

## Creating Jobs in Madison Neighborhoods

The City of Madison Community Development Division's approach to job creation is a basic one; engage in creating jobs in the community for individuals that live in the community. Through a deferred payment loan program the Community Development Division is looking to boost job creation by way of entrepreneurship.

There has been a great deal of talk across the country about the best way to create jobs, and solutions vary depending on the source. One point on which there is consensus; small businesses create the majority of new jobs in this country. In fact, small businesses account for two-thirds of all new jobs in America. Often times it is these businesses that create jobs at the local level for individuals in the communities.

The Small Business Administration (SBA) has calculated that new entrepreneurial businesses created 3.5 million new jobs *a year* between 1997 and 2008. The SBA did a study in March of 2010 titled, An Analysis of Small Business and Jobs, and found that:

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*“Small firms also tend to fill niches in the labor market that are underserved.*

- *Small firms employ higher shares of Hispanics than large firms (65.9 percent of Hispanics work for firms with fewer than 500 employees).*
  - *And compared with large firms, small firms also employ higher shares of individuals with low educational attainment—a high school degree or less (63.2 percent); high school-aged workers (63.8 percent); individuals 65 or older (64.6 percent); disabled workers (59.4 percent); and rural workers (64.3 percent).”*
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When a person decides to start a small business the biggest obstacle they will encounter is being able to raise the capital for the business. Most entrepreneurs feel they have a great idea, but a limited amount of capital to get it off the ground. If they are fortunate enough to get financial backing for their new start-up business they will be required to hit the ground running because payback on the loan(s) will begin shortly after opening their doors. This can add a great deal of additional financial and emotional stress for a business owner but what may be worse is if it prevents a person with a solid business idea from even taking the risk of becoming an entrepreneur!

If a business takes out a \$50,000 loan, the monthly payment on that loan will be \$920.83.

Loan amount:	\$50,000
Interest rate:	4%
Term:	5 years
<b>Monthly payment:</b>	<b>\$920.83</b>

For a new start-up business, this payment adds an additional financial burden during those all so important beginning years.

In fact, according to the SBA, 50% of small businesses will fail in the first five years. Why some fail and some succeed is a matter of debate, but there are some common mistakes that can sink a business. Listed below are things the SBA recommends businesses avoid:

- ❖ Overexpansion
- ❖ Poor capital structure
- ❖ Overspending
- ❖ Lack of reserve funds
- ❖ Bad business location
- ❖ Poor execution
- ❖ An inadequate business plan
- ❖ Failure to change with the times
- ❖ Ineffective marketing and self promotion

Research shows, on most business failure lists having a poor debt structure falls within the top three on many (see attached examples). This means a number of businesses take on more start-up debt than they can handle, and then have a difficult time making the monthly payments while simultaneously trying to grow their business because cash-flow is limited. The 2009 American Recovery and Reinvestment Act Section 506 authorized the SBA to offer guarantees to banks to provide a \$35,000 twelve-month deferred-payment loan to small businesses. The rationale: redirect cash flow from making loan payments to reinvesting in their businesses.

In the example above if the business taking out a \$50,000 loan had the opportunity of a flexible loan repayment that would defer payments for the first two years (24 months), it would give the business an opportunity to reinvest these savings back into their business. The reinvestment of around \$22,000 (\$11,000/year) would greatly improve that first five year 50% failure rate by providing more cash flow. Businesses would have the added capability to work at growing the business rather than just paying for the business.

The Community Development Division proposal is to offer **disadvantaged businesses** the opportunity to focus on growing their business during those critical first years through a **Deferred Payment Loan Program**. This pilot program will allow a business to defer their loan payment for the first two years, with full repayment in seven years. Businesses vying for this opportunity would be required to go through a very competitive, well scrutinized, and in-depth underwriting and approval process. The Community Development Division, through partnering agencies, will provide and require the selected businesses to work with an appointed business assistant on a monthly basis, take designed business development training classes, and have annual reviews of the books to help further increase their rate of success. The Community Development Division will also look at future partnerships with local banks because their involvement could help them reach their Community Reinvestment Act goals.

Our goal, with this program is to leverage the City of Madison as the frontline provider in community development and job creation, and promoting a mission of creating jobs in the community, for the community.