Setting up a Local Small Business Emergency Relief Fund: Lessons from Three First Movers

Bruce Katz, Colin Higgins, and Michael Saadine

DREXEL UNIVERSITY
Nowak Metro Finance Lab
Lindy Institute for Urban Innovation

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As the COVID-19 crisis continues to wreak havoc on communities and small businesses across the country, local and national actors have realized the enormity of the economic challenge at hand. After two weeks of record unemployment claims, it is abundantly clear that the economic shutdown is already causing unprecedented damage, especially to small businesses.

Policymakers have taken action, most notably through the ~$350 billion Paycheck Protection Program, which has shifted into high gear and already processed $70 billion. Despite this momentum, all initial indications are that these programs are unlikely to serve a substantial part of the small business market, particularly underserved small businesses that are owned by persons of color and/or located in low- and moderate-income neighborhoods. These enterprises lack close ties to the mainstream banking system, are unlikely to be able to tap Small Business Administration relief programs and are in dire need of objective technical guidance and support.

Fortunately, cities, counties, states and a group of alternative lenders have stepped into the breach and have created a parallel system for addressing the urgent needs of underserved small businesses that is providing a variety of grant and loan products that are fit to purpose. These efforts have emerged as a critical lifeline for the most vulnerable small businesses.

Last week we profiled five emerging typologies of these funds. Below we seek to expand on our typologies and show local leaders the nuts and bolts that go into operationalizing these funds, while providing practical resources for them to set up their own funds. We profile three first mover funds: The Birmingham Strong Fund; The Erie County Revenue and Gaming Authority's Bridge Loan Fund; and The Indy Chamber's Rapid Response Fund. Each fund uses a different model to get resources to the most vulnerable businesses in its community.

An usually empty Union Square in Manhattan amidst COVID-19, surrounded by closed businesses. Image Credit: [Flickr.]
Cover: Fishtown Social, a wine cafe in Philadelphia, shifts its operations from service to retailing during the lockdown. Image Credit: Ryan Debold.

IN PROFILING THESE FUNDS, FIVE LESSONS EMERGED

Lesson One: Local funds are undercapitalized and oversubscribed

Across the country, many of the local funds we spoke to maxed out the funds they raised within a matter of days of opening the application. In some cases, the initial wave of demand was up-to fifteen times greater than what the local fund was able to provide. On top of this, most of the institutions that are underwriting these loans are having to repurpose existing staff roles to meet this outsized demand. When paired with the rollout of the SBA's Paycheck Protection Program, it also means that some deserving small businesses are falling through the cracks.

Lesson Two: these funds emerge from existing networks between institutions—focused on other economic development goals—and repurpose them for rapid deployment of emergency funding.

While one branch of the government, private sector, or civic sector leads, these funds are often team efforts that epitomize networks of local economic stakeholders. This networked approach means that there is a built-in means for communicating the details of local funds (e.g., how to apply, what the key criteria are) to a broad pool of eligible businesses.

Lesson Three: Local funds are taking three broad approaches to distributing money

In general, there are three approaches that local funds are taking to fulfill local small business relief. The approaches range from those which have the least leverage and seek to get funds out the door and into small business bank accounts the fastest – to those which are more leveraged and long term.

> ***Approach 1: Keep the business alive.*** *This approach sets up a grant fund and opens an application of a set grant amount to the most vulnerable applicants and immediate liquidity. This is the city's first line of defense for Main Street businesses. It is focused on a short time frame, namely getting through the April. The grant funds set up by Seattle, Albuquerque, and San Francisco epitomize this approach.*
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> ***Approach 2: Keep the business intact.*** *This approach often begins alongside or immediately after approach one. It entails leveraging city money to entice different branches of the public sector, private sector, or philanthropies to contribute money (expanding the pool of capital) and establishing a zero-interest loan fund. It is focused on a medium time frame, namely getting through the next three months. All three examples profiled here are within this approach.*
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> ***Approach 3: Long-term support.*** *This approach is more complex. It involves seeding public money to develop a much broader loan fund in partnership with a community development financial institution (CDFI). This dramatically expands the pool of capital but takes more time to set up. It will only work for cities that have the capacity and engage a group of sophisticated CDFIs. It is the longest-term approach, focused on creating a targeted system of small business support through the next year and beyond. Chicago's Small Business Resiliency Loan Fund is the key example of this approach.*

Lesson Four: There is an ordered local sequencing emerging across the country

Across the country we have seen an ordered process emerging between these approaches. Cities and states that set up an immediate grant fund are now trying to expand the pool of capital by setting up loan funds that leverage different actors across the local economic development ecosystem and different levels of government funding. Often Approach 1 leads seamlessly into Approach 2 as local governments continue to play a larger role in keeping their Main Streets intact through the COVID-19 Crisis.

Lesson five: Norms are emerging, but products need to be uniform to attract more capital

As we spoke with first movers across the country, it became clear to us that their funds are unified by a set of norms. Their administrative processes and products can be templatized and scaled to localities nationally. We have noticed three emerging process-based norms and moved them into templates to facilitate their implementation nationally:

> ***Application processes:*** *most funds have an web-based platform to display information on their fund-size, following which a representative is contacted to securely transfer application materials. A template response email can be found here [link to template email]. A relatively uniform set of materials are required from the applicant that include financial statements from the past year, as well as demographic and geographic data. A template intake form can be found here [link to template form].*
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> ***Allocation criteria:*** *Most of these funds are oversubscribed. This means that the local institution must find ways to fairly disperse a scarce resource across a deserving population. While the individual allocation criteria vary based on municipality, a suggested evaluation template based on criteria emerging nationally is here [link to evaluation template].*
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> ***Data collection:*** *Most of these funds have some amount of public money in them. They also have specifically mission-oriented aims. This means they are required to report on the impact of their funds. A common set of collected data across the funds we spoke with are: demographic business owner and employee data, geography of business operation, funding amount, and industry of operation in addition to the application criteria including financial statements (bank statements provided in application, etc.), the rate of return after the 180-day period, and the average sales tax maintenance.*

One area of where these norms have not settled is in loan products. These vary by municipality, with most opting for a 3 month zero-interest period followed by a step up in interest. The exact terms of this interest, and what is held as collateral, vary between municipalities. This is a problem. These emerging norms must be crystallized into uniform processes and products if we want large institutional lenders to support local funds at scale, dramatically increasing the pool of capital accessible to local relief funds. One option for this is the Indianapolis approach, of mirroring the SBA's loan terms in the Paycheck Protection Program (PPP).

In the interim, we have identified three first-mover funds and the details of their operational logistics that can serve as replicable national models.

THE BIRMINGHAM STRONG FUND: $2.4 MILLION BRIDGING LOAN FUND

Launched on March 16th, The Birmingham Strong Fund's small business relief is part of a multi-phase response to support small businesses, workers, and the Birmingham community in light of the COVID-19 Crisis. At the expiration of the loan period, the loans are expected to evolve into a revolving loan program for small businesses housed within the Birmingham Business Resource Center. The explicit purpose of the fund is to provide a bridge loan into the SBA's Program, stabilizing operations and payroll until additional capital can arrive. We profiled it as a model city fund.

Capitalization: The City council approved $1 million of city money, with another $200,000 approved from the City's Office of Innovation and Economic Opportunity, to seed the fund. It has since garnered $1.2 million in matching funds from the private and civic sectors, creating a $2.4 million emergency loan fund.

Rationale: The city proposed a multi-phase stimulus package to stabilize the Birmingham economy, protect Birmingham workers, and stimulate Birmingham businesses. They wagered that if the city put in $1.2 million, they could raise an additional $1.2 million in matching private and philanthropic funds.

Logistics of running the fund

Administration: This loan fund is administered by the Birmingham Business Resource Center, a local nonprofit focused on business development. There is a loan advisory committee composed of representatives from the City's Department of Innovation and Economic Opportunity, the Community Foundation of Greater Birmingham, and private sector partners who donated to the fund.

Application process: All the necessary information is available on the website and forms are provided after emailing an inquiry. Documents are sent via Docusign, a secure transfer program The Application is comprised of two submissions: (1) Applicants complete an email-based application after an initial inquiry; (2) Applicants + Guarantors (anyone with 20% or more ownership of the business) must submit personal financial statements.

Downtown Birmingham, AL. Image Credit: Wikipedia.

Promotion: Birmingham launched the Birmingham Strong website and automatically started collecting business data. Within the first 72 hours, 600 businesses had logged on, 70% of which were minority or women owned. In addition to the website, the city conducted a concerted media strategy focused on reaching business license holders, small business ecosystem builders, churches and nonprofits.

Loan sizing: loans come in four sizes: $10,000; $15,000; $20,000; and $25,000. These are zero interest for 180 days, with various interest terms following. They are detailed below.

Allocation criteria: The amount allocated is based upon five criteria: Business impact on neighborhood and community; Adaptability, innovation and responsiveness to COVID-19; Fiscal strength and operational stability; Historic contributions to the City of Birmingham as an employer and business; Ability to maintain operations and make payroll while limiting staff reductions.

Distribution Time: The first window for loan applications closed on March 27th at midnight. Businesses will begin to be notified on April 3rd if their loan application was approved. If approved, loan documents will be signed, and checks distributed starting April 6th.

Reporting: The city is collecting reporting on: the demographics of ownership for loans distributed; the breakdown of loan types by geography and neighborhood; the qualitative and quantitative impact of the loan on staff size, maintenance of operations, etc. (bank statements, etc.); the rate of return after the 180-day period; and the average sales tax maintenance for companies that applied and received versus those that applied and were denied an emergency loan.

Results so far: As of April 2, 2020, the Birmingham Strong fund had received 255 applications requesting a total of $5.2 mm. This exceeded the fund's capacity by over 200%

Who is eligible?	Required on Application	Loan terms

• For-profit businesses with less than 50 employees.
• Must have been operating for at least one year.
• Must reside in the City of Birmingham and have a City of Birmingham business license.
	• Federal tax returns for the past two years (unless the business is only one year old).
	• 12/31/2019 Year-end financial statements (balance sheet and income statement).
	• Interim financial statements dated within the last 90 days.
	• Supporting documents to statement of need outlined in the application.
	• Copy of 2019 Birmingham Business License.
	• Current bank statement.
		• Four loan sizes, one loan per business.
		• Loan repayment period: Zero-interest for 180 days.
		• Loan repayment structure:
		  • $25,000: 3% interest after 180 days.
		  • $20,000: 3.5% interest after 180 days.
		  • $15,000: 4.0% interest after 180 days.
		  • $10,000: 5.0% interest after 180 days.

Next Steps

The Birmingham Strong Small Business Relief fund was intended to provide bridge loans to businesses until they could apply to state and federal relief. They do not plan to increase the fund, but may create a separate fund focused on startups that are currently struggling. Right now they have set up a call center that is reaching out to every small business their local business database and informing them about the PPP and EIDL, and, if their bank is not lending PPP funds, directing them to handful of local banks which are—and which are also lending to new customers.

THE ERIE COUNTY GAMING AND REVENUE AUTHORITY FUND: $1.85 MILLION BRIDGING LOAN FUND

Announced on March 17th, in response to the COVID-19 Crisis, the Erie County Gaming Revenue Authority (ECGRA) partnered with the Erie County Council to create a three-pronged relief program focused on small businesses, nonprofits, and humanitarian aid. We profiled it in our typology as a model public-entity fund.

Capitalization: The business and nonprofit funds are capitalized with $1.85 million of ECGRA revenues. ECGRA receives roughly $4.5million of casino gaming revenues annually. For these funds, ECGRA leadership got its board of directors to invest 2/3 of their reserve funds into stabilizing the local economy as the COVID-19 pandemic was spreading in early March. It put this money to work across the local development ecosystem: $800,000 of their funds went to a small business loan fund run through a regional CDFI, Bridgeway Capital (BWC); $800k for a nonprofit loan fund through BWC; $250,000 went to the Erie Redevelopment Authority for midsize biz loans; they also ran a $500,000 for grant, which was later matched with $100,000 from the county government.

Rationale: the ECGRA framed the funds as a local stimulus package to get the local economy through the next 30 days until state and federal government money arrived. It was a local rescue package.

Logistics of running the fund

Administration: The business and nonprofit funds are distributed by BWC, a regional CDFI focused on community lending with whom ECGRA has a longstanding relationship.

Application process: The application is run through a website that outlines eligibility and where interested applicants email a representative of BWC. The response email clarifies what application materials are required. A draft email based on Erie's is linked here.

Downtown Erie, PA. Image Credit: Google Earth.

Promotion: BWC and ECGRA have promoted both over press releases and social media. BWC, which has a history of working with minority-run and small businesses, has also directly promoted it to clients via email to ensure coverage. The funding, however, is open to all eligible applicants not just existing clients. This differs from the major banks lending SBA money.

Loan sizing: While there is no uniform size, the rule of thumb that BWC uses is 50% of the business's operating expenses over a three month window. Loans vary from $5,000 to $50,000 with an anticipated $20,000 average size. The loan is interest free for three months, after which it becomes an interest only payment for a year.

Allocation criteria: Fund allocation is based upon the standard underwriting criteria that BWC uses.

Distribution Time: Funds will be distributed within 30 days of the loan application per ECGRA's agreement with BWC. BWC has streamlined their underwriting process, requiring only 1 year of financial information rather than 2 or 3. They are not taking business or personal real estate as collateral.

Reporting: ECGRA reports the results to their board of directors, elected officials, the local media, in their Annual Report. They will probably write a special report on the COVID-19 efforts. Data collected include demographics, census tract location, and initial financial situation of the business.

Results so far: BWC has received 94 inquiries, 17applications, and closed 10 loans. More of these applicants have been small businesses than nonprofits. They skew towards microbusinesses (with fewer than 10 employees) and tend to be food-related, hair salons, or retail business.

Who is eligible?	Required on Application	Loan terms

• All nonprofits located in Erie County.
• Small businesses under 25 employees located in Erie county that are minority-, woman-, immigrant- or veteran-owned businesses.
• Businesses under 25 employees or nonprofits that serve economically distressed neighborhoods in Erie County.
	• Proof of being an Erie County business.
	• Employment size.
	• Compelling case that the business was detrimentally affected by COVID-19.
	• The rest of the requirements are BWC's standard due diligence process, including one year of financial statements.
		• Flexible repayment terms with zero interest and no payment required for 3 months.
		• After 3 months the loan terms change to:
		  ◦ 4% interest for small businesses with interest-only payments for the first year.
		  ◦ 3% interest for nonprofits with interest-only payments for the first year.

Next Steps

ECGRA is having talks with elected officials about raising a broader stimulus packaged utilizing county bonds. The current bridging loan fund is intended to be a bridge for a three-month period of the worst of the COVID-19 crisis. Neither ECGRA or BWC are receiving CARES Act money to distribute, and it is unclear to applicants if they can apply for ECGRA bridging loans as well as SBA funds.

THE INDIANAPOLIS CHAMBER FUND: $4.9 MILLION (AND GROWING) BRIDGING LOAN FUND

On March 30, 2020 Mayor Joe Hogsett and the Indy Indy Chamber launched a regional Rapid Response Loan Fund to help small businesses throughout central Indiana manage economic disruption due to the COVID-19 pandemic. Through this fund, the Indy Chamber is providing loans between $1,000 - $25,000 through their rapid resource hub as bridge financing to support small businesses before SBA loans become available. It also provides wraparound technical support for small businesses navigating emergency funding. We profiled it as a model Business Chamber fund.

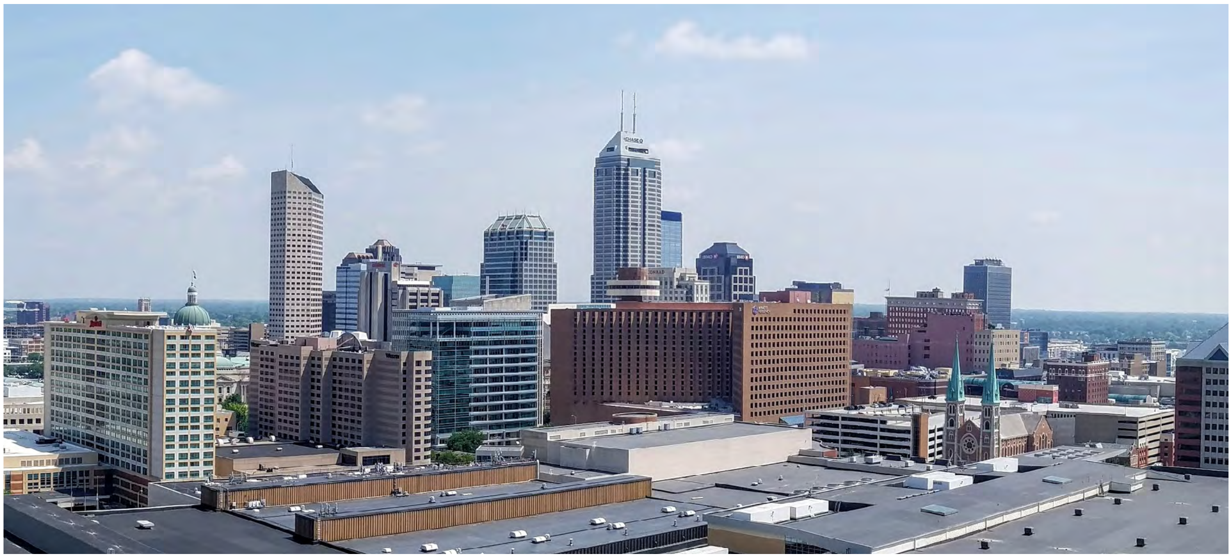
Capitalization: This unique public-private partnership was established with a $10 million capitalization goal. It started with nearly $3 million secured from local government, businesses, philanthropy and the Indy Chamber. The Fund attracted an additional $2 million within a week of launch. Funds came from existing available loan capital, additional loan capital from the City, Capital Improvement Board, Anthem, banks, and philanthropy. The funds were raised through the head of the Indy Chamber's appeals to the City of Indianapolis, business, and philanthropic interests. Because the Indy Chamber houses a CDFI, business and philanthropic contributions to the Fund can take the form of investments or grants.

Rationale: The Fund fills gaps in the existing SBA framework. It services small businesses who need smaller loans than the SBA traditionally provides and work in industries not traditionally served by the SBA. Although the PPP is well-designed, it's limited by the traditional SBA distribution channels which cannot support demand and often service clients with existing lending relationships. This limits access for some of the vulnerable small businesses: recently-established businesses, those which lack lending relationships, microbusinesses, and those in sectors traditionally unserved by the SBA. The fund targeted them by by providing smaller, working capital loans than the SBA to small businesses in an expedited timeframe before cash flow challenges result in unavoidable workforce reductions.

Logistics of running the fund

Administration: The Indy Chamber houses a 501(c)(3) CDFI called the Business Ownership Initiative that is running the fund. As a microlender, SBA microlender, and CDFI with clear channels of communications with banks and the SBA, they are able to maintain a general understanding of challenges and needs within the small business funding community.

Application process: The application is run through a website that outlines eligibility and where interested applicants email a representative of the Chamber. The response email clarifies what application materials are required. This is to ensure a secure transfer mechanism.



Downtown Indianapolis, IN. Image Credit: Wikipedia.

Promotion: The Indy Chamber has access to previous and current member businesses and clients. However, 70% of the loan inquiries to date are from non-member businesses. The Chamber launched a Rapid Response Hub on March 16th, which has a social media strategy that has been key to inquiries. They are also providing technical assistance to microbusinesses who apply.

Loan sizing: Loans range from $1,000 to $25,000 and interests are 3.75% across the board. The chamber has been transparent with investors that there may be more charge-offs than their usual rate, but that they expect this will allow more businesses to stay open—lessening charge offs in aggregate.

Allocation criteria: Loans are allocated based on traditional CDFI underwriting criteria, but with some of the time-consuming parts of the process taken out (requiring fewer years of financial statements, for example). The Chamber is also taking several steps to improve the inclusivity of the fund, including eliminating the need for credit scores and allowing immigrant entrepreneurs to use their ITIN instead of a social security number.

Distribution Time: The chamber has temporarily reassigned their sales, events, and economic development teams processing loan applications. They have regular training and process review meetings to streamline the process. They are processing loans as fast as they can.

Reporting: The Chamber will be compiling data on XBE business, geography, amount, and industry in addition to typical application criteria (detailed below).

Results so far: It took the chamber 72 hours to reach the $10 million of inquiries (the fund goal) and only 24 hours to hit the mark of funds already in the fund account and committed or soon to be wired to the fund. On Friday (April 3) alone, they closed 80% of their annual loan goal for 2020. Their inquiries represent 15 times the annual volume they usually have. The vast majority of inquiries and applications have come from businesses of 10 or fewer employees, and many have represented the restaurant and personal/professional services industries.

As of April 6, 2020:

Total inquiries	Average loan request	Total loan requests	Current funding goal	Current funds raised	Current gap
682	$19,234	$13 million	$10 million	$4.9 million	$8.1 million

Who is eligible?	Required on Application	Loan terms
• For profit businesses under 500 employees. • Businesses do not need to be members of the Chamber to receive a loan.	In general (not exhaustive) they review: • credit history; however, credit scores do not determine loan eligibility. • organizational documentation. • tax returns. • paystubs and proof of personal income. • bank statements. • statement of profit and loss. • balance sheet. • debt schedule.	• Terms and conditions mimic SBA Paycheck Protection Program: forgivable for 6 weeks, 1% fixed interest rate due within 2 years, with all payments deferred for 6 months.

Next Steps

Fundamentally, the Indy Chamber needs more capital to serve these businesses that the PPP cannot. Their ability to successfully raise loan cap from private and philanthropic sources would improve dramatically if the CARES Act / PPP backing were to expand to non-traditional CDFI community lenders to participate in capital deployment. In short, their community-based program could grow exponentially to meet needs if it were included as a PPP lender.