2020 Annual Report of the Emerging Entrepreneur Loan Program

Office of Business Finance
10/30/2020

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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. The program is the successor 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 $2.86 million in appropriations for the period FY 2017 to FY 2020. DEED has used about $99,000 for program administration resulting in $2.76 million 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 $1 million appropriation in each year of the FY 2020-FY 2021 biennium.

Of the $857,000 appropriation the program received for FY 2017, $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 seven-county Twin Cities metropolitan area and Greater Minnesota with the caveat that as of April 1 of each fiscal year lending can occur without regard to business location.

Loan Activity

Since 2017, ELP has awarded loan funds to 164 qualifying projects for a total of $4.67 million in loans, which attracted an additional $30.51 million in non-DEED financing. During the fiscal year ended June 30, 2020, ELP awarded $1.54 million for 51 projects, leveraging $11.44 million in non-DEED financing. ELP funds have been part of the financing for projects ranging in size from $5,200 to $3.75 million. Figure 1 on Page 4 shows leverage of ELP funds (by dollars) since 2017.

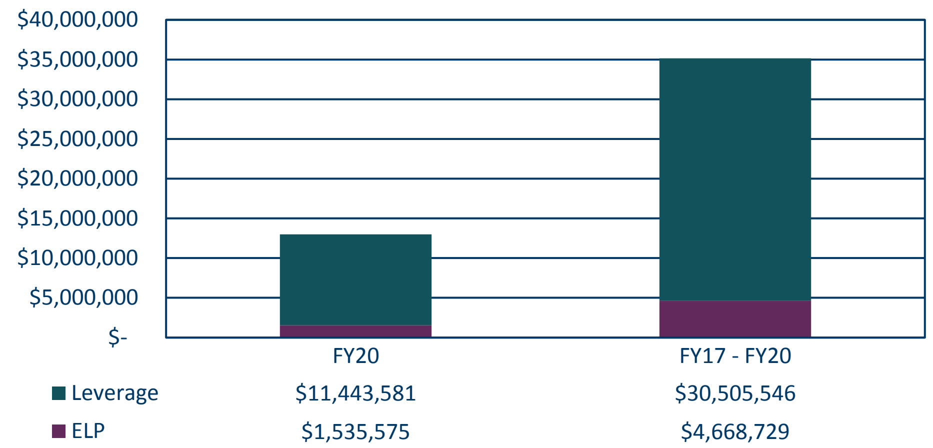


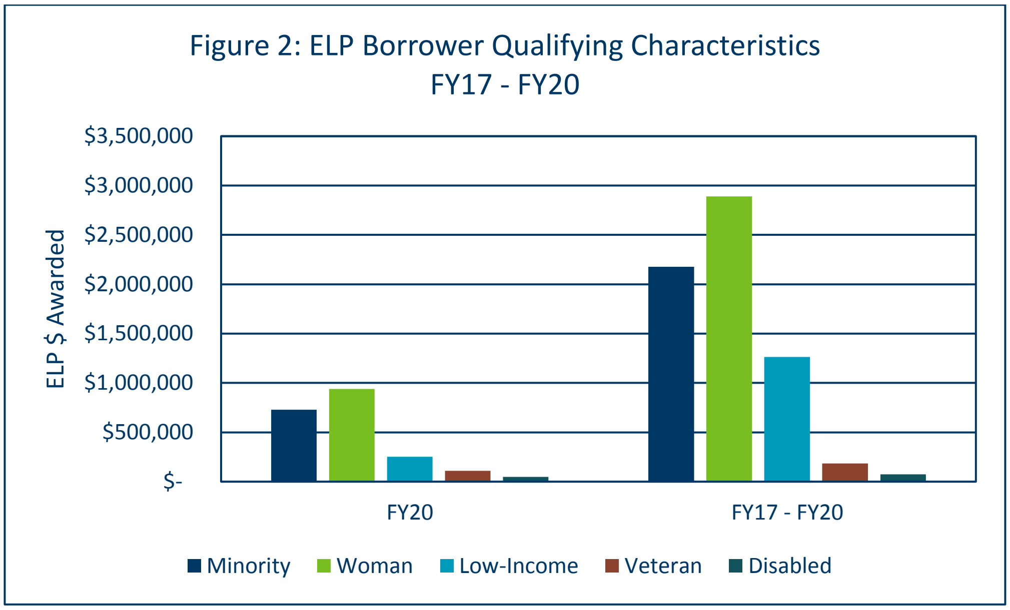
Figure 1: ELP Project Funding
FY17 - FY20

Targeted Groups

ELP funds must be used to finance businesses owned and operated by individuals with qualifying characteristics. The loan applicant must certify that at least 51 percent of individuals who own and operate the business belong to one of the five targeted groups: minorities, low-income individuals, women, veterans, and persons with disabilities. Minority individuals and women self-certify that they qualify. The program requires verification of eligibility from the other three groups. Low-income borrowers must be below 80 percent of income, adjusted for family size, 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.

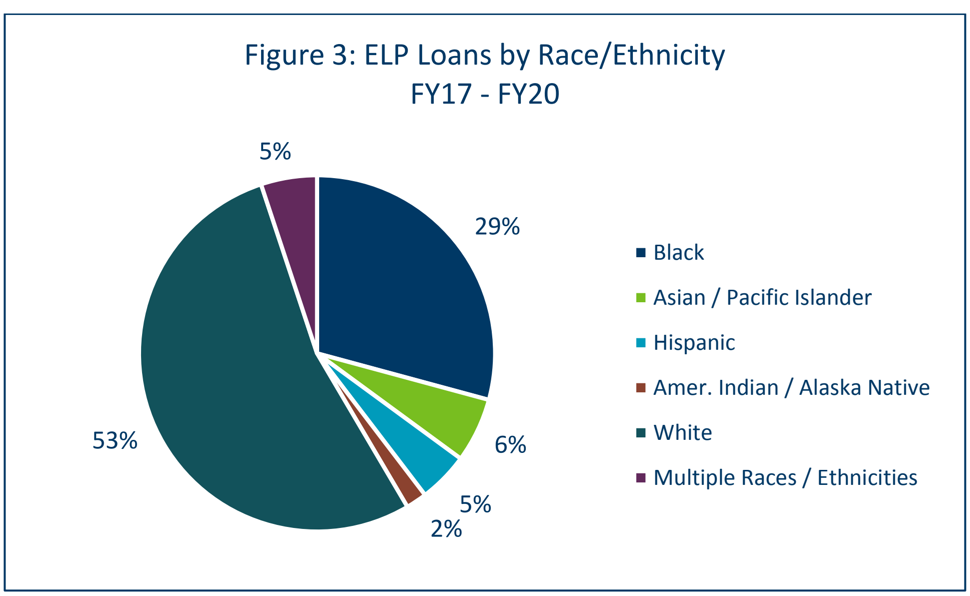
The three groups most served by the program statewide are minority individuals, women and low-income individuals. In Greater Minnesota, the primary group served has been women (67 percent) and in the Twin Cities Metro, the primary group served has been minority individuals (73 percent). Businesses may claim more than one qualifying characteristic.

The number of awards made since 2017 to each demographic group is: minority – 90; low-income – 54; women – 95; veteran – 8; and disabled – 2. During FY 2020 the breakdown of each group served was: minority – 28; low-income – 12; women – 29; veteran – 3; and disabled – 1. 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, 73 (or 45 percent) of the awards have been made to businesses where the owner(s) fell into more than one characteristic group. Figure 2 on Page 5 shows the breakdown of borrower qualifying characteristics (by dollars) since 2017.



Race and Ethnicity

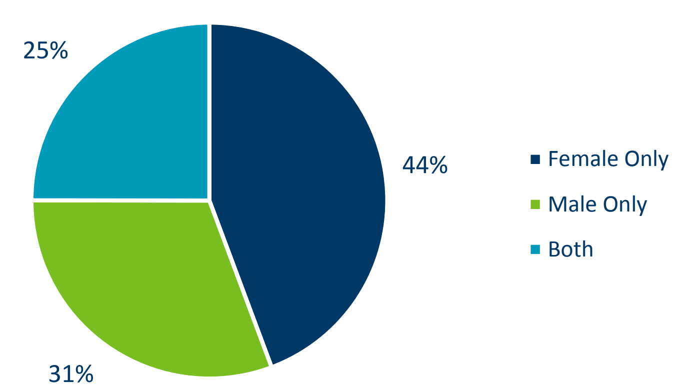
Due to the nature of the program, ELP funds are awarded to small businesses owned by a diverse group of individuals in terms of race and ethnicity. Since 2017, the number of awards made to each racial and ethnic group tracked have been Black – 57; Asian or Pacific Islander – 8; Hispanic – 11; American Indian or Alaska Native – 6; white – 74; multiple races/ethnicities – 8. In FY 2020, the number of projects financed by race and ethnicity were: Black – 18; Asian or Pacific Islander – 1; Hispanic – 5; American Indian or Alaska Native – 2; white – 23; multiple races/ethnicities – 2. (Multiple races/ethnicities indicates that the company is owned 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 significant number of women-owned businesses. Since 2017, 107 (or 65 percent) of awards have been to businesses owned solely or partially by women. In FY 2020, the number of awards to businesses owned solely or partially by women was 30 (or 59 percent). Figure 4 below displays the breakdown of ownership by gender (by dollars) since 2017.

Figure 4: ELP Loans by Gender
FY17 - FY20



Location of Businesses Receiving Loans

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 seven-county Twin Cities Metro. That restriction is lifted from April through June of each year. Since 2017, 90 projects totaling $2.55 million (55 percent) have been financed in Greater Minnesota and 74 projects totaling $2.12 million (45 percent) have been financed in the Metro. In FY 2020, 28 projects totaling $876,575 were financed in Greater Minnesota and 23 projects totaling $659,000 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 5: ELP Loans by Region
FY17 - FY20

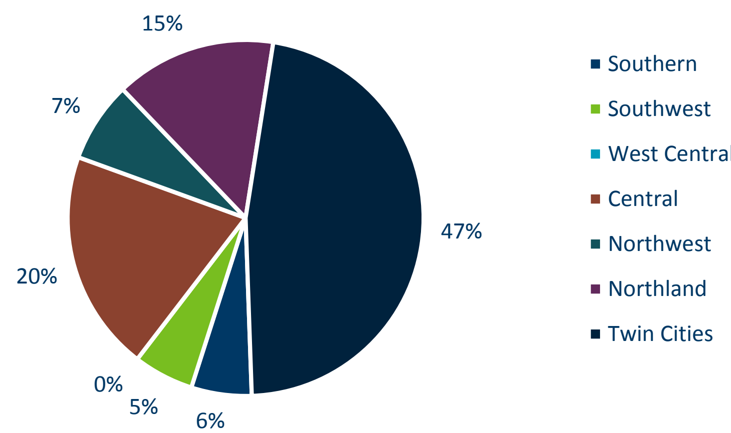
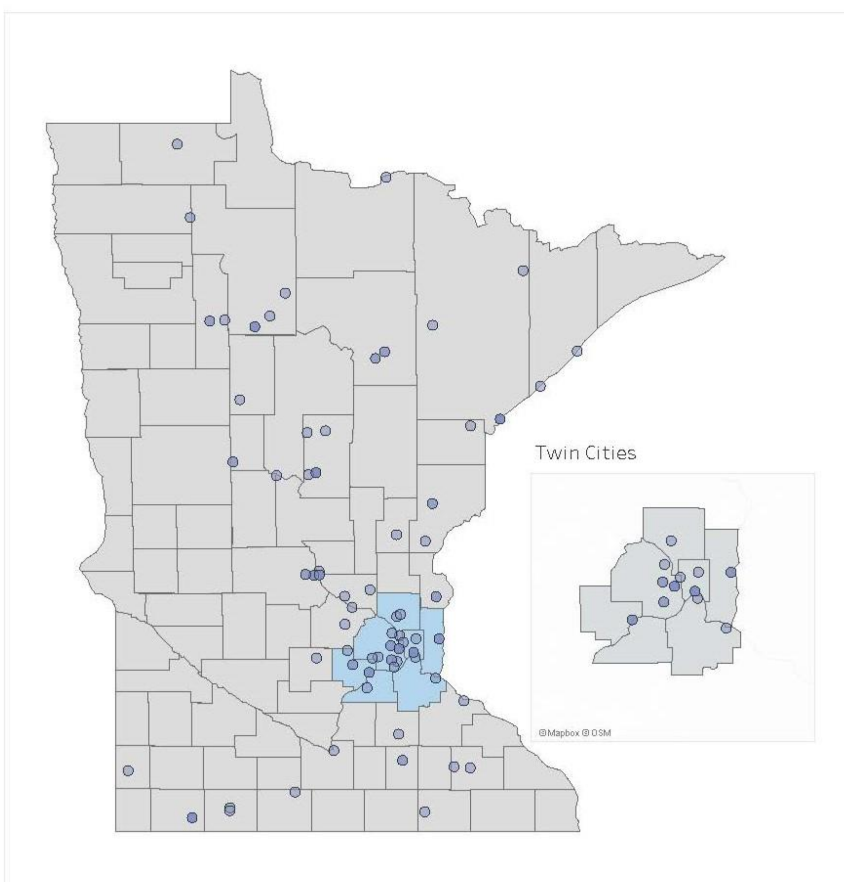


Figure 6: ELP Loans by Geography
FY17 - FY20

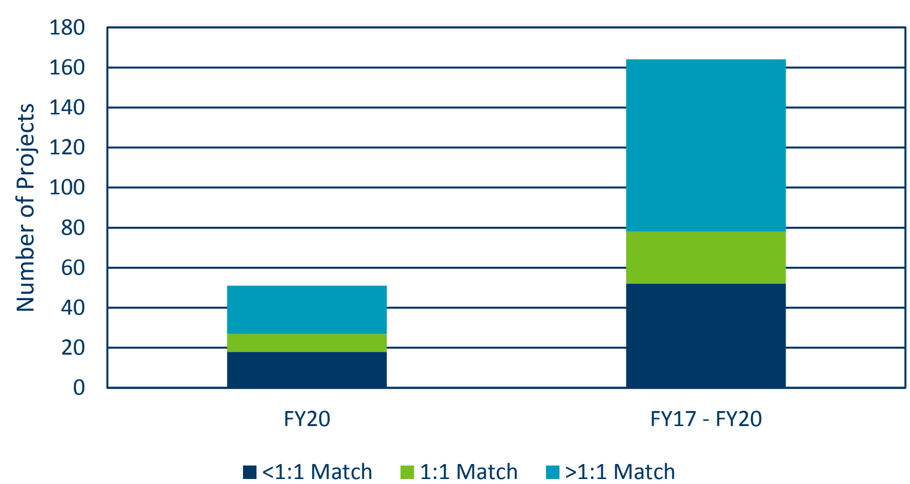


Leveraged Funds

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.

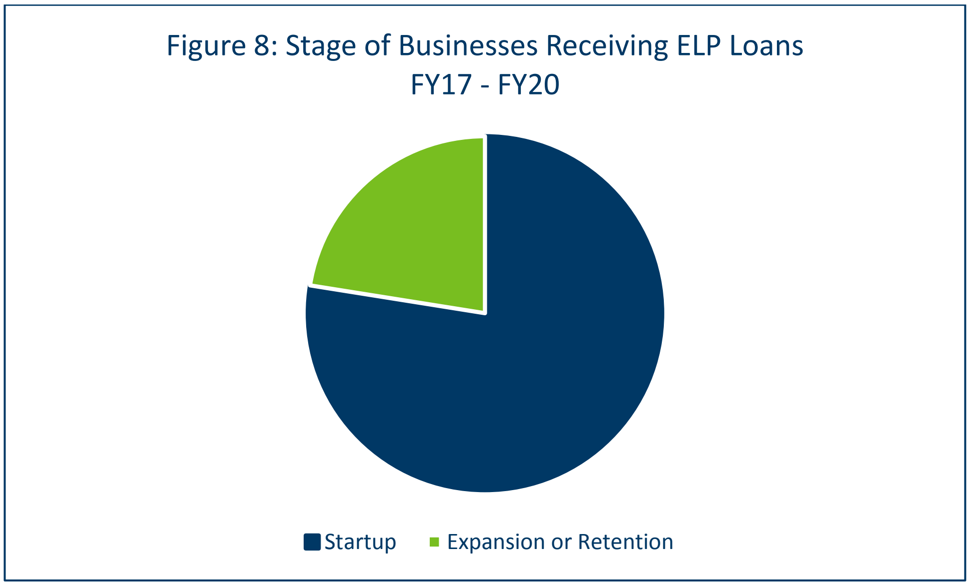
Since 2017, 111 of the 164 loans enrolled in the program have been to beginning microenterprises, but 68 percent of all projects have had at least one dollar in non-DEED financing for every ELP dollar. During FY 2020, 71 percent of businesses financed through the program qualified as beginning microenterprises. Despite the high rate of projects that did not require matching funds under program guidelines, 65 percent of projects leveraged at least $1 of non-DEED funds for every ELP dollar. Overall, the program has leveraged $30.5 million while providing $4.7 million in funding – more than $6 of additional investment for every $1 of ELP funds. Figure 7 below shows the breakdown of projects based on the percentage of matching funds used.

Figure 7: ELP Loan Matching Funds



Stage of Businesses Receiving Loans

By statute, businesses that receive ELP funding must face a barrier to obtaining 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, 70 percent of businesses awarded funding have been in the startup phase. Figure 8 on Page 9 demonstrates the breakdown (by dollars) of loans provided to startup and existing businesses.

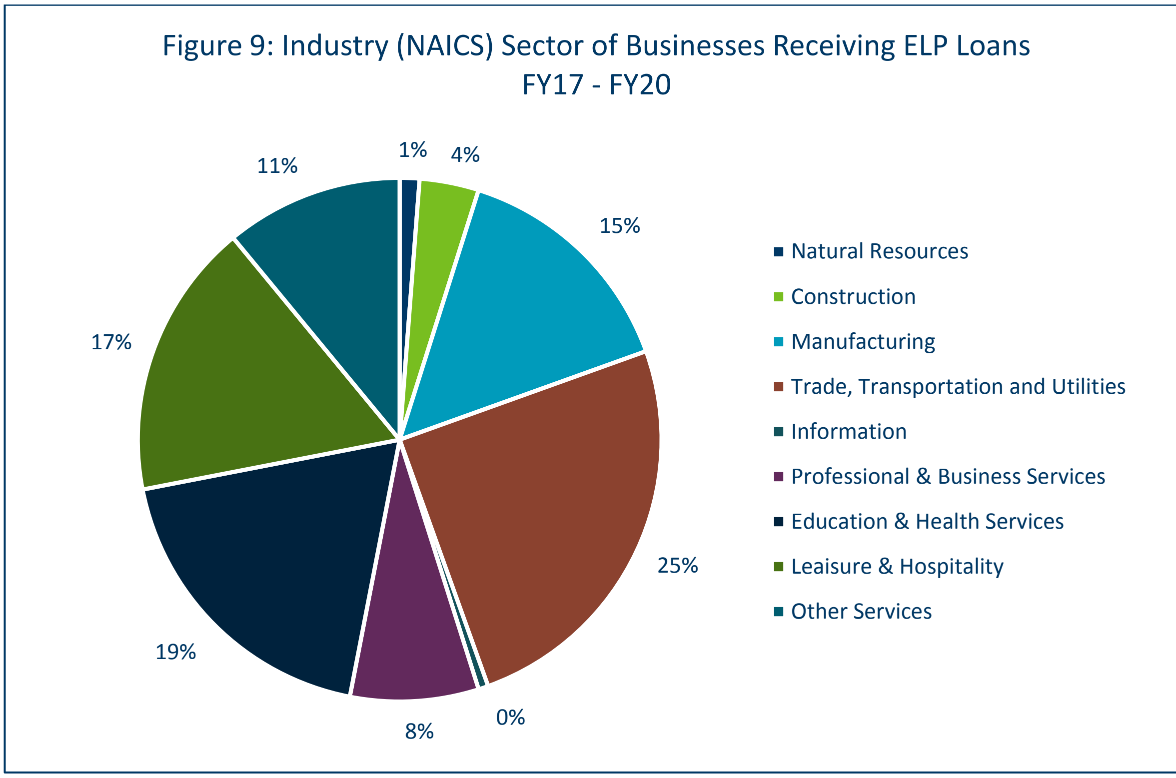


Borrower Industries

ELP funds have been used to finance businesses in eight sectors. Since the program began, at least 10 percent of financed projects were in one of the following sectors: Trade, Transportation and Utilities (41), Education and Health Services (31), Leisure and Hospitality (28), Manufacturing (24), and Other Services (18). Examples of products and services provided by ELP businesses include:

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

Figure 9 on Page 10 shows the breakdown of industry sector (by dollars) since 2017.



Job Creation and Impact in Low-Income Areas

The 145[1] businesses financed through the program between March 1, 2017 and Dec. 31, 2019 projected creating 599 new jobs (both full and part time) with average cash wages of $14.30 per hour. Of those 599 jobs, 421 were expected to be created in areas defined as low-income by the program.

Certified lending partners are required to report each calendar year about outcomes for the businesses financed through the program. Of the 145 businesses whose loans were approved between March 2017 and December 2019, 64 reported creating new positions by Dec. 31, 2019, 54 reported no job creation, 16 did not report data, and 11 were reported as no longer operating. The total number of jobs created by the 64 loan recipients that reported new jobs was 469. Of those, 289 were part-time and 180 were full-time positions. Minority individuals reportedly filled 159 of the new positions and 361 of the new jobs were created in areas defined as low-income by the program. [2]

The 16 businesses financed through the program during the first six months of 2020 projected creating an additional 53 new jobs (both full and part time) with average cash wages of $17.59 per hour. Of those 53 jobs, 50 are expected to be created in areas defined as low-income by the program. Overall, in FY 2020 the number of new jobs projected was 152 with average cash wages of $17.54 per hour and 135 of those positions were expected to be created in low-income areas.

[1] The number of transactions during this period was 148. Three businesses during this period had multiple transactions approved.

[2] For loans that were paid off prior to the end of CY 19, the most recent data provided was used.

Jobs reported in this section may not include business owners as they often are not classified as employees. However, it is important to recognize that businesses typically generate income and wealth for the owners – another important program benefit in addition to job creation.

Lender Activity

Of the 23 lenders that are authorized to provide ELP loans to qualified businesses, 20 actually participated in the program through June 30, 2020. These lenders made 164 loans and provided more than $4.6 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 1 on Page 11 displays a chart of lender activity since the program began.

Table 1: ELP Lender Activity FY17 - FY20

Lender	Number of Projects	ELP Funding Used
4-Directions Development	0	$ 0
African Development Center	20	$ 555,000
African Economic Development Solutions	9	$ 164,750
Central Minnesota Development Company	5	$ 393,675
Community and Economic Development Associates	1	$ 60,000
Entrepreneur Fund	24	$ 848,350
First Children's Finance	3	$ 134,500
Greater Bemidji	5	$ 236,000
Hmong American Partnership	3	$ 50,000
Immigrant Development Center	0	$ 0
Initiative Foundation	4	$ 172,122
Latino Economic Development Center	5	$ 100,000
Metropolitan Consortium of Community Developers	30	$ 729,000
Metropolitan Economic Development Association	2	$ 92,500
Neighborhood Development Center	4	$ 100,000
North Central Economic Development Association	12	$ 202,956
Northland Foundation	4	$ 213,750
Northside Economic Opportunity Network	0	$ 0
Northwest Minnesota Foundation	7	$ 106,500
Southern Minnesota Initiative Foundation	6	$ 112,550
Southwest Initiative Foundation	5	$ 94,500
WomenVenture	10	$ 219,951
Worthington Regional Economic Development Corp.	5	$ 95,000

Recommendations

Two statutory changes would help businesses, lenders and overall program administration. First, Minnesota Statutes 116M.18, Subd. 8 requires lenders to "...submit an annual report to the department by February 15 of each year." Because businesses often are unable to forward the required calendar year information to lenders until February or March, the information that lenders submit to DEED as of February 15 is incomplete. Amending the statute to allow reports to be submitted by April 15 will enhance the ELP report and allow better decision making by the legislature.

Second, Minnesota Statutes 116M.18 requires that "...loans shall be made so that an approximately equal dollar amount of loans are made to businesses in the metropolitan area as in the nonmetropolitan area." This language was included to ensure that Greater Minnesota businesses always received at least 50 percent of the loan funds. However, over the life of the program, Greater Minnesota has generally had stronger demand and a larger average loan size meaning that the program has sometimes had to delay loans until the dollar amount demanded in the Twin Cities area increased. Amending the statute to require at least 50 percent of the dollar amount of loans be made outside the metropolitan area will ensure program investment in Greater Minnesota while not delaying these investments due to low loan or dollar amount demand in the Twin Cities area.

Lastly, it is important to note that Minnesota Statutes 116M.18, Subdivision 2(b) require the department to "...review existing agreements with nonprofit corporations every five years and may renew or terminate the agreement based on the review." To meet this requirement, the department will be issuing a new Request for Proposal in early 2021 to (re)enroll new and existing lenders that meet the program requirements.

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