Economic Development

News & Views

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SBA Targets $10 Billion in Guarantees

The Small Business Administration (SBA) expects to approve $10 billion in loans under the agency's flagship 7(a) guaranteed loan program for the 1998 budget year. Last year the agency approved a record $9.5 billion in 7(a) loans.

"This year's SBA budget bill provides $716 million in new budget authority, said SBA Administrator Aida Alvarez. This budget will allow the agency to better serve small businesses by providing increases in several SBA programs and improving loan program data systems and oversight." The budget also provides $8 million to enhance the SBA's portfolio management, including monitoring and oversight of loans and participating lenders.

"This budget bill is good for small businesses and for the nation's economic health," said Alvarez. "It will enable the SBA to expand loan programs and increase small business access to government contracting. In addition, it provides new ways for promoting job creation and economic development, and a new microloan initiative to help move Americans from welfare to work."

The budget provides a record $1.3 billion in funding for Small Business Investment Companies (SBICs), the agency's premier vehicle for providing venture capital to small, growing companies. The program's 300 licensed SBICs produced a record amount of equity and debt capital investments in fiscal 1997, investing $2.4 billion in small businesses.

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FEDERAL RESERVE BANK
OF CHICAGO

SBA *continued from page 1*

Other SBA finance programs were authorized to continue at levels similar to those established last year. Among those programs are the 504 Certified Development Company loan program, authorized at $3 billion; the Defense Loan and Technical Assistance (DELTA) Program, $1.4 billion; the Surety Bond Guarantee program for small business contractors, $1.7 billion; and the disaster loan program, $882 million.

The legislation also allows the SBA to expand training and counseling assistance provided to women entrepreneurs. It provides $4 million for Women's Business Centers and $350,000 for the National Women's Business Council, which serve as the voice of women business owners in national policymaking.

Other funding for small business counseling and training programs includes $75.8 million for the Small Business Development Center Program, $3.5 million for the Service Corps of Retired Executives (SCORE), $3.1 million for One Stop Capital Shops, $3.1 million for U.S. Export Assistance Centers and $500,000 for Business Information Centers.

Microloans

The reauthorization bill makes the Microloan Demonstration Program permanent. This program will be able to provide $77 million in loans and $16.5 million in technical assistance grants to finance the efforts of non-profit microlenders. Established in 1992, the program provides SBA loans and technical assistance grants to non-profit organizations that work with budding entrepreneurs. New provisions establish the Welfare-To-Work Microloan initiative to provide assistance for some child-care transportation services.

The reauthorization bill also makes several major changes in rules governing federal contracts and increases the opportunities for small businesses to receive contracts. The changes are expected to enhance job creation, welfare reform and economic development in economically distressed urban and rural areas.

HUBZone

Under the Historically Underutilized Business Zone (HUBZone) provisions, small businesses will be encouraged to locate in and employ residents of distressed areas, including Indian reservations, by providing them with new opportunities to receive government contracts.

"This budget bill is good for small businesses and for the nation's economic health."

— Aida Alvarez

The SBA received $2 million to begin implementing the HUBZone initiative this year.

The bill directs federal agencies to increase the small business shares of federal contracts from 20 percent of total procurements to 23 percent. The difference represents about $6 billion more in contract opportunities for small businesses. ■

For additional information, contact the Small Business Administration at 800-827-5722.

Chicago Fed Facts

The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank, the Federal Reserve System.

The role of the Federal Reserve System is to foster a strong economy and a stable financial system.

The Chicago Reserve Bank:
- participates in formulating national monetary policy,
- supervises and regulates banks and bank holding companies, and
- provides financial services to banks and the U.S. government.

Employees: 2,100
Assets: $51.7 billion (as of 12/31/97)
Depository Institutions in Seventh District: 3,769
Banks and bank holding companies supervised: 1,340
Financial services volumes (1997):
Checks processed — $1.3 trillion
Automated Clearinghouse transfers — $2.2 trillion
Wire transfers — $37.0 trillion
Currency received and counted — $39.3 billion
Unfit currency destroyed — $10.8 billion

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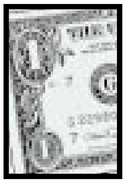
Finance

Secondary Market for CD Loans



Community Reinvestment Fund (CRF), a national nonprofit organization, has received a $2 million grant commitment from the McKnight Foundation to assist CRF in expanding its secondary market for community development loans and ancillary services throughout the country.

CRF helps community-based loan funds raise new capital from the private capital market. CRF pools loans it purchases from community development lenders and issues bonds, backed by the loan pools, to private investors, such as banks, insurance companies, and pension funds. Since its inception in 1988, CRF has purchased 864 loans totaling $52.3 million, providing $46.2 million in new, private capital to development organizations in thirteen states including Illinois, Wisconsin, and Michigan.

"This commitment by The McKnight Foundation is a tremendous step for CRF as it expands its programs to new markets and new partners. CRF hopes to purchase $50 million in loans annually in the next three years. National support from The McKnight Foundation is critical to that quest." Said Frank Altman, CRF president.

Through its Advance Commitment product, CRF can also partner with an organization to purchase loans as they are made, allowing the organization to leverage its lending dollars. For instance, CRF and the Wisconsin Housing and Economic Development Authority (WHEDA) have signed an agreement for CRF to purchase $2.5 million in loans originated under a recently launched WHEDA Loan Program. WHEDA has typically raised capital through the sale of tax-exempt bonds, but found it more cost efficient to deal with CRF. ■

For information on the Community Reinvestment Fund, contact Frank Altman at 612/338-3050 or 800/475-3050.

NCRC Study Sets CRA Commitments at $353 Billion

According to the National Community Reinvestment Coalition (NCRC), in the last 20 years the Community Reinvestment Act(CRA) has resulted in over $353 billion in CRA agreements between banks and community organizations. Passed in 1977, CRA requires banks and savings and loans to serve the credit needs of the local communities in which they are located, including low- and moderate-income neighborhoods. As part of their efforts to comply with CRA, some lenders have signed CRA agreements with community organizations.

"These agreements are really partnerships between lenders and community groups," said NCRC President and CEO John Taylor. "The bank agrees to offer affordable home, small business, and economic development loans in traditionally underserved inner city and rural communities. Community groups agree to prepare minority and lower-income residents for the loans and investments by offering homeownership counseling programs, small business planning workshops, and by involving neighborhood residents in devising community revitalization strategies."

The annual level of CRA agreements has skyrocketed from about half a million dollars per year from 1977 through 1991, to $57 billion per year during the last six years. More than 90 percent of the $353 billion in CRA agreements have been signed during the six years since NCRC's inception in 1992.

"Banks understand that CRA loans are profitable loans," Taylor said. "Some lenders are now selling CRA loans to investors on Wall Street. Working together, lenders and NCRC member community organizations have figured out how CRA is a win-win. Reinvestment is not only the right thing to do, it is the profitable thing to do." ■

NCRC is a trade association with more than 640 community reinvestment organizations as members. The members are dedicated to revitalizing inner city neighborhoods and rural areas.

To order copies of the study or for additional information, contact John Taylor, president and CEO of the National Community Reinvestment Coalition, 202/628-8866.

Microlending

CDFI Receives EQ2 Investments

The Chicago Area Neighborhood Development Organization (CANDO) has received its first "equity equivalent" (EQ2) investments from two financial institutions.

The equity equivalent investments were made by The First National Bank of Chicago and The Northern Trust Company. The funds will be used to increase the capitalization of CANDO's Self Employment Loan Fund (SELF).

SELF offers "micro-loans" to start-up and emerging Chicago businesses that are unable to access bank financing. The loan fund gives small entrepreneurs in Chicago a source of financing that previously had been difficult to access because of problems related to credit, collateral, and lack of previous business experience. By providing loans of $10,000 or less to these micro-businesses, SELF offers them an opportunity to succeed when other financing avenues are closed to them.

In 1997, the U.S. Treasury certified CANDO as a Community Development Financial Institution (CDFI). This certification enables financial institutions that provide capital to the loan fund to receive Community Reinvestment Act credit under the lending and investment tests of Regulation BB (Community Reinvestment Act). ■

For information regarding CANDO's loan programs and services, contact Marcus Weathersby, assistant director of finance, 312/939-7171, ext. 40.

For information regarding the Community Reinvestment Act, equity equivalent investments, or the CDFI certification process, contact your regulator or the Federal Reserve Bank of Chicago, Consumer and Community Affairs Division, 312/322-8232.

Business Assistance for Minority Entrepreneurs

The U.S. Department of Commerce's Minority Business Development Agency (MBDA) funds Business Development Centers nationwide to assist with the start-up, expansion and development of minority-owned firms.

Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs) and Business Resource Centers (BRCs) — provide business and technical assistance for minority entrepreneurs. In order to increase business opportunities in domestic and international markets, entrepreneurs can receive assistance with bonding, bidding, estimating, financing, procurement, international trade, franchising and joint ventures.

The MBDA-funded Centers are operated by for-profit and non-profit organizations, state and local government agencies, Native American tribes and educational institutions. The Centers provide individualized assistance in the areas of accounting administration, business planning, construction and marketing. Operations of the Centers are administered by the MBDA's Regional and District Offices, which oversee the Centers' business assistance services to minority entrepreneurs in five multi-state regions.

The Minority Business Opportunity Committee (MBOC) Program is designed to coordinate federal, state and local business resources to benefit minority business development. It also identifies educational programs and capital opportunities in the community and leverages those opportunities to meet the needs of the minority business entrepreneurs.

The Centers and MBOC foster competitive entrepreneurship, support local businesses and economic growth, help create jobs and improve the quality of community life for minorities.

The following facilities in the area served by the Federal Reserve Bank of Chicago are available to assist financial institutions and consultants in partnering with small business owners:

Minority Business Development Agency Regional Office
55 E. Monroe Street
Chicago, Illinois 60603
312/353-0182

Chicago Minority Business Opportunity Committee
230 S. Dearborn Street, Room 1064A
Chicago, Illinois 60604
312/353-5140

Chicago Minority Business Development Center
3512 W. Fullerton, Suite 11
Chicago, Illinois 60647
773/252-6300

Detroit Minority Business Opportunity Committee
One Stop Capital Shop
2051 Rosa Parks Boulevard, Suite 1-D
Detroit, Michigan 48216
313/989-0020 ■

Get Your Business "ABCs" Through Your MBDC

David Vega, Regional Director
U.S. Dept. of Commerce
Minority Business Development Agency

The Minority Business Development Agency supports several Minority Business Development Centers (MBDCs) throughout the country. These centers are staffed by experienced business professionals with the skills needed to help clients start, improve or expand business. The services provided by MBDCs are made affordable through both private support and Federal funding.

MBDCs provide each client with in-depth management and technical assistance for nominal fees. Services are tailored to the individual needs of minority or prospective businesses. Services are offered in the following areas:

- Marketing assistance: research, promotion, advertising and sales, pricing, sales forecasting, market share analysis.
- Finance and accounting assistance: mergers and acquisitions, financial packaging, cost accounting, planning, budget and control.
- Construction assistance: estimating, bid preparation, bonding, and take-offs.
- General management assistance: formulating corporate policy, business planning, organizational development, public relations, reports and controls.
- Personnel management: job evaluation and rating system, management training.
- Manufacturing assistance: plant management, plant location and site selection, materials handling and distribution.
- International trade assistance: export sales, letters of credit, joint ventures, export trading companies.

Discover Capital Dollars Through Your MBDC

MBDCs identify financing sources for their clients such as loans, bonds, trade credits and equity investments. Although the Agency and the MBDCs have no authority to make grants, loans or loan guarantees, MBDCs are excellent sources of information on private sector as well as federal, state and local capital opportunities. Financial institutions are encouraged to contact their local MBDCs to strengthen their working relationships and enhance their opportunities to meet the credit needs of the communities that they serve.

Locate Sales Through Your MBDC

Your MBDC is a wealth of information when it comes to market opportunities. Each MBDC maintains a centralized inventory of both public sector opportunities on the federal, state and local levels and private sector opportunities both foreign and domestic, for its clients. ■

For additional information contact David Vega, Chicago Regional Director, Minority Business Development Agency, 312/353-0182, or contact your nearest regional office for information on the MBDC nearest you.

Frequently Asked Questions

What is the minority business development agency?
The Minority Business Development Agency (MBDA)is part of the U.S. Department of Commerce, created specifically to foster the creation, growth and expansion of minority-owned businesses in America.

How does MBDA help minority businesses?
MBDA provides funding for Minority Business Development Centers (MBDC), Native American Business Development Centers (NABDC), Business Resource Centers (BRC) and Minority Business Opportunity Committees (MBOC) located throughout the nation. The Centers offer a wide range of business services to minority entrepreneurs.

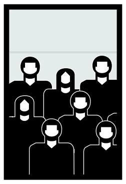
How is MBDA organized?
MBDA is headquartered in Washington, D.C. where all activities are planned, developed, coordinated and evaluated. There are five regional offices — Atlanta, Chicago, Dallas, New York and San Francisco — and four district offices — Miami, Boston, Philadelphia, and Los Angeles. Staff members oversee assistance and services in multi-state regions.

What are MBDCs, NABDCs, BRCs, and MBOCs?
The MBDCs, NABDCs, BRCs and MBOCs are centers operated by private firms, state and local government agencies, Native American tribes, and educational institutions. The Centers provide minority entrepreneurs one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to assure adequate financing for business ventures. The Centers are staffed by business specialists who have the knowledge and practical experience needed to run successful and profitable businesses.

How About Financial Aid?
The MBDA network offers assistance in identifying sources of financing and in the preparation of financial and bonding proposals. The Agency and its network, however, have no authority to make grants, loans or loan guarantees to any individual or organization wishing to purchase, start or expand a business.

Your Views

Milwaukee Partnerships Making a Difference



At first glance, the narrow band of industry that runs north of the Menomonee River, west of I-43 through Milwaukee's central city, appears foreboding. The abandoned factories, boarded-up storefronts, and vacant lots appear to be little more than monuments to the Midwest's once formidable industrial base — Milwaukee's own "Roman Forum" — a grim reminder of the "Rust Belt" of the 1980s. But to the 30th Street Industrial Corridor Corporation, this is an area that's poised for economic development, and change is already happening.

The 30th Street Industrial Corridor Corporation ("ICC"), a non-profit group formed by a coalition of committed professionals, is dedicated to halt and reverse "The Corridor's" economic decline. ICC is a partnership base of over 120 businesses, individuals, and organizations.

ICC's boundaries are roughly Congress Street on the north, Walnut Street on the south, 20th Street on the east, and 36th Street on the west. ICC's defined service area covers virtually all of the industrial sites on Milwaukee's northwest side - the most economically distressed part of the city.

Perhaps one of the most attractive features of the Corridor is its accessibility and physical proximity to transportation. "The location is perfect: close to Interstate 43 and 94, and minutes from downtown Milwaukee," says Vince Adams, former executive director of ICC. "The Interstate junction allows our companies immediate access to cities in three different directions. The Canadian Pacific Railway serves the entire corridor, and can handle companies' heavy transport needs. Additionally, four major arteries cross through the corridor, making it easily accessible to local residents. We're centrally-located, near most of the industry in southeast Wisconsin."

A Full-Service Approach

Organized in 1990, ICC provides "360-degree" assistance to its clients through its array of services: advocacy, training, and even office space, if needed. To deliver these services, ICC is organized as a series of working committees made up of volunteers from all sectors of Milwaukee's business and non-profit communities. These committees represent all aspects of the business development process. For example, the *Business Finance Committee*, which includes partners from Milwaukee lenders, assists area companies and entrepreneurs in acquiring financing for a business expansion or start-up. The *Redevelopment Committee* develops strategies to attract and retain businesses in the Corridor. The *Partnership Committee* works to increase ICC's involvement with neighborhood organizations and residents in the area.

The members' list of ICC reads like "Who's Who" of Milwaukee businesses. A.O. Smith, Master Lock, Miller Brewing Company, and Harley-Davidson are some of the companies with a large, national presence that have reaffirmed their commitment to central city Milwaukee. Other members with a local or regional base include Wisconsin Energy, Interstate Forging, ATO Findley Adhesives, Steeltech Manufacturing, and Compo Corporation. Member companies provide 60% of the employment opportunities within the corridor.

Vince Adams

How the Partnerships Work

Potential small business loan borrowers meet with ICC staff who help them determine their funding needs and then determine whether or not the borrower's needs could be met through public or private funding sources.

The Business Finance Committee helps borrowers navigate the many programs to find the one (or ones) that provide the best fit. If a loan request could be handled by a conventional bank, ICC staff refers the client to a Milwaukee bank that serves on the ICC's *Business Finance Committee*. For those clients who would best be served by public programs, ICC directs them to the various federal, state and locally-sponsored loan and guaranteed-loan programs available, including those of the Wisconsin Department of Commerce, Milwaukee County Economic Development Division, Milwaukee Economic Development Corporation, Wisconsin Housing and Economic Development Authority, and the U.S. Small Business Administration. The University of Wisconsin Small Business Development Center is on hand to provide a variety of business development and management services to entrepreneurs needing technical assistance.

The attraction of new business and industry often depends on the quality of office / industrial space. That's why ICC has begun to acquire property for the ICC Business Center. Its goal is to renovate the property and then find buyers in the private sector.

Master Plan

One of the first goals of ICC was the development and adoption of a "Master Plan" for the Corridor. Based on extensive research and interviews with industry representatives, community organizations, and area residents, the "Master Plan" includes the development of an urban industrial park that will attract companies that provide family-supporting jobs. ICC believes this could be accomplished by building upon the area's existing industrial base: printing, chemical and allied products, rubber and plastics, instruments and transportation-related equipment, utilities, and wholesale trade. Additionally, ICC hopes to tap into the growing field of environmentally-based industries that reduce and manage pollution and waste and recycle waste materials.

Brownfields Concerns

The Corridor has several contaminated properties, or brownfields. To alleviate this problem, ICC formed a partnership with Milwaukee County and the City of Milwaukee to secure one of twelve grants distributed nationally by the United States Environmental Protection Agency (USEPA).

ICC is also working with state officials. Governor Thompson's 1998 state budget includes a dynamic brownfields package. Grants worth $5 million are available through 1999 for brownfields cleanup through the Wisconsin Department of Commerce.

The State of Wisconsin, Milwaukee County, and the City of Milwaukee designated the Corridor as a Development Zone. This gives businesses in the area added incentives, such as refundable credits for wages paid to employees, credits on sales tax paid on materials purchased and used for business purposes, and non-refundable credits on depreciable tangible personal property used in trade or business.

ICC is Making a Difference

Has ICC made a difference since 1990? Yes! According to Vice Adams, ICC has leveraged $800,000 per year in new business loans and assisted Corridor companies employ 30-50 central city residents with newly-created jobs.

Although ICC does not make direct loans, Adams hopes to start a loan fund for minority-owned businesses sometime in 1998. “We realize that there are significant barriers for minority entrepreneurs and minority-owned businesses, even in today’s environment,” says Adams. “In Milwaukee, those who will be affected by the ‘welfare-to-work’ initiative are disproportionately minority, and many of these individuals have little or no history with the banking industry. A microloan program, then, would be a perfect fit with the services we already provide.”

In 1998, ICC will create an *Economic Development Committee* that will include real estate developers, lenders, city and state planning professionals, and other interested investors. The Committee will take a leadership position in the Corridor’s redevelopment. “We believe that through the inclusion of these professional developers, speaking in concert with the other partners involved with ICC, we can take an active approach to both developing and attracting more businesses to the Corridor,” says Adams. “We have the City and County involved, and with the private sector on board, I believe, this will give us a powerful voice.”

CRA Benefits

Partnerships through ICC are a logical way for banks wishing to improve the community development component of their lending, service, and investment tests under CRA. The revised CRA regulations were purposely written to give financial institutions the maximum amount of recognition for initiatives that provide jobs and stabilize neighborhoods. CRA community development activities are purposely flexible, in order to accommodate banks’ unique specializations and to recognize that their assessment areas may have unique community development needs and opportunities in which financial institutions can participate.

Banks are encouraged to contact their primary federal regulators to discuss how certain community development activities would be evaluated under the Community Reinvestment regulation. ■

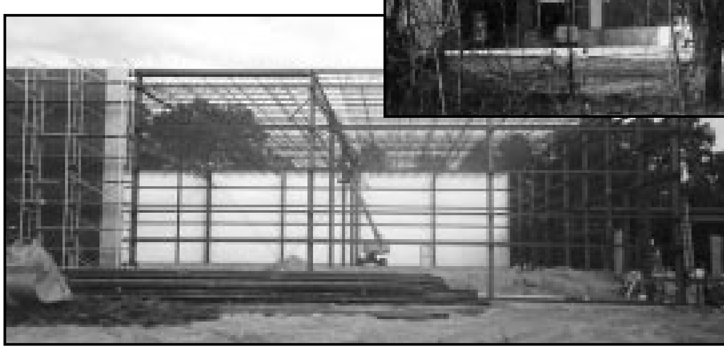
For more information on ICC and its programs and services, call 414/442-4582.

Editor’s note: a special thank you to Robert Mau, the Federal Reserve Bank of Chicago’s Community Affairs Program Director for the State of Wisconsin, for writing this article.

Tax-Free Renaissance Zones in Michigan

By Kathleen J. Blake
Director, Michigan Renaissance Zones

Who hasn’t dreamed of running his or her own business without having to pay taxes? Today, that dream can be a reality if the business is located in one of Michigan’s tax-free Renaissance Zones. The zones, located throughout the state, eliminate all state and local taxes except sales tax and bonded indebtedness. That means no single business tax, no personal property tax, no school tax — zero taxes for the next 15 years in most zones.



Benton Harbor, MI
Tax-Free Renaissance Zones

The Michigan Jobs Commission, the state’s economic development agency, helps businesses interested in developing major retail, residential or industrial projects in the zones. Several of the local plans call for retail developments to be included. Others include warehouse operations, along with many other types of industrial and commercial uses. Since residents living in Renaissance Zones also receive the tax-free status, some zones will take shape with a neighborhood feel to them. Even small retail operations make sense in such developments.

Renaissance Zones

The Renaissance Zones are the latest and most dramatic of Michigan’s steps toward making the state the best place in the country to do business. Michigan

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Tax-Free Renaissance *continued from page 7*

has implemented 24 tax cuts over the last six years and has taken several other giant steps in the past year to continue improving the state's business climate. This bold move is already bringing new economic strength to communities that have missed out on the overall prosperity that has become so pervasive in Michigan. The incentive applies to established Michigan businesses, as well as those that relocate to the state.

The zones were established on a competitive basis. Governor John Engler designated 11 communities, out of the 20 applications the state received. They are the ultimate extension of Engler's philosophy that reducing taxes spurs economic growth. By eliminating taxes altogether, Engler is seeking to maximize both the speed and size of the investment in these areas.

The tax-free status of the zones went into effect on New Year's Day 1997. The zones are scattered from Detroit, in southeast Michigan, to a three-county area in the western-most portion of the state's Upper Peninsula. Six urban zones, three rural zones and two military zones were chosen.

Michigan is the only state in the country with these tax-free zones, which require only that residents or businesses be located within the zone's geographic boundaries to get the exemptions. No paperwork, no huge bureaucracies, just zero taxes if you invest in our neediest communities.

To make the incentive work, it was not enough for the state to provide relief from all taxes — the local governments also had to participate. Twenty communities rose to that challenge. We all were pleasantly surprised to see governments at all levels work together on these zones with an unprecedented level of cooperation.

To help boost the success of the zones, the state has created grant and loan programs that overcome some of the obstacles that have prevented development, such as multiple ownerships and lack of infrastructure. The investment the state is making in these areas will be returned manyfold with the new jobs that will be created.

Tax-Free Renaissance Zones in Michigan

Zone	Type	Acreage	Duration
Benton Harbor / St. Joseph / Benton Twp.	Urban	120 acres	10 years
Detroit	Urban	1,345 acres	12 years
Flint	Urban	836 acres	15 years
Grand Rapids	Urban	536 acres	15 years
Lansing	Urban	110 acres	12 years
Saginaw	Urban	743 acres	12 years
Gogebic / Ontonagon / Houghton counties	Rural	2,917 acres	15 years
Manistee County	Rural	556 acres	15 years
Montcalm / Gratiot counties	Rural	1,870 acres	15 years
Warren Tank (former)	Military	153 acres	15 years
Wurtsmith Air Force Base (former)	Military	2,202 acres	15 years

Renaissance Park Fund

One of these programs is the Renaissance Park Fund, which provides up to $5 million to local communities to do "prospective development projects." We expect most of the applications will be to establish business parks, with no specific tenants lined up in advance. Specifically, the fund provides money to communities for such things as infrastructure improvements to make areas of the state more marketable.

The Renaissance Park Fund is not restricted to Renaissance Zone communities, but terms of repayment are more favorable within a zone. In the zones, a credit of up to $20,000 per job created is available toward repayment of the loan. The credit includes only jobs created within the first five years of the loan. It can be used to help repay up to 90 percent of the loan. Outside the Renaissance Zones, the credit is reduced to $10,000 for each job created and can be used to repay up to 50 percent of the loan.

Other terms of the loans also differ. In the Zone, the loan can be for up to $5 million and carry a maximum term of 20 years with no principal or interest payments for up to five years. Interest will not begin accruing until the beginning of the fourth year. If the project is outside a Renaissance Zone, the loan maximum is $3 million and carries a maximum term of 15 years. Like the zone counterparts, these loans do not require principal or interest payments for up to five years, but interest begins accruing earlier — at the beginning of the second year.

All loans are negotiated individually and are based on such criteria as local community involvement, number and quality of jobs anticipated, the business plan for the development, and the availability of other sites in the community.

Local communities will have to choose Renaissance Park Fund projects carefully because they will assume the remaining balance on the loans after five years, unless sufficient jobs are created to write off the debt.

Another new program meant to support the Renaissance Zones is a technical assistance grant program of up to $50,000 per Renaissance Zone community for such services as compiling ownerships and other information on land available within the Zones.

The Jobs Commission has established a Renaissance Zone unit, designed to ensure that new investment continues to flow into the zones. Three of the top Jobs Commission executives have been given special assignments to lead the new unit, giving us the power and expertise necessary to build the Renaissance Zone communities.

As of January, 44 projects have already committed to investing over $316 million into these economically distressed areas. ■

For additional information, contact Kathleen J. Blake, director, Renaissance Zones Office, Michigan Jobs Commission, 517-241-2570.

Entrepreneurship Education Breaks New Ground

By Kathy Reiser
University of Illinois

For most would-be entrepreneurs, the hardest part of starting a business is bridging the gap between concept and implementation.

"Everybody has an idea for a business they'd like to start," said Darlene Knipe, a University of Illinois (U of I) Extension small-business educator. "Getting beyond that stage is a huge stumbling block for many people, and it's even more daunting for people who don't have any experience in the business world."

Going Solo is a new U of I Extension curriculum that improves the odds for adults and older teenagers who might not picture themselves as potential business owners.

The program has been especially well received by audiences that are often overlooked in traditional business-education circles, according to Knipe, who co-authored the curriculum. Young people and former welfare recipients are among those who have started successful businesses as a result of the training.

"One of the things we find is that young people are more inclined to take risks and think in really creative ways," Knipe said. "They possess a lot of the qualities you see in the ideal entrepreneur."

While other entrepreneurship-education programs focus only on management principles, Going Solo emphasizes the whole range of skills required for success in business.

"Creative problem-solving ability is a big part of it," says Going Solo co-author Diane Baker, a U of I Extension youth development educator. "But they need help in developing skills in communication, team-building and personal development. It's not enough to understand the concept; they need to be able to present it well to a business audience."

Extension staff members have taught dozens of high-school teachers and adult educators how to use the Going Solo curriculum in recent months. The strength of the program lies in the hands-on activities and computer simulations for the would-be entrepreneurs.

"The participants actually create a product that they'll market," Knipe said. "They develop the product, plan marketing strategies, set production levels, manage cash flow, consider overhead expenses and so on." Program participants also have to find ways to deal with random fates and fortunes, such as flood damage or equipment-repair bills.

"When they make mistakes or suffer a setback, they have to think about how they can work their way out of the problem so they can stay in business," Knipe said.

Patricia Hudson, executive director of the Kankakee Community Development Corporation, has used the interactive materials and market trivia games with adult students in her self-employment classes. "It bonds my students and gives them more of a support group. My people don't always get a lot of support from family and friends."

Hudson says the curriculum does what it's supposed to do. "I've seen the light bulbs go on when they see the results of decisions they've made and find out what they've done right or wrong. Now they understand why they need to do market research. The game kind of brings everything into focus for them."

Greta Lesniak, a business-education teacher at Joliet West High School, agrees. "What I notice most is that the kids are enjoying the learning that is going on," she said. "They see the benefit of what they are doing, so they really get into it."

Knipe says future entrepreneurs aren't the only ones who benefit from the insights they gain through Going Solo. "Corporate executives find that people are better employees if they understand the big picture. Entire communities benefit from entrepreneurial people." ■

For more information, regarding the Going Solo program, or other U of I Extension programs, call Darlene Knipe or Diane Baker at 309/792-2500.

Is Tax Increment Financing a Responsible Tool for Community Development

By: Robert Morris, Champaign County (IL) Regional Planning Commission and Drew Hoel, Tuscola City Administrator

Tax Increment Financing as a tool of municipal finance could be a suitable development tool if the circumstances are right.

Municipalities can establish Tax Increment Financing (TIF) districts to spur and encourage new investment in economically stagnant or declining areas. They have been in use in California since the 1950s. Briefly stated, municipalities can issue bonds to pay for qualifying development and redevelopment costs. The municipality could then apply the incremental increase in tax revenue, which is attributed to an increase from new development, to retiring the debt it incurred in bringing that investment into existence.

In this way, the municipality does not have to share any of the increased revenue during the TIF lifetime, which might be as long as 22 years. Consequently, very large TIF investments could be supported by the municipality.

State legislatures typically restrict the use of TIF districts either to areas bypassed by any economic development or to preexisting developed areas that were experiencing disinvestment.

In Illinois, for example, TIF-legislation requires a proposed redevelopment area to meet five tests for "blight," and two tests for under-utilization, and a failure to contribute to a normal growth in the tax base. TIF is a financing vehicle of last resort, suitable only for cases where new development would not occur without the public investment.

Let's examine a success story:
Tuscola, Illinois TIF
Prior to the development of its TIF district, the City of Tuscola in Douglas County, Illinois, went through a period of economic hardship and stagnant growth. During the mid 1970s, this city of 4,000 was a farming center and home to two sizable employers. In 1975, a chemical company stood at approximately 1,500 and a coal mine facility employed about 450. By 1991, the chemical company had reduced employment at its Tuscola facility to 250 workers. In roughly the same period, the coal company was reducing employment at its Murdock mine towards zero. Previously, Tuscola had been an economically independent community.

With the reduction in economic activity came slow community growth. Vacancy rates in the central business district (CBD)began to rise.

In 1977, a residential subdivision of 30 lots was platted by a local developer. New homes were built at the rate of one to two per year over the next twenty years.

No new residential subdivisions came forward for platting between 1977 and 1995. A similar slowdown in the city's real estate taxable value took place.

In 1986, Tuscola adopted a TIF plan that included its central business district and substantial vacant acreage around the nearby Interstate 57 highway planned for commercial and industrial use.

TIF bond sale

A TIF bond sale of $2.8 million was completed in 1986. Proceeds from this sale were targeted for redevelopment of the CBD and for land assembly and infrastructure development at the expressway interchange. Three uses of the proceeds would be made in the CBD. First, grants were made to businesses for coming into compliance with the Americans with Disabilities Act, as well as for renovations to the roofs and shells of buildings. Second, economic development loans at a 3 percent interest rate were extended to some new and expanding businesses. Third, interest rate subsidies were extended to some other businesses with weaker debt service capacity. A total of twenty business loans and interest rate subsidies would be made in the CBD area by 1997.

The city's plan for the interchange area involved attracting a large commercial retail development. The city used TIF proceeds to accomplish this goal. First, they completed the purchase of 53 acres of land to give Tuscola sufficient acreage for a large scale commercial development. Next, the city hired a marketing firm that specialized in mall development.

After four years of marketing efforts by the consultant and city council, an experienced factory outlet mall developer made a commitment. This commitment would be contingent upon:

1) a land donation of the entire 53 acres valued at roughly $500,000;

2) the provision by the city of public roadway, utility and surface drainage systems; and

3) finally an annual $400,000 reimbursement in sales tax and property tax TIF increment for a period of 15 years, provided the outlet mall generated that increment.

Though this at first appeared to be an excessive exaction, it later proved to be consistent with the expectations of lenders who finance outlet malls.

During 1992, the developer slowly moved towards a 75% lease-up point which their lender required as the trigger for a construction loan. By that time, several high-end retail tenants had made commitments and a $500,000 economic development grant towards the cost of public infrastructure had been secured from the State of Illinois. As a result, the first developer sold the project to a major mall developer. Thereafter, permanent financing rapidly fell into place and construction began.

In Spring 1993, phase one construction was complete on Factory Outlet Stores at Tuscola, a 75-store development comprising 175,000 square feet of gross leasable area and employing 200 local people. The developer's investment in the project amounted to $21 million.

By 1996, the TIF surplus after payment of the developer's reimbursement stood at $320,000. City staff estimates that Tuscola will recapture its $1.5 million investment on the factory outlet mall within the next three years.

There is more

Until the creation of its TIF district, Tuscola attracted very little attention from developers. From 1990-93, the city twice tried unsuccessfully to secure revenue bond financing for a combined golf course and residential complex. Shortly after the outlet mall developer's commitment, a local developer secured commitments from area banks to build an 18-hole golf course and residential community. The golf course opened for business in 1997. The residential complex of 133 lots is now approximately 50% built out, with 25 lots yet to be sold. This is a dramatic contrast with the very slow pace of residential development in Tuscola during the 1970s and 80s.

It is also worth noting that Tuscola's CBD has been attracting significant private investment. The many major buildings that stood vacant in 1990 are now either occupied or under reconstruction.

Finally, in another economic development venture, the city of Tuscola recently has succeeded in drawing a commitment from a major country music development in what is estimated to be a $10-15 million project.

In Summary

The impetus which Tuscola's TIF district has given to both TIF-related and spin-off developments is significant. When the city adopted its TIF plan in 1987, it had the support of all area taxing bodies, including the local school district. These taxing bodies realized at the time that without new development the city's tax base would likely erode rather than grow. Despite available real estate tax revenues within the TIF area being frozen at 1986 levels until the year 2008 (the lifetime of Tuscola's TIF district was set at the maximum of 22 years permitted in Illinois), the City has generated a significant new non-TIF-related tax base. From 1987 to 1991 the City's tax base rose by 12%. From 1992 to 1996, the available tax base rose by an additional 30%. Consequently, area taxing bodies have been enjoying revenue growth in spite of the existence of the TIF. More properly, one could say because of the TIF. ■

The above edited excerpts are part of an article that was submitted by Robert Morris of the Champaign County Regional Planning Commission and Drew Hoel, Tuscola City Administrator. If you would like copies of the expanded, unedited submission, or if you would like additional information on Tax Increment Financing Districts, contact Robert Morris at 217/328-3313.

From Our Research Department

Labor Market conditions in the Seventh District

The Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes the entire state of Iowa along with large portions of Illinois, Indiana, Michigan, and Wisconsin. At the present time, there are 43 Metropolitan Statistical Areas (MSAs) in the Seventh District. The geographic boundaries of MSAs are defined by the U.S. Office of Management and Budget (OMB) as economic areas encompassing communities that are tightly linked by a flow of commuters, migrants, goods and services, and payments.

Unemployment rates are useful indicators of the labor market conditions in local areas. The unemployment rate is defined as the percentage of adults in the work force who are not currently employed but are actively seeking employment. Importantly, the work force, and hence the unemployment rate, does not include workers who are not actively looking for work. This means that workers who have given up looking for work are not counted as unemployed.

Unemployment rates for Seventh District MSAs are derived from data provided by the United States Department of Labor (USDL). Using definitions and guidelines established by the USDL to ensure consistency across state lines, state agencies calculate MSA unemployment rates on the basis of a monthly payroll survey and unemployment insurance records. The rates used here have been adjusted to account for normal seasonal variations.

Currently, labor market conditions are very good in virtually all areas of the Seventh District. The Seventh District makes up a large part of Middle America, which is experiencing a vigorous economic turnaround in comparison to the early 1980s. Growing world markets and increased productivity, which has kept our goods competitive in those markets, have enhanced the region's exports of agricultural products, consumer goods, machinery, and equipment. The machinery and equipment sectors, along with the regionally important automotive sector, also have gathered momentum due to the generally buoyant national economy. In addition, defense cutbacks and base closings have bypassed most of the region, or the effects are not so severe in comparison to California, New England, and other coastal areas. Similarly, other regions continue to work down the backlog of over-built real estate from the middle 1980s — a market boom in which many parts of the Seventh District did not participate as heavily. As a result of the District's economic vitality, many local areas are reporting difficulties in hiring workers — especially skilled workers.

Labor Market Highlights

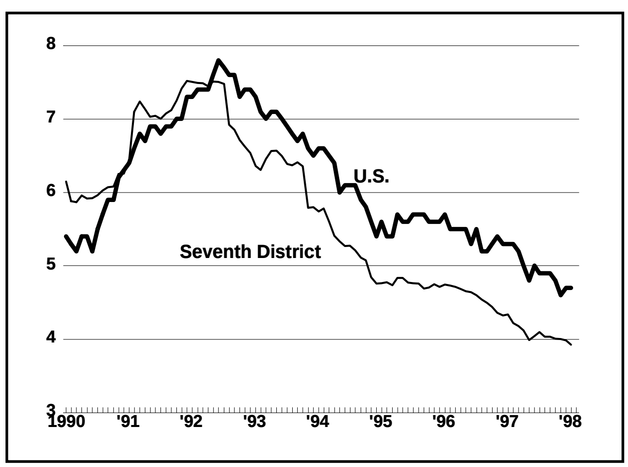
Conditions in the Seventh District's labor markets changed little over the last six months of 1997. The seasonally adjusted unemployment rate, which had been falling steadily since mid-1992, appears to have leveled off at just under 4.0 percent in December. This is still well below the national rate of 4.7 percent. The trend toward slowing employment growth continued as preliminary numbers show the region's growth rate falling slightly from the previous year, leaving it nearly a full percentage point below the national average of 2.3 percent. The region's manufacturing payrolls were virtually unchanged from 1996 levels.

This is not to say, however, that businesses in the Seventh District do not want to hire more workers — they do. Demand for labor in the Midwest continues to be very strong and, by many measures, stronger than the nation as a whole. Surveys of hiring plans, the volume of help-wanted advertising in local newspapers, and anecdotal information suggest that employers in the region are more optimistic about their expansion plans than their national counterparts. Evidence is mounting that shortages of qualified workers are hampering those expansion plans.

- Preliminary figures indicate that total nonfarm employment growth in the District for 1997 was 1.4 percent. Wisconsin showed the largest gain (1.8 percent) and Indiana the smallest (1.1 percent).
- Illinois and Iowa exhibited the largest increases in their manufacturing payrolls (+0.7 percent) while Michigan's declined 1.0 percent.
- The Seventh District's average annual unemployment rate fell to 4.0 percent in 1997, down from 4.6 percent in 1996. Rates ranged from a low of 3.0 percent in Iowa to a high of 4.7 percent in Illinois. Indiana's rate showed the most improvement, falling 0.9 percent for the year, while Wisconsin's rate was unchanged at 3.5 percent.
- Among the District's metropolitan areas, the tightest labor market was in Madison, Wisconsin where the annual unemployment rate for 1997 was a remarkably low 1.7 percent. Only 4 of the District's 43 metro areas had a rate above the national average with Decatur, Illinois, at 7.0 percent, the highest in the region. Dubuque, Iowa showed the most improvement from 1996, declining 2 full percentage points. ■

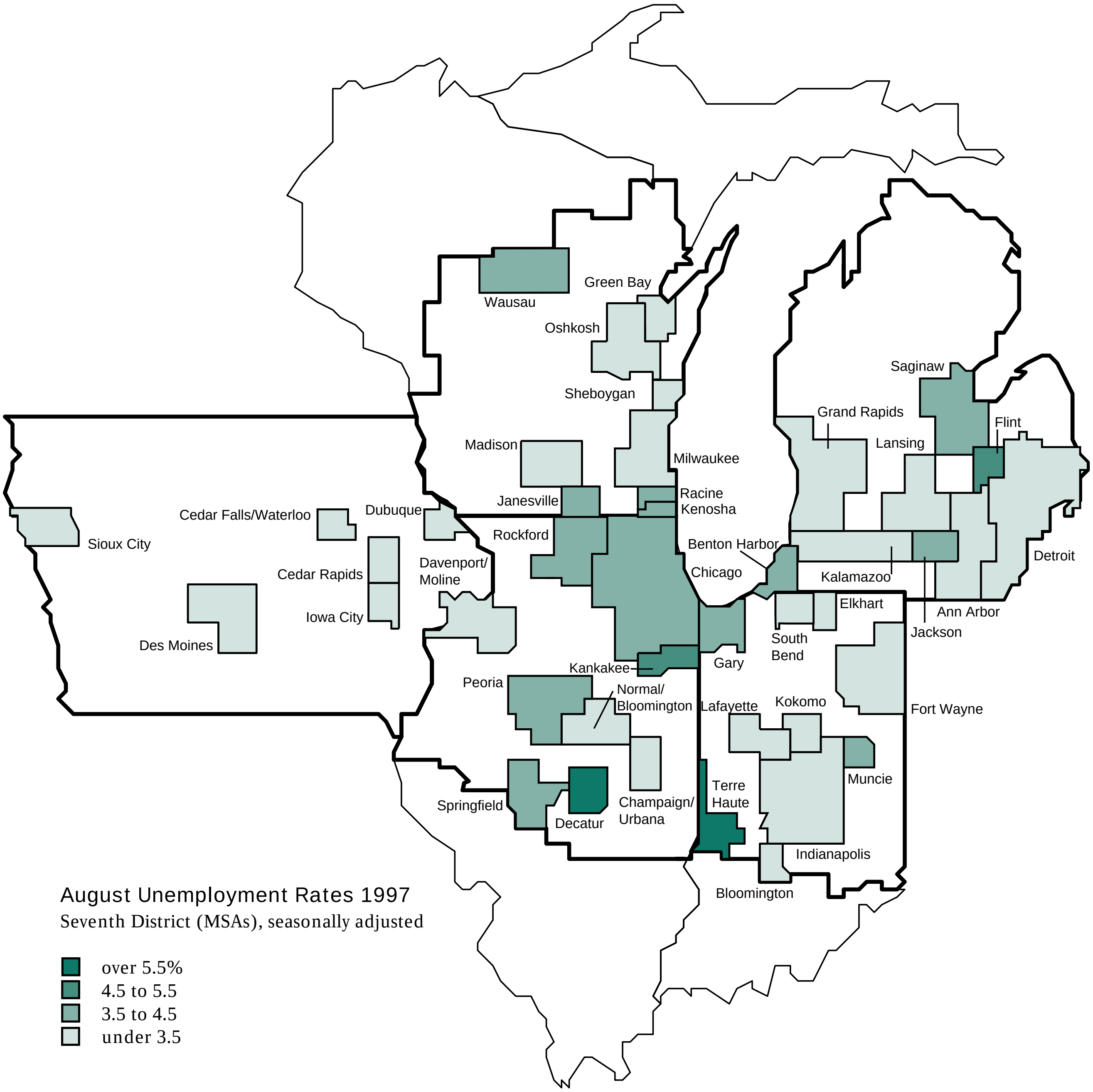
Richard E. Kaglic
Economist

Midwest Unemployment Rate



Seventh District Labor Markets

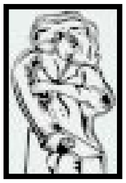
Unemployment conditions for December 1997



NOTE: All rates are subject to revision.

Women in Business

Hail gains by women business owners



The head of the U.S. Small Business Administration, Aida Alvarez, pointed with pride to the dramatic growth of women business owners as she marked March as national Women's History Month.

Women represent the fastest growing segment of the small business community. Roughly 40 percent of the 23 million small businesses in the U.S. are women-owned. They employ 18.5 million people and contribute about $2.3 trillion in sales and revenues to the national economy. If expected growth continues, women will own half of all U.S. businesses by early in the next century.

"As SBA Administrator, I am especially proud of the contributions and accomplishments of women entrepreneurs," Alvarez said. "The SBA and the Administration are committed to ensuring that the doors of economic opportunity are open to all Americans, and that women share fully in our nation's economic prosperity."

She noted that SBA lending and entrepreneurial assistance to women have increased sharply during the last five years.

- In the past five fiscal years, SBA-guaranteed loans to women have tripled in number and increased in dollar value by 164 percent.
- In the same five-year period, the SBA has backed more than 48,000 loans to women-owned businesses valued at nearly $7 billion.
- The SBA had developed new loan programs to better meet the needs of women customers, including reduced administrative paperwork and "microloans" for amounts between $100 and $25,000.
- In 1997, the SBA opened 10 new Women's Business Centers, bringing the total to more than 60 centers and subcenters in 36 states, the District of Columbia and Puerto Rico.

Alvarez said the SBA will move boldly to provide more financial and management assistance to women in the year ahead. The upcoming initiatives include:

- increasing women-owned businesses' share of federal contracting dollars from the current 1.8 percent to 5 percent;
- opening new Women's Business Centers to the point that there is one center in every state;
- assisting Hispanic women entrepreneurs by launching a Spanish-language version of the Online Women's Business Center;
- expanding the SBA Microloan Program; and
- boosting the overall level of SBA-guaranteed lending to women.

For more information on SBA programs and services, contact the SBA Answer Desk at 800/827-5722.

Around the District

Bank At School Program Reaches 100,000th Participant

Illinois' State Treasurer Judy Barr Topinka announced that her Bank At School (BAS) program has reached the 100,000 participant mark.

"This program links financial institutions and schools to the BAS curriculum that is designed to teach children the fundamentals of money management and build financial skills," Topinka said. "The program is growing rapidly throughout the state with schools and financial institutions signing up daily. Reaching this milestone of having 100,000 participants is just the beginning."

John Bracke, a fourth grader at Katherine Butterworth School in Moline, was selected as the honorary 100,000th student in a drawing by Treasurer Topinka from a group of school children during a BAS celebration at the school. He will receive a $100 savings bond provided by private funds. More than 400 children attended the event.

Teachers, principals and students from across the state have commended the BAS program and the many benefits it brings.

Students may open savings accounts on "BANK DAY" which is generally held once each month. The financial institution sends representatives to the school to open savings accounts and help with the program. Students may also have an opportunity to act as a "teller" to get a fuller understanding of the financial world.

There are more than 550 private and public schools (elementary, high school and college) currently participating in the BAS program. In addition, the program has been adopted for use in the state's "boot camp," and has been translated into six different languages for immigrants.

For additional information on the Bank At School program, contact the Illinois State Treasurer's office at 217/557-0885 or 312/814-8964.

Governor Announces $21.8 Million In CDAP Grants

Gov. Jim Edgar announced $21.8 million in grants to improve public infrastructure in 83 Illinois communities through the Community Development Assistant Program (CDAP).

"Safe and modern public infrastructure is crucial to continued economic development growth in communities across Illinois," the Governor said. "These projects also improve the quality of life for residents, and protect the health and safety of our citizens.

"Smaller communities often find it difficult to meet the cost of infrastructure improvements, and the CDAP program is designed to

District *continued*

help them overcome those financial challenges," the Governor said. "By helping Illinois communities improve and expand infrastructure — especially water and sewer service — we will continue to help them sustain and create jobs and meet the challenges of economic growth."

Lt. Gov. Bob Kustra, the Governor's senior adviser on economic development, said there is tremendous demand for the public infrastructure grants.

"This is an extremely competitive program," Kustra said. "Local officials throughout Illinois recognize that adequate public infrastructure is important in setting the stage for development and creating a bright economic future for their citizens."

The Illinois Department of Commerce and Community Affairs (DCCA) received 255 applications for public facilities construction and engineering totaling $75 million. The 83 successful applicants were chosen following a competitive review, with community need being a primary concern.

DCCA Director Norm Sims cited the community of Blandinsville as an example of the improvements to be made across Illinois.

"Blandinsville will receive $400,000 to construct a community-wide sanitary sewer collection and treatment system," Sims said. "The new system will eliminate the threat of inadequately treated sewage from village tiles or private septic systems. The state grant will be combined with about $2.9 million in federal rural development funds for the project."

CDAP grants are awarded to units of local government with populations of 50,000 or less that are not located within one of the eight large urban counties that receive funds directly from HUD. ■

For additional information regarding the CDAP program contact DCCA at 217/782-7500.

1998 Calendar

March 22-25
St. Louis, MO
Skills Enhancement Workshop for Retail Service Providers. Cosponsors: National Small Stores Institute, Federal Reserve Bank of Chicago, USDA, et al. Contact: Norma Turok 618 / 453-5561

March 31
Springfield, IL
Illinois State Microenterprise Initiative Conference & Workshops. Cosponsored by Illinois State Microenterprise Initiative, Federal Reserve Bank of Chicago, et al. Contact: 312 / 606-8255

April 16
Springfield, IL
Illinois Main Street Larger Cities Workshop. Contact: Jill Pearce, 217 / 524-6869

April 23-24
Chicago, IL
1998 Chicagoland Small Business Expo. Cosponsors: Chicagoland Chamber of Commerce, US Small Business Administration, et al. Contact: 312 / 494-6736

April 26-28
Washington, DC
Washington Policy. Sponsor: National Association of Development Organizations. Contact: 202 / 624-7806

April 29-May 2
Washington, DC
AEO Annual Conference. Cosponsors: The Association for Enterprise Opportunity and the Virginia Microenterprise Network. Contact: Debby Loggans 540 / 623-0100

June 17-18
Buffalo, NY
Economic Development Marketing. Sponsor: Council for Urban Economic Development.Contact: 202 / 223-4735

June 22-26
Denver, CO
Neighborhood Reinvestment Training Institute. Sponsor: Neighborhood Reinvestment Corporation. Contact: 800 / 438-5547

July 14-17
Scottsbluff, North Platte and Grand Island, NE
Community Development Workshop. Cosponsors: Federal Reserve Bank of Kansas City, Small Business Association, Nebraska Association, Nebraska Department of Economy and the Federal Home Loan Bank in Topeka. Contact: Dwight Johnson, SBA, 402 / 221-7206

Aug. 8-11
Washington, DC
Neighborhood Reinvestment Training Institute. Sponsor: Neighborhood Reinvestment Corporation. Contact: 800 / 438-5547

Sept. 9-11
San Diego, CA
Economic Development Finance. Sponsor: Council for Urban Economic Development. Contact: 202 / 223-4735

Nov. 16-20
San Francisco, CA
Neighborhood Reinvestment Training Institute. Sponsor: Neighborhood Reinvestment Corporation. Contact: 800 / 438-5547

1998 Chicagoland Small Business EXPO

April 23-24
at Navy Pier in Chicago
Complimentary VIP Pass

Subscribers to Economic Development News & Views who call the Chicagoland Chamber of Commerce's EXPO Hotline, at 312 / 494-6736, will be eligible to receive up to 10 complimentary passes to the EXPO.

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