



Department of Planning & Community & Economic Development

Economic Development Division

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Office of Business Resources

Dan Kennelly, Manager

(608) 267-1968

To: Mayor and Common Council

From: Ruth Rohlich, Business Development Specialist

Date: 07-08-2019

Subject: Cooperative Enterprise Development Program, resolution approving: Madison Development Corporation Contract Negotiation, Kiva Matched Cooperative Loan Program and Community Impact Loans

Warning: we will be using two abbreviations throughout this memo that are very similar:

MDC = Madison Development Corporation will be bolded to help distinguish them from

MCDC=Madison Cooperative Development Coalition

On July 5th, 2016, the Common Council approved the staff recommendation to choose the **Madison Development Corporation (MDC)** to serve as the loan manager for the Cooperative Enterprise Development program with the newly formed Madison Cooperative Development Coalition (MCDC) coordinating the technical assistance and community organizing for the project. (RES-16-00502)

As MCDC worked to establish guidelines and structure, the **Madison Development Corporation (MDC)** set up structure for the Cooperative Development Loan Program.

MDC serves the Madison community by working with businesses that are not able to obtain "traditional" forms of financing through banks and credit unions. While **MDC** is able to work with many business owners in the community, they do still require certain levels of credit scores and collateral to protect their loan funds.

The Office of Business Resources recently put together a funding spectrum document (attached) showing the relationship of various funding mechanisms to each other. The relationship of alternative lenders, like **MDC** and WWBIC, are the center to both traditional funders (banks and credit unions) and micro-credit organizations like KIVA.

Through discussions with **MDC**, and continued learning of the needs of newly established worker cooperatives, **MDC**, the MCDC Executive Board (of which I am a member) and the Economic Development Division are proposing three items in this resolution:

1. Approval for the Economic Development Division staff to negotiate contracts with the **Madison Development Corporation (MDC)** to continue programming as specified in the attached Scope of Services.
2. Taking advantage of the new partnership with KIVA, **MDC** and the City Economic Development Division are proposing to use \$50,000 of **MDC's** 2019 loan fund budget to provide zero interest, zero fee, matching revolving loans of up to \$5,000 for worker cooperatives endorsed by MCDC through KIVA.

Collaborating with KIVA allows worker cooperatives in need funding of less than \$10,000 and who do not meet the loan criteria of **MDC**, to begin their business with strong technical assistance from MCDC. It is the hope of all that once established as a business cooperative worker-owners would begin to improve their credit and show sales history that would allow them to qualify eventually for **MDC** loans if needed and eventually be "bankable" and establish relationships with area credit unions and banks.

July 10, 2019

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3. To allow for the creation of a "Community Impact Loan" of up to \$25,000 a year to be available from MDC for those worker cooperatives working with MCDC who do not meet the criteria of both traditional lenders and MDC.

"Community Impact" projects are identified as ones in which the organizing worker owners are creating a cooperative that both serves a community need and in which the worker owners are identified as being part of what is considered a historically marginalized community that has been affected by economic and/or racial inequity.

If there is a relationship with KIVA why does MDC need to allocate some of their loan fund in this manner?

The intention of the Cooperative Development Enterprise Program is to work with both established businesses and new cooperatives, with a focus on our Madison neighbors whom have experienced economic injustices because of unequitable historical practices.

We want community partners like MDC to work with cooperatives owned by workers with demonstrable skills but no to low collateral, less than ideal credit histories or no credit history, or those individuals who are reentering the Madison community. This is where we believe the true impact to equity lays.

The KIVA program allows an individual to borrow up to \$10,000. There are new cooperatives that require more capital than that to get started.

Why does MDC need special approval to do these kinds of loans?

Like WWBIC and other alternative lenders, MDC does take considerable risk in lending to new and unproven business owners who may not have "bankable" assets to secure a traditional loan.

In working with businesses owners, MDC has a set of criteria the borrowers still need to qualify for loans.

What we are asking of MDC is to loosen those criteria even further. This is a much higher level of risk. MDC wants to make sure that we are all aware of this additional risk and we are comfortable that there is a higher historical probability that these loans may default or take longer to pay back. With the strong partnership between "Community Impact" worker cooperatives and MCDC we are hoping these risks can be mitigated and issues with repayment will be dealt with early and quickly. City Staff will monitor the loan fund on a quarterly basis to look out for any issues.

Why only \$25,000 (essentially one loan a year)?

MCDC is still forming and we are learning about the work it takes to establish worker cooperatives, especially in marginalized communities. The technical assistance work required to move newly organized workers through the process of establishing a worker cooperative is time consuming and labor intensive for both the worker owners and the one cooperative developer employed by MCDC. At this time we do not believe MCDC has the capacity to handle more than one "community impact" project at a time. As we learn more about projects like these we will be able to better manage the work load.

We believe these changes will improve the program as we proceed into 2019 and beyond.

This program has gained national recognition as a city-led effort to create an equitable economy through worker ownership. It is still an experiment and we are all learning how to work together every day.

Sincerely,

Ruth Rohlich
Business Development Specialist
rrohlich@cityofmadison.com

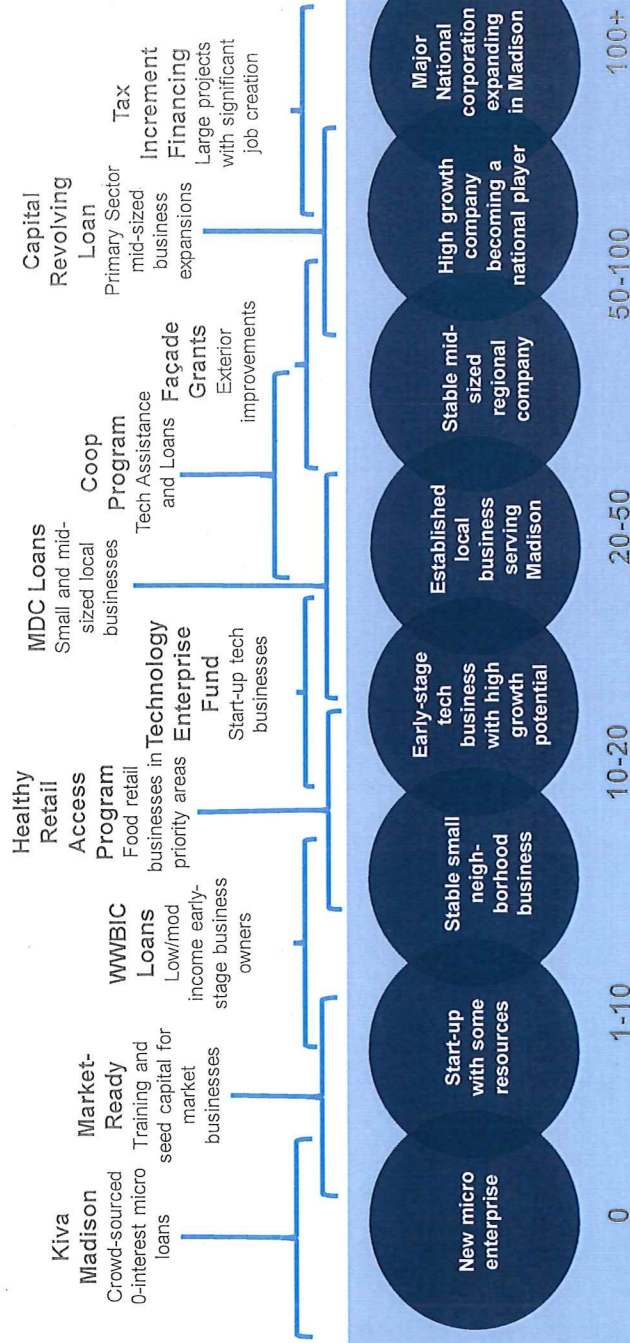


CITY OF MADISON

Programs Providing Financial Assistance to Businesses

Updated: January 2019

CITY-FUNDED BUSINESS PROGRAMS



BUSINESS SCALE

TYPICAL # OF EMPLOYEES

SMALL

MID

LARGE

GAPS AND CHALLENGES

- Limited direct support for very small micro-businesses
- All programs are specific to a geography or business type

- Very specific restrictions and guidelines and barriers to entry

POTENTIAL SOLUTIONS

- Augment Kiva with city match
- Expand MarketReady Model to different formats

- Expand Jobs TIF Program to make it accessible to Mid-Sized businesses

- Review policies and potentially update Cap Revolving Loan Program and Jobs TIF Guidelines.

Questions? Contact:

Dan Kennelly
City of Madison
Office of Business Resources
dkennelly@cityofmadison.com
608-267-1968

MDC Scope of Services

Agency	Madison Development Corporation
Program/Project Name	Cooperative Enterprise Development Program
Program/Project Manager	Ruth Rohlich
Total Prog/Project Budget	\$1, 650, 000.00
City of Madison Allocation in this contract	\$250,000 January 1, 2019 – December 31, 2019
Enactment #	RES-16-00502

1. Program/Project Description and Timeline:

Cooperatives economically empower workers and help address community needs. The worker cooperative model allows the fiscal benefits of labor to remain within a community of worker owners.

As the City continues to look for ways to address issues of equity and fair labor practices we recognize that empowering communities, business owners and workers to organize projects and businesses in a cooperative model will have long lasting economic benefit to the City.

On 07/06/2016 two organizations were approved by the Common Council to work in partnership to create an infrastructure to support growing cooperative businesses in Madison. The Center for Community Stewardship has a separate contract with the City to act as the fiscal agent for the Madison Development Cooperative Coalition (MCDC) to create technical assistance structures and programs.

Madison Development Corporation, through this contract, will work to provide loans to cooperative businesses.

This contract is intended to work in support of a mutual collaboration with MDCD. Madison Development Corporation was approved for two years of funding with an option to continue the relationship through years three-five of the project if goals are being met. 2019 represents contract year two of the project.

2. Contract Goals and Outcomes:

The primary goal of this project is the creation of new cooperative businesses, transition businesses to cooperatives and support cooperatives in Madison.

This goal can be met through the following objectives:

1. Loans to new, transitioning or established cooperatives.

2. While there are no required job creation numbers tied to the funding it is the City's intention that this funding will help create and retain jobs in cooperative businesses. This can include those employed by cooperatives and cooperative owners.

These objectives will be achieved through the availability of the loan pool which provides loans to eligible entrepreneurs and to small businesses for fixed asset and equipment purchases or working capital expenses, or which provides financial assistance for the purchase of a business site.

3. Service Population and/or Intended Service Area:

The Cooperative Enterprise Development Program is not tied to specific populations of people, however, the City is extremely interested in measuring this programs impact on LMI and people of color. Reporting of aggregate data will be done on all owners and workers of businesses receiving loans so the City can measure the financial impact of this project.

Cooperative businesses must be located within the City of Madison.

An effective full-time equivalent job shall be defined as one which averages 40 hours or more each week, and for which the term of hiring is not limited to a specific calendar period. The principal place of business of the employee is the City of Madison.

4. Reporting Requirements and Schedule:

1. MDC will provide information on a quarterly basis to OBR, which details the number of loan applications, the number of loans approved, the number of jobs to be created, the wage of these positions and demographic data of employees and owners as appropriate, and the total number of loans being managed and loan activity.
2. MDC will provide OBR each loan or equity investment made; along with a copy of the letter of commitment and loan agreement. The commitment letter shall include a list, by job title, of the jobs to be created and the wage rate to be paid for each job.
3. MDC will provide OBR with an annual report; a report listing each outstanding (current) loan, name, name, wage and demographic date of each owner , number of new FTE jobs to be created at the time of the loan, anticipated wage rates of the jobs to be created, number of new FTEs actually created to date, actual wage rates of the positions created, number of LMI persons hired for those jobs, demographics of the new hires using the attached form or one like it.

[Type text]

MDC shall provide OBR with a separate report by January 15, 2020, which provides information for each loan that is considered closed in the previous twelve months including the following: loan, name, name, wage and demographic date of each owner, number of new FTE jobs to be created at the time of the loan, anticipated wage rates of the jobs to be created, number of new FTEs actually created to date, actual wage rates of the positions created, number of LMI persons hired for those jobs, demographics of the new hires using the same form noted above.

4. MDC shall continue to track and report on the requirements of each loan until the loan is fully repaid. MDC may choose to conduct an on-site review of the businesses files to certify that the job creation requirements of the loan have been met when the loan is completed or when the requirements of the loan have been fulfilled.
5. MDC will conduct at least one on-site review of each loan recipients to certify job info provided is accurate.

5. Location of Service:

Madison Development Corporation is located at 550 West Washington Avenue.

6. Staffing :

Staff Title	Duties
VP Lending	Management of BPL program. Loan intake, review, approval process, service, marketing, compliance.
President	Business development, review of applicants, community outreach, loan service.
CFO/VP Operations	Program accounting, loan accounting
Office Coordinator	Payment processing, job survey.

Unless approved by the City, City funds for administrative costs shall be limited to \$45,000 and additional program income earned from interest and fees charged to borrowers shall also be available to support the fund including administrative costs.

7. Payment:

The first payment of \$250,000 will be made to Madison Development Corporation upon approval of the contract. This money will be used for administrative services and loan funds. Subsequent payment will not be made until the previous is depleted at least 75%. Payments can be \$150,000 or less depending on need and availability.

[Type text]



Ruth Rohlich
City of Madison
210 MLK Drive
Madison, WI 53703

Re: City of Madison Co-Op Worker Lending Contract

Dear Ruth:

Thank you for meeting with Dave Scholten's, Abigail Wallhaus and me on Wednesday March 27th to discuss our MDC City Co-Op Worker Co-Op Lending Program. As discussed, we would like to accomplish the following with this letter:

- I. Request the remainder of our \$300K allocation from 2018: \$150,000, plus
- II. Request the allocation for 2019 – which is \$300K less the \$50K we are happy to hear you will be re-directing to KIVA to give Micro-loans (\$250K)
Total net Request for funding from the City is \$150K (2018) plus \$250K (2019) or \$400,000 for the Co-Op Lending Program funds to be disbursed to MDC at your earliest convenience

As discussed, we would also be happy to further our discussions with you regarding using a portion of our Worker Co-Op funds to help worker service co-ops like home health care workers, child care workers or roofers, for example. This is certainly a possibility to originate \$25K loans, but we have to ensure it is efficiently done so all can benefit from the transaction. That being said, we just hired a firm to automatically upload all of our loan applications into our software program, so we've got a start on researching this!

Thank you again for your time. We look forward to working with the City on this very important program and we appreciate your trust in MDC.

Best,

Lorrie K Heinemann, President & CEO
Madison Development Corporation
550 W Washington Avenue
Madison, WI 53703