funds are awarded to small businesses owned by a diverse group of individuals in terms of race and ethnicity. Since 2017, the number of awards made to each racial and ethnic group tracked have been African American – 26; Asian or Pacific Islander – 7; Hispanic – 3; American Indian or Alaskan Native – 1; white – 28; multiple races/ethnicities – 2. In FY 2018, the number of projects financed by race and ethnicity were: African American – 18; Asian or Pacific Islander – 5; Hispanic – 3; American Indian or Alaskan Native – 1; white – 24; multiple races/ethnicities – 1. (Multiple races/ethnicities indicates that the company is owned 50/50 by individuals of different races/ethnicities.) Figure 3 below shows the breakdown of ownership by race and ethnicity (by dollars) since 2017.



Gender

ELP also awards funds to a larger number of women-owned businesses than the typical DEED program. Since 2017, 47 or 70% of awards have been to businesses owned solely or partially by women. In FY 2018, the number of awards to businesses owned solely or partially by women was 36 or 69%. Figure 4 below displays the breakdown of ownership by gender (by dollars) since 2017.



Location of Businesses

ELP funds are awarded to small businesses across Minnesota. To facilitate this, the program partners with lenders that focus on different areas of the state with all areas being covered by regional or statewide lenders. Currently, West Central Minnesota is the only region that does not have a lending partner dedicated to serving that region.

During the first nine months of each fiscal year, the program must maintain an equitable distribution of funds awarded to Greater Minnesota and the 7-County Twin Cities Metro. That restriction is lifted from April through June of each year. Since 2017, 38 projects totaling \$1,104,823 (55%) have been financed in Greater Minnesota and 29 projects totaling \$893,169 (45%) have been financed in the Metro. In FY 2018, 32 projects totaling \$936,823 were financed in Greater Minnesota and 20 projects totaling \$495,419 were financed in the 7-County Twin Cities Metro. Figures 5 and 6 on page 7 display the geographic distribution of the businesses receiving ELP loans.

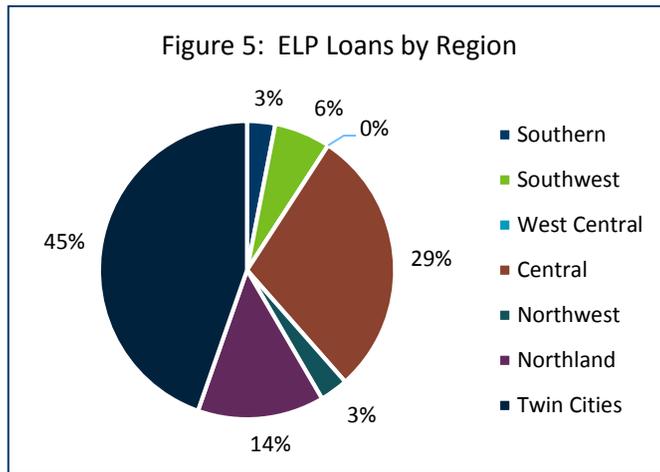
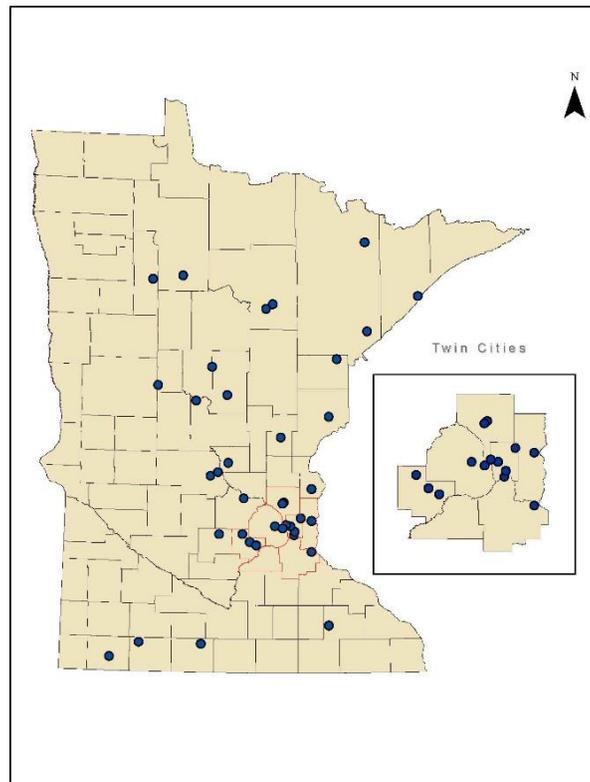


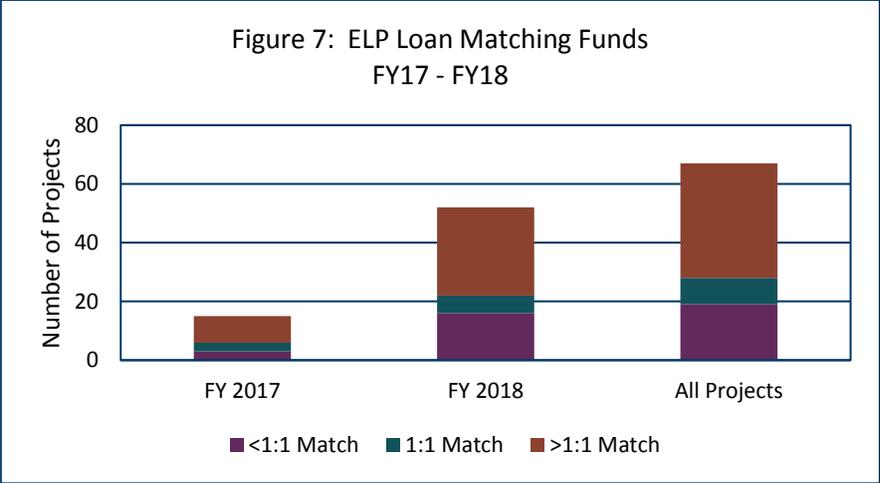
Figure 6: ELP Loans by Geography



Leveraged Funds

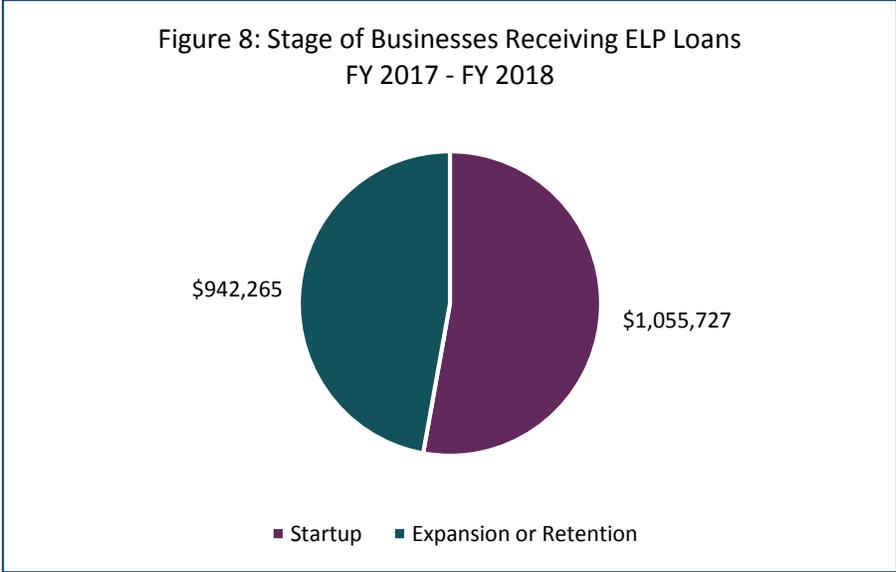
ELP requires a one-to-one match for most projects, with the exception of beginning microenterprises. Beginning microenterprises are defined as businesses that have been generating revenue for less than two years and have fewer than five employees. Most industries are eligible to use ELP funds; however, retail establishments may only be financed if they qualify as beginning microenterprises.

Since 2017, 42 of the 67 loans enrolled in the program have been to beginning microenterprises, but 71% have had at least \$1 in non-DEED financing for every ELP dollar. During FY 2018, 62% of businesses financed through the program qualified as beginning microenterprises. Despite the high rate of projects that did not require matching funds under program guidelines, 69% of projects leveraged at least \$1 of non-DEED funds for every ELP dollar. Overall, the program has leveraged \$14.8 million while provide about \$2 million in funding – more than \$7 of private investment for every \$1 dollar of ELP funds. Figure 7 below shows the breakdown of projects based on the percentage of matching funds used.



Stage of Businesses

DEED requires that businesses that receive ELP funding are unable to obtain traditional financing. As a result, many of the projects financed through the program are in the startup phase (defined as less than two years of revenue). Since the program began, 63% of businesses awarded funding have been in the startup phase. Figure 8 below demonstrates the breakdown (by dollars) of loans provided to startup and existing businesses.

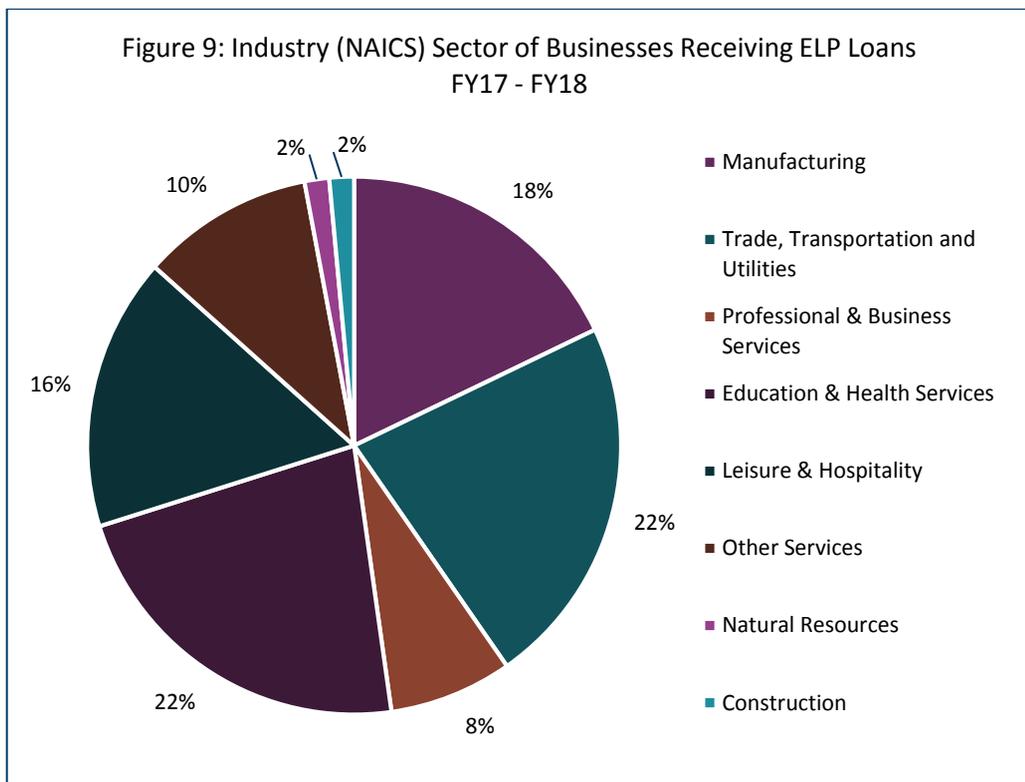


Industry of Businesses

ELP funds have been used to finance businesses in 8 sectors. Since the program began, the majority of projects have been financed in the Education and Health Services (15), Trade, Transportation and Utilities (15), Manufacturing (12), and Leisure and Hospitality (11) sectors. Examples of products and services provided by ELP businesses include:

- Education and Health Services: Child care, assisted living, birth center
- Trade, Transportation and Utilities: Clothing boutique, wholesale natural foods, solar panel installation, non-emergency medical services transport
- Manufacturing: Food/beverages, bath/cleaning products, heavy equipment parts
- Leisure and Hospitality: Motel, restaurants, gun range
- Other Services: Auto body repair, yoga studio, pet care

Figure 9 below shows the breakdown of industry sector (by dollars) since 2017.



Jobs Creation and Impact in Low-Income Areas

The 67 businesses financed through the program between March 1, 2017 and June 30, 2018 projected creating 343 new jobs (both full and part time) with average cash wages of \$13.91 per hour. Of those 343 jobs, 215 were expected to be created in areas defined as low-income by the program. In FY 2018, the number of new jobs projected was 185 with average cash wages of \$13.77 per hour and 141 of those positions were expected to be created in low-income areas.

Certified lending partners are required to report each year about outcomes for the businesses financed through the program. Of the 42 projects approved between March and December 2017, 23 reported creating new positions at year end. The total number of jobs created by the 23 loan recipients was 137. Of those, 88 were part-time and 49 were full-time positions. Minority individuals reportedly filled 82 of the new positions and 110 of the new jobs were created in areas defined as low-income by the program.

Lender Activity

Of the 23 lenders that are authorized to provide ELP loans to qualified businesses, 18 actually participated in the program through June 30, 2018. These lenders had made 67 loans and provided nearly \$2 million of ELP funds to eligible businesses. Lenders varied significantly in terms of size of loans, as well as geographic regions, industries and targeted populations served. Twelve of the lenders exclusively serve portions of Greater Minnesota, five lenders exclusively serve the Twin Cities Metro and six lenders serve a combination of the two. Table 2 on page 12 displays a chart of lender activity since the program began.

Table 2: ELP Lender Activity FY 17 – FY 18

Lender	Number of Projects	ELP Funding Used
4-Directions Development	0	\$ 0
African Development Center	12	\$ 330,000
African Economic Development Solutions	4	\$ 49,750
Central Minnesota Development Company	3	\$ 270,000
Community and Economic Development Associates	1	\$ 60,000
Entrepreneur Fund	8	\$ 353,664
First Children's Finance	0	\$ 0
Greater Bemidji	1	\$ 20,000
Hmong American Partnership	3	\$ 50,000
Immigrant Development Center	0	\$ 0
Initiative Foundation	2	\$ 72,122
Latino Economic Development Center	0	\$ 0
Metropolitan Consortium of Community Developers	10	\$ 240,000
Metropolitan Economic Development Association	1	\$ 42,500
Neighborhood Development Center	3	\$ 75,000
North Central Economic Development Association	6	\$ 99,956
Northland Foundation	3	\$ 145,000
Northside Economic Opportunity Network	0	\$ 0
Northwest Minnesota Foundation	1	\$ 15,000
Southern Minnesota Initiative Foundation	1	\$ 35,000
Southwest Initiative Foundation	2	\$ 25,000
WomenVenture	4	\$ 100,000
Worthington Regional Economic Development Corp.	2	\$ 15,000

Recommendations

The results noted in this report represent clear evidence that this program is performing as expected – providing capital to underserved businesses throughout Minnesota. Moreover, these businesses are adding jobs, particularly in low-income areas which is an important additional benefit to the program. Given this performance in just 18 months, the department recommends continued funding for the program and an annual review of program outcomes and lender performance.

If you have questions about the program, please contact Abdullahi Mohamed or Drew Lindorfer, Program Administrators, or Bob Isaacson, Executive Director, Office of Business Finance, Economic Development Division.