



EXECUTIVE SUMMARY

Minority Business Credit Enhancement Fund Ordinance 902-2022

Name of Requesting Entity: Department of Economic Development
Address of Requesting Entity: 601 Lakeside Ave East, Rm 210, Cleveland, OH 44112
Geographic Scope of Project: select one: City-wide

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AMOUNT REQUESTED \$ 5,000,000

DESCRIPTION

For Contractors: The City would partner with one or more banking/CDFI partners to provide flexible lines of credit (via a revolving loan fund) targeting construction firms owned and controlled by individuals from groups with historical under-representation in the construction industry. Funds will provide more flexible and advantageous terms and extend more aggressive credit than available through the private sector. City funding will be used to leverage additional private and nonprofit sector funding and may use a loan loss reserve.

For Developers: Along with access to pre-development and project financing, the initiative would help fund a technical assistance program to help navigate the many steps necessary to bring a project to successful completion — from funding to project management.

This initiative would be managed by an individual or consortium of third parties, vetted and selected through an RFP process, and participation would only be limited to firms whose annual revenues do not exceed \$3 Million.

TIMELINE

RFP: First Quarter 2023 with response and selection due dates in keeping with City of Cleveland policies.

Rollout: 30 days after all contracts have been negotiated and approved by City Council.

Program End Date: The contractor line of credit is a revolving loan fund and the City would anticipate it becoming an evergreen fund.

IMPLEMENTATION

The economic development department, in collaboration with the department of equal opportunity, will issue RFPs to third party partners to develop and administer the programs based on priorities and goals established by the City.



GOALS

- To expand the pool of qualified contractors from the historically unrepresented backgrounds, and help existing firms grow and become competitive for large-scale and City- supported contracting opportunities.
- To ensure an adequate pipeline of MBE contractors to benefit from other ARPA and IIJIA spending on home repair and rehab, housing and commercial development, and infrastructure
- To create an equitable development ecosystem and increase project funding opportunities for developers from historically unrepresented backgrounds
- To create generational wealth among minority developers and contractors

The initiative aims to:

- Leverage of a minimum of \$5 million of private and philanthropic capital to match the City's ARPA investment at least 1:1
- A pool of at least 20 "ready, willing, and able" DBE contractors with at least \$3 Million in bonding capacity by the end of 2028.
- A 20% utilization rate for DBE contractors on all projects receiving City incentives by the end of 2028.
- A pipeline of at least 10 projects with minority firms as lead developers, in some stage of development by the end of 2028.

RACIAL EQUITY

For Contractors: Despite the fact that the City's D/M/WBE participation requirements falls below those of cities with comparably diverse populations (e.g., Pittsburg: 17-18%; New Orleans rate: 35%), city-supported projects often fail to meet participation goals.

Given that contractor payments on large and publicly-funded projects are typically disbursed via a predetermined schedule, and only after the expenses have been incurred, one of the biggest challenges that DBE contractors face in becoming "ready, willing and able" to participate in these projects is access to sufficient working capital to meet their payrolls and material purchasing requirements. Statistically there is less wealth in the MBE community to enable contractors to cash flow large projects and banks have been less willing to extend credit to MBE contractors.

For Developers: Historically, the only paths to becoming a for-profit real estate developer have come from the kind of familial, social and professional connections that few minorities have access to. This program will provide extra assistance to help minority developers get started.

COMMUNITY IMPACT

By prioritizing developers focusing on projects in middle and opportunities, this initiative has the potentially impact a large portion of the city, in particular those neighborhoods that not benefitted from the surge of real estate-related activity that occurred in Cleveland over the past decade.

At a minimum, we expect this initiative to impact at least a dozen minority developers and upwards of 50 contractors over a five year period.



DIFFERENTIATION

While private sector efforts like Baker-Tilly's *DevelUP* program, along with grassroots efforts like the spate of *Buy Back Block* initiatives that have been started in places like Chicago and Baton Rouge, are making inroads when it comes to expanding the pipeline of minority developers, there are no examples of other cities creating programs with a holistic strategy to build capacity and provide capital access for minorities seeking to participate in real estate-related wealth creation for minority communities across the entire value chain—from development to construction to property ownership.

FINANCIAL LEVERAGE

Given that this initiative will rely on partnerships with the investment banks, financial intermediaries, CDFIs and traditional banks contributing both capital and program management resources, we believe we can achieve upwards of a one-to-four leverage between ARPA and matching funds. Depending on the program partner mix, this initiative would qualify for CDFI Equitable Recovery Program (ERP) funds as part of matching funds.

ADDITIONAL COMMENTS

Assuming that 10% of initiative costs are spent on training and administration, here is a breakdown of the possible number of contractors who would potentially be served by our ARPA funds, at various project sizes¹.

Credit Enhancement and Bonding Capacity Amount	Maximum Contractors Served
\$1 Million	21
\$750,000	28
\$500,000	43
\$200,000	107

¹ Assumes surety bond costs of \$10 per \$1000 and a 20% financial cushion for a loan pool credit enhancement