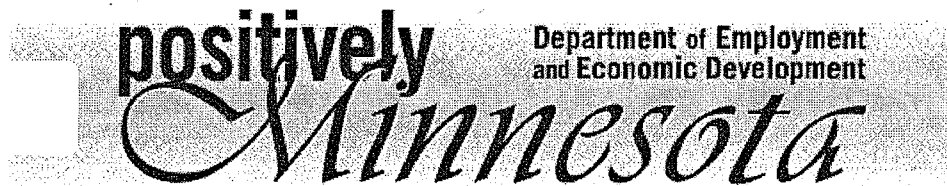


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URBAN INITIATIVE PROGRAM
2007 Report to the Minnesota Legislature

URBAN INITIATIVE BOARD

Report to the Minnesota Legislature, 2007

Minnesota Statutes 116M.17, subd. 4, requires the Urban Initiative Board to submit an annual report to the Legislature of an accounting of loans made through the Program, including information on loans to minority business enterprises, the impact on low-income areas, and recommendations concerning minority business development. The Department of Employment and Economic Development (DEED) provides administrative support to the board and the program.

Urban Initiative Loan Program

The Urban Initiative Program was created in 1993 to strengthen minority enterprise development, encourage private investment, create jobs, and promote economic development in low-income areas of Minneapolis, St. Paul, and the suburbs of Anoka, Blaine, Bloomington, Brooklyn Center, Brooklyn Park, Columbia Heights, Crystal, Fridley, Hopkins, Lauderdale, Lexington, New Hope, Osseo, Richfield, St. Anthony, St. Francis, St. Louis Park, Spring Park, South St. Paul, and West St. Paul. The program accomplishes these goals by making loans to new and expanding businesses in these targeted cities.

Urban Initiative loans are made through a network of certified nonprofit organizations.

Appendix 1 includes a list of current participants. The nonprofits receive grants, which they use to make loans to qualifying businesses. In most cases, the state's funds must be matched with funds from private, non-government sources. The state may lend \$1,000 to \$150,000 to qualifying businesses. The state's funds must be matched with private funds if the business is seeking more than \$25,000. Businesses eligible for loans include technologically innovative industries, value-added manufacturing, and information industries. Micro enterprises, which generally employ fewer than five people, are also eligible for loans up to \$25,000. Micro enterprises may include retail businesses.

Individuals and businesses operating in one of targeted cities apply directly with one of the participating organizations. The organizations carefully consider the application, the nature of the business and management, its potential for success and repayment, and its projected impact on the community. If the application is given initial approval, it is forwarded to DEED for final consideration.

Lending Activity in 2007

During fiscal year 2007, DEED received 51 loan applications and approved loans to 40 businesses for a total of \$720,000. A detailed listing of the projects is included in **Appendix 2**. The average loan amounted to \$27,304. The state contributed an average of \$16,000 to these loans, ranging from a low of \$3,750 to the high of \$100,000. The median amount of state funds invested was \$10,000. The loans helped to attract about \$2.87 million in additional investment. **Table 1** shows a breakdown of the state's investment by type and number of business, as well as total project costs, wages and projected job creation.

**Table 1. FY 2007 Urban Initiative Projects
Jobs to be Created**

Business Sector	No. of Projects	State Investment	Ave. Investment	Project Cost	Projected Jobs	Projected Wages
Construction**	1	\$100,000	\$100,000	\$500,000	0	\$0.00
Manufacturing	2	\$95,000	\$47,500	\$330,000	4	\$10.88
Transportation	4	\$82,500	\$20,625	\$187,500	1	\$11.50
Wholesale	5	\$52,750	\$10,550	\$216,000	1	\$8.00
Retail	24	\$277,250	\$11,552	\$2,111,584	28.5	\$9.71
Service	6	\$112,500	\$18,750	\$243,600	6	\$12.93
Total	42	\$720,000	\$17,143	\$3,588,684	40.5	\$10.30

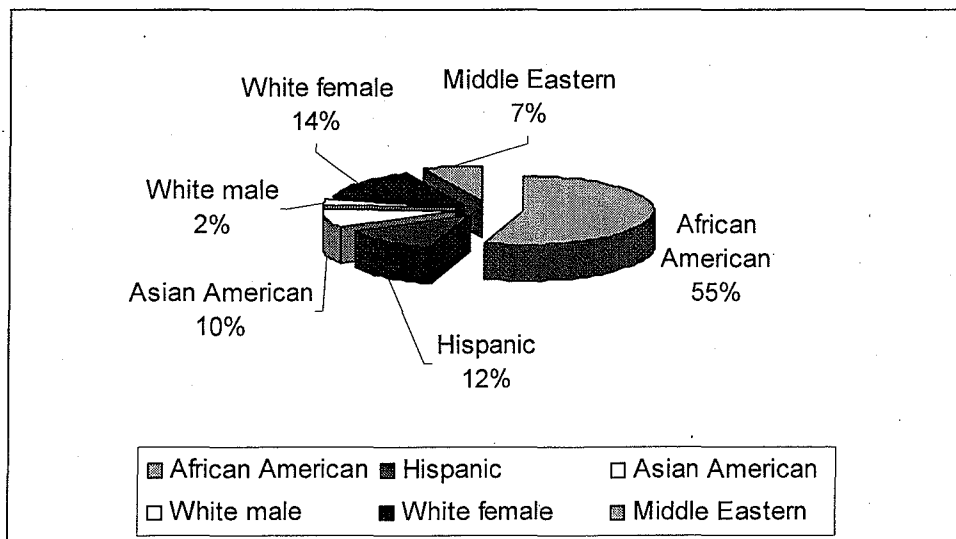
** Mtec. Electric proposed retaining 25 jobs, paying \$32 per hour so it is not shown here as creating any jobs.

The businesses receiving loans **expect to create** a total of 40 jobs over the next year and will pay an average of \$10.30 per hour, excluding benefits.

No Urban Initiative loans were made to businesses in the financial, insurance, and real estate sector or the agriculture sector. The sectors have not been strong users of the program and have received 11 and seven loans respectively since its inception.

As shown in **Figure 1**, minority business owners received 83 percent of program loans in 2007. As shown below, 55 percent of the loans went to businesses owned by African Americans. In many of these cases, recipients were recent immigrants to the United States, primarily coming from East Africa. Most of the owners (60 percent) were men while 38 percent of the businesses were owned by women. The remaining 2 percent of businesses were owned by two or more people.

Figure 1. FY 2007 Business Ownership

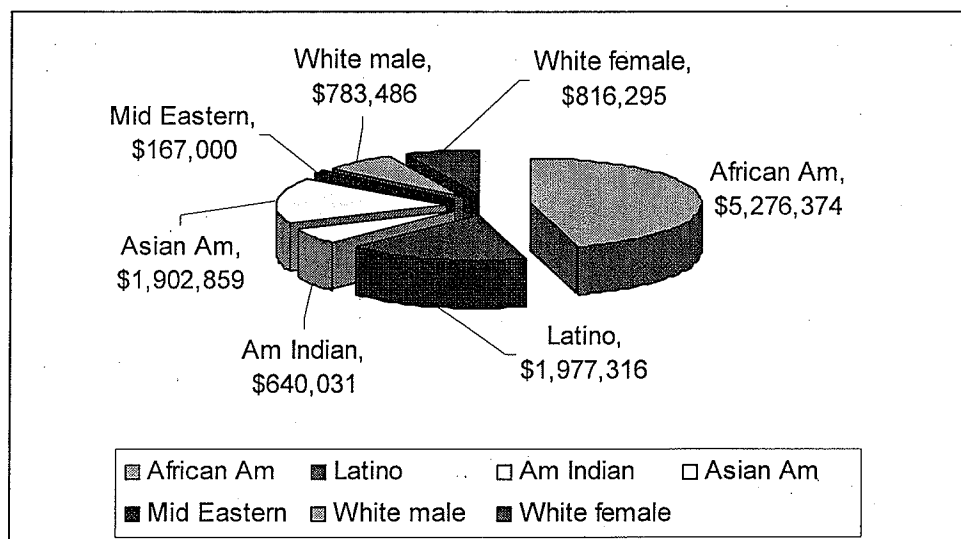


Program Since 1995

Between January 1995 and June 30, 2007, the Urban Initiative Program has approved 618 loan applications to 489 businesses. It has committed a total of \$11.69 million in state funds and helped generate an estimated \$48 million in additional business investment. The average state investment per loan is \$19,170, while the median investment is \$10,000. The average total loan, including the private funds used to match the state's investment, was \$37,338, while the median total loan is \$20,000.

Ownership. The Urban Initiative Program is intended to support the development of non-traditional entrepreneurs, especially minorities and women. The ownership of the businesses that have received loans through the program reflects that focus. As of June 30, 2007, 86 percent of all Urban Initiative funds had been lent to people of color. African-Americans have received a total of 276 loans, followed by Latino (91) and Asian-American (64) business owners. White males have received 40 loans. **Figure 2** below provides a percentage breakdown.

Figure 2. Percent of Loan Dollars by Racial Group



In terms of gender, 338 loans (58 percent) have been made to male-owned businesses, while female-owned businesses have received 175 loans (30 percent). Businesses owned by two or more individuals, generally a married couple or family, have received 73 loans.

Businesses Assisted. The program lends to wide variety of small businesses that are headquartered in an eligible low-income area. It will not, however, make loans to liquor stores, taverns or saloons, smoke shops, or adult entertainment businesses. **Table 2** below shows the distribution of the state's investment in these businesses using Standard Industrial Classifications (SIC) codes.

Table 2. State Funds by Business Sector

Sectors	Total \$ Lent	No. of Loans	Average State \$	Median \$	% of Total \$ Lent
Services	\$3,235,582	156	\$20,741	\$10,000	27.4%
Retail	\$2,575,840	224	\$11,499	\$10,000	21.8%
Wholesale	\$800,826	28	\$28,601	\$17,000	6.8%
FIRE	\$229,850	11	\$20,895	\$25,000	1.9%
Trans/Comm	\$1,297,152	52	\$24,945	\$24,000	11.0%
Mfg.	\$2,411,370	75	\$32,152	\$25,000	20.4%
Construction	\$1,070,614	35	\$30,589	\$22,500	9.1%
Agriculture	\$204,125	7	\$29,161	\$35,000	1.7%
Total	\$11,825,359	588			100.0%

Businesses in the service and retail sectors lead the pack in terms of the number of loans made and the amount lent. Businesses in the agricultural and financial services sectors have the fewest. Businesses in the manufacturing sector received the third largest total amount of state investment, with the largest amount per loan. It is noteworthy that retail businesses received 22 percent of the state funds, but represented 38 percent of the total number of the projects. This is largely because statute limits to \$25,000 the amount of state funds that may be invested in retail businesses.

Startup businesses have received the largest number of loans (255), while existing businesses received the largest amount of state funds – double the amount provided by startups. The amount of loans lost by expansions is also double the amount lost by startups. Expansions also have created more than double the number of jobs created by startups and retained businesses and, on average, they pay a \$1.00 an hour more than the other two.

Employment. The Urban Initiative Program is also intended to support the creation of job opportunities in its targeted cities. Accordingly, DEED asks for information about the total number of jobs created with the support of the program, excluding the owners of the businesses.

Table 3. Jobs Created by Industry Sector

Sectors	# Reporting Businesses	Projected Wages	Projected Jobs	Total \$ Lent	\$ per Job Projected
Services	34	\$12.15	235	\$890,725	\$3,790
Retail	99	\$8.64	157	\$1,507,728	\$9,603
Wholesale	10	\$12.17	10	\$472,750	\$47,275
FIRE	4	\$10.48	9	\$100,100	\$11,122
Trans/Comm	28	\$11.19	47	\$562,460	\$11,967
Mfg.	13	\$10.37	132	\$724,250	\$5,487
Construction	12	\$16.86	38	\$719,075	\$18,923
Agriculture	2	\$10.91	18	\$97,500	\$5,417
Total	202		646	\$5,074,588	\$7,855

The loans reported in **Table 3** above represent a total of 202 businesses that are operating and repaying Urban Initiative loans at the time of this report. The job information does not include loans to businesses that have repaid loans or businesses that have defaulted on loans. Once a business repays a loan, it is no longer asked to report its performance to the DEED. Overall, the projected wages paid by these companies was \$11.18 per hour, and they projected 646 jobs.

Three business sectors – retail, manufacturing, and service – are creating the vast majority of the jobs. Jobs to be created by construction related businesses paid significantly higher than any other sector. Job creation by the agricultural and financial services sectors are skewed because the number of active businesses is so small.

Financial Position. Appendix 3 shows the program's balance sheet and cash flows for each of the last 10 years. The cash fund balance of the Urban Initiative Fund as of June 30, 2007 was \$1.66 million. Of this amount, \$1.14 million had been committed to the participating organizations. The remaining \$559,316 is being allocated to the existing or new organizations. Table 4 below summarizes the Fund's activities since 1995.

Table 4. Urban Initiative Fund Activity

Fiscal Year	Loan Disbursements	Repayments		Write-offs
		Interest	Principal	
1995	\$135,000.00			
1996	\$760,551.50	\$2,038.02	\$2,422.42	
1997	\$1,316,762.15		\$251,130.63	
1998	\$852,600.00		\$267,507.30	
1999	\$1,092,032.36	\$1,504.95	\$387,754.21	
2000	\$1,227,926.50	-\$188.48	\$532,548.49	
2001	\$766,750.00	\$2,892.02	\$858,004.92	\$18,485.84
2002	\$621,131.00	\$935.04	\$673,452.57	\$300,592.09
2003	\$844,360.36	\$77.31	\$491,048.19	\$39,393.43
2004	\$1,004,693.53	\$561.52	\$635,909.03	\$476,670.95
2005	\$1,094,601.97	\$25.47	\$535,654.91	\$357,437.33
2006	\$1,249,622.08	\$1,095.82	\$546,034.68	\$284,616.16
2007	\$725,900.00	\$11,238.94	\$613,338.22	\$276,780.19
Totals	\$11,691,931.45	\$20,180.61	\$5,794,805.57	\$1,753,975.99
Average	\$899,379.34		\$482,900.46	\$250,568.00

Since its inception, the program has received a total of \$5.79 million in principal repayments, as well as \$1.88 million in interest earned through investment of program funds. In addition, the program has received \$20,180 in loan interest repayments. The interest repayments are nominal because the program allows the participating organizations to retain repaid interest to cover a portion of their operating expenses.

On average, the state has disbursed close to \$900,000 annually, while it has received \$483,000 in principle loan payments. The program has received more in loan repayments than it disbursed only in 2001 and 2002.

Repayment. Since the inception of the program in 1993, a total of 207 loans have been repaid for a total of \$3,676,400, or 31 percent of the total state funds lent. During the same 14-year period, a total of 143 loans have been written off for a total of \$1,753,975. The average amount lost for each loan written off was about \$13,800. The Program has lost 15 percent of the state funds invested. Approximately 21 percent of the original amounts of the loans that have been written off have been recovered by the participating organizations.

Generally, businesses have failed for the same reasons that most others have – a lack of market demand, competition from other businesses, and missteps by management, particularly involving the financial management of the business. In a number of cases, personal events contributed to the closures, including the death of three entrepreneurs, and severe illness or injury in the case of three others. More so than with larger corporations, personal issues and events can have a very direct effect on the viability of the business.

These losses are not altogether surprising considering that most of the entrepreneurs participating in the program have very limited experience operating a business. Many are undercapitalized and have very small margins for error if problems occur.

Entrepreneur Survey

The success of minority-owned businesses is critical to the nation's long-term economic prosperity. According to the U.S. Census Bureau, by the year 2030 the minority population is projected to account for 40 percent of the national population, so it is critical that minority entrepreneurs have the tools needed for business growth and national competitiveness. The same is true for Minnesota, where, over the next two decades, minorities are projected to account for more than half of the state's population growth.

To provide the Department of Employment and Economic Development (DEED) with a snapshot of how the entrepreneurs who received loans have progressed since they repaid their loans, a survey was conducted of these participants. DEED receives information annually about the borrowers, while they are repaying their loans, however, this data reporting stops after the loan is repaid. In light of the short average life of a micro-business, DEED wanted to know if the businesses that had repaid their loans were still in operation, had grown, or had closed. DEED also wanted to determine the approximate number of entrepreneurs who switched to a new venture and what the experience of starting a business meant to them and their family. Using a mailed survey method, DEED attempted to find answers to these questions.

Based on an analysis of the survey results, key findings are summarized as follows:

- Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. The survey findings were encouraging, but caution should be exercised when interpreting the results since the sample size was small.
- The majority (64.7 percent) of Urban Initiative Loan Program respondents are still in operation since they repaid their loan. When including those participants who either started a new business or became self-employed since their loan was repaid, the result increases to 78.8 percent.
- The majority (58.3 percent) of the respondents employed between one and five employees. The 24 businesses that responded to the survey employed a total of 508 employees. The average was 21.2 employees per business and the median was five employees.
- The average wage paid by Urban Initiative Loan Program respondents was \$13.47 per hour excluding benefits.

- A majority (66.7 percent) of business owners reported that they expanded their business in terms of sales since they repaid their loan. Survey respondents (79.2 percent) also reported that they had expanded their net worth.
- Respondents attributed much of their success to hard work, close day-to-day management and the financial and customer support of the local community. These owners also pointed out that owning and operating a small business is very stressful, requires long hours and is subject to a variety of external events and costs.

The complete report is attached. For more information on this annual report or the Urban Initiative Program, please call Bart Bevins at 651-259-7424.

Appendix 1

Urban Initiative Program Certified Partners

February 2008

African Development Center

Hussein Farah
Suite 200
1808 Riverside Avenue
Minneapolis, MN 55454
612/333-4772

American Indian Economic Development Fund

David Glass
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St. Paul, MN 55103
651/917-0819

Central Minnesota Development Co.

Michael J. Mulrooney
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1885 Station Parkway
Andover MN 55304
763/784-3337

Metropolitan Econ. Development Assoc.

George Jacobson
Suite 106
250 South Second Ave.
Minneapolis MN 55401
612/332-6332

Milestone Growth Fund

Judy Romlin
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Minneapolis MN 55402
612/338-0090

Metropolitan Consortium of Community Developers

David Chapman
3137 Chicago Ave. S.
Minneapolis MN 55407
612/789-7337

Neighborhood Development Center

Brian Singer
663 University Avenue #200
St. Paul MN 55104
651/291-2480

Riverview Economic Development Assn.

Jenny Ticcioni
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St. Paul MN 55107
651/222-3727

SPARC

Allison Sharkey
843 Rice Street
St. Paul MN 55117
651/488-1039

WomenVenture

Jane Lansing
2324 University Ave.
St. Paul MN 55104
651/646-3808

Appendix 2

[illegible]

Project Name	State Amount	Total Loan	Total Project	Location	SIC Code	Race *	Gender **	Start/Exp# No./Jobs Projected	Wages Projected	Project Number	Organization
07-Aug-07											
Race: 1=African American; 2=Hispanic; 3=American Indian; 4=Asian American; 5=European American; 6=Middle Eastern Gender: 1=male;2=female;3=multiple Start=1; Expand=2; Retain=3 BS=business sold BC=business closed wo= written off PO=paid off											

Balance Sheet for the FYs Ended:	06/30/07	06/30/06	06/30/05	06/30/04	06/30/03	06/30/02	06/30/01	06/30/00	06/30/99	06/30/98	06/30/97	06/30/96	06/30/95
Assets													
Cash	1,695,998.60	1,711,696.03	2,325,115.17	2,834,469.80	3,178,792.12	3,464,115.44	3,323,293.72	3,059,121.36	3,602,793.17	4,120,831.54	4,583,071.15	5,355,557.79	5,865,000.00
Loans Receivable	4,146,149.89	4,307,368.30	3,888,397.06	3,686,887.33	3,794,773.78	3,480,855.04	3,833,768.70	3,943,509.46	3,248,131.45	2,543,853.30	1,958,760.60	893,129.08	135,000.00
Total Assets	5,842,148.49	6,019,064.33	6,213,512.23	6,521,357.13	6,973,565.90	6,944,970.48	7,157,062.42	7,002,630.82	6,850,924.62	6,664,684.84	6,541,831.75	6,248,686.87	6,000,000.00
Liabilities and Fund Balance													
Liabilities:													
Total Liabilities													
Fund Balance:													
Reserved for Encumbrances	1,136,682.05	1,485,582.05	1,655,690.63	1,580,292.60	2,384,986.13	1,829,346.49	1,962,277.49	2,167,771.43	2,549,061.22	3,803,306.55	4,583,071.15	5,078,511.27	6,000,000.00
Unreserved Retained Earnings	4,705,466.44	4,533,482.28	4,557,821.60	4,941,064.53	4,588,579.77	5,115,623.99	5,194,784.93	4,834,859.39	4,301,863.40	2,861,378.29	1,958,760.60	1,170,175.60	-
Total Fund Balance	5,842,148.49	6,019,064.33	6,213,512.23	6,521,357.13	6,973,565.90	6,944,970.48	7,157,062.42	7,002,630.82	6,850,924.62	6,664,684.84	6,541,831.75	6,248,686.87	6,000,000.00
Total Liabilities and Fund Balance	5,842,148.49	6,019,064.33	6,213,512.23	6,521,357.13	6,973,565.90	6,944,970.48	7,157,062.42	7,002,630.82	6,850,924.62	6,664,684.84	6,541,831.75	6,248,686.87	6,000,000.00

Statement of Cash Flows:	Totals	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Operating Activities:														
Loan Repayments:														
Interest	20,180.61	11,238.94	1,095.82	25.47	561.52	77.31	935.04	2,892.02	(188.48)	1,504.95	-	-	2,038.02	-
Principal	5,794,805.57	613,338.22	546,034.68	535,654.91	635,909.03	491,048.19	673,452.57	858,004.92	532,548.49	387,754.21	267,507.30	251,130.63	2,422.42	-
Investment Interest	1,880,564.66	92,676.72	89,884.94	54,867.13	35,090.66	83,036.26	127,030.03	188,499.32	192,574.30	216,416.86	179,612.13	349,790.23	271,086.08	-
Operating Cash Inflows	7,695,550.84	717,253.88	637,015.44	590,547.51	671,561.21	574,161.76	801,417.64	1,049,396.26	724,934.31	605,676.02	447,119.43	600,920.86	275,546.52	-
Loans Issued	11,694,931.45	728,900.00	1,249,622.08	1,094,601.97	1,004,693.53	844,360.36	621,131.00	766,750.00	1,227,926.50	1,092,032.36	852,600.00	1,316,762.15	760,551.50	135,000.00
Grants	304,620.79	4,051.31	812.50	5,300.17	11,190.00	15,124.72	39,464.92	18,473.90	40,679.62	31,682.03	56,759.04	56,645.35	24,437.23	-
Operating Cash Outflows	11,999,552.24	732,951.31	1,250,434.58	1,099,902.14	1,015,883.53	859,485.08	660,595.92	785,223.90	1,268,606.12	1,123,714.39	909,359.04	1,373,407.50	784,988.73	135,000.00
Net Operating Cash Flows	(4,304,001.40)	(15,697.43)	(613,419.14)	(509,354.63)	(344,322.32)	(285,323.32)	140,821.72	264,172.36	(543,671.81)	(518,038.37)	(462,239.61)	(772,486.64)	(509,442.21)	(135,000.00)
Noncapital Financing:														
State Appropriations ¹	6,000,000.00	-	-	-	-	-	-	-	-	-	-	-	-	6,000,000.00
Net change in Cash	1,695,998.60	(15,697.43)	(613,419.14)	(509,354.63)	(344,322.32)	(285,323.32)	140,821.72	264,172.36	(543,671.81)	(518,038.37)	(462,239.61)	(772,486.64)	(509,442.21)	5,865,000.00
Beginning Cash Balance	-	1,711,696.03	2,325,115.17	2,834,469.80	3,178,792.12	3,464,115.44	3,323,293.72	3,059,121.36	3,602,793.17	4,120,831.54	4,583,071.15	5,355,557.79	5,865,000.00	-
Ending Cash Balance	1,695,998.60	1,695,998.60	1,711,696.03	2,325,115.17	2,834,469.80	3,178,792.12	3,464,115.44	3,323,293.72	3,059,121.36	3,602,793.17	4,120,831.54	4,583,071.15	5,355,557.79	5,865,000.00

¹ MN Laws of 1993, Chapter 369, Section 2, subdivision 2

**2007 URBAN INITIATIVE
LOAN PROGRAM
SMALL BUSINESS LENDING
SURVEY RESULTS**

January 2008

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Acknowledgements

The assistance and cooperation of many people went into this report. The Department of Employment and Economic Development (DEED) gratefully acknowledges the many valuable contributions of these individuals:

- Ashley Rathburn, DEED Business Community Development intern, who assisted with summarizing the data for the survey and preparing the summary and detailed results of the report;
- Susan Lindoo, DEED Analysis and Evaluation Office/Communications, Analysis and Research Division, who offered much expertise and guidance with the development of the survey instrument;
- Debbie Paulsen and Marietta Olsen, who helped in numerous administrative details including mailing the surveys and entering the survey results into DEED's database; and
- Rhonda Mix, who provided essential editorial help.

There are many others, too numerous to mention, whose insight and suggestions greatly improved the quality of this report. To them we also wish to express our thanks.

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2007 URBAN INITIATIVE LOAN PROGRAM SMALL BUSINESS LENDING SURVEY RESULTS

INTRODUCTION

The success of minority-owned businesses is critical to the nation's long-term economic prosperity. According to the U.S. Census Bureau, by the year 2030 the minority population is projected to account for 40 percent of the national population, so it is critical that minority entrepreneurs have the tools needed for business growth and national competitiveness. The same is true for Minnesota, where, over the next two decades, minorities are projected to account for more than half of the state's population growth.

In 1993, the Minnesota Legislature enacted a law to help strengthen minority-owned business development in the Twin Cities metropolitan area. The law aims at creating jobs in low-income areas, supporting the development of minority entrepreneurs, encouraging private investment, and promoting economic development for the area. The geographic area now includes Minneapolis, St. Paul, Anoka, Blaine, Bloomington, Brooklyn Center, Brooklyn Park, Columbia Heights, Crystal, Fridley, Hopkins, Lauderdale, Lexington, New Hope, Osseo, Richfield, St. Anthony, St. Francis, St. Louis Park, Spring Park, South St. Paul, and West St. Paul. To achieve these goals, the program provides fixed asset and working capital financing, through certified partners, to new and expanding minority-owned (including women-owned) businesses in those cities.

To provide the Department of Employment and Economic Development (DEED) with a snapshot of how the entrepreneurs who received loans have progressed since they repaid their loans, a survey was conducted of these participants. DEED receives information annually about the borrowers, while they are repaying their loans, however, this data reporting stops after the loan is repaid. In light of the short average life of a micro-business, DEED wanted to know if the businesses that had repaid their loans, were still in operation, had grown, or had closed. DEED also wanted to determine the approximate number of entrepreneurs who switched to a new venture and what the experience of starting a business meant to them and their family. Using a mailed survey method, DEED attempted to find answers to these questions.

The report of the survey findings is organized in five main sections: (1) Introduction, (2) Key Findings, (3) Summary, (4) Detailed Results and (5) Methodology. The survey instrument is attached as an appendix.

KEY FINDINGS

Based on the results of the analysis, key findings are summarized as follows:

- Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. The survey findings were encouraging, but caution should be exercised when interpreting the results since the sample size was small.
- The majority (64.7 percent) of Urban Initiative Loan Program respondents are still in operation since they repaid their loan. When including those participants who either started a new business or became self-employed since their loan was repaid, the result increases to 78.8 percent.
- The majority (58.3 percent) of the respondents employed between one and five employees. The 24 businesses that responded to the survey employed a total of 508 employees. The average was 21.2 employees per business and the median was five employees.
- The average wage paid by Urban Initiative Loan Program respondents was \$13.47 per hour excluding benefits.
- A majority (66.7 percent) of business owners reported that they expanded their business in terms of sales since they repaid their loan. Survey respondents (79.2 percent) also reported that they had expanded their net worth.
- Respondents attributed much of their success to hard work, close day-to-day management and the financial and customer support of the local community. These owners also pointed out that owning and operating a small business is very stressful, requires long hours and is subject to a variety of external events and costs.

SUMMARY

Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. The survey findings were encouraging, but caution should be exercised when interpreting the results since the sample size was small.

The Urban Initiative Small Business Lending Survey found that 22 businesses, or 64.7 percent of responding firms who received a loan through the program, were still in operation. Another nine respondents (26.5 percent) reported that they are no longer in business and three respondents (8.8 percent) did not answer this question. Of the nine that closed the original business, four (44.4 percent) had started a new business or became self-employed, and four others (44.4 percent) had taken a job with another business.

A number of respondents still in business emphasized the need to devote time and effort to the business. In response to the question asking what lessons the business owner had learned (see question 10), one respondent wrote that, "working hard is the only way you can make your business better;" while another respondent emphasized that "it takes much time and commitment to keep it running." One of the more interesting responses from a sales and marketing business was that "...sales and local support are critical." What made this comment poignant is that the original owner of the business died in 2001, about the same time the Urban Initiative loan was repaid. This business, unlike many other small businesses in a similar situation, continued its operations and has grown in size.

By comparison, of the four respondents that closed the original business and went to work for another employer since the loan was repaid, one did so because, "I'm a better doctor than a business manager" and "I didn't like being self-employed." Another one of the four respondents, who either started a new business or became self-employed, remarked, "I would advise against going into business alone." One respondent did not indicate on the survey what they did since the loan was repaid but mentioned they still owned several other companies.

While 16 respondents, or 66.7 percent of the businesses, have expanded in terms of sales since repaying their loan and 19 respondents (79.2 percent) have improved their net worth, it is not possible to determine how these respondents are doing financially, because the survey did not ask for specific sales and net worth.

Generally the respondents appear to have grown in their capacity to operate their businesses. Again, a number of the respondents emphasized the time and effort needed to keep the business operating. Other respondents indicated that they had learned to stay focused, be prepared for change, and look for support from customers and other resources.

DETAILED RESULTS**1. Currently is the business for which you received a loan still in operation?**

Currently Operating	Number of Respondents	Percent of Total Respondents
Yes	22	64.7%
No	9	26.5%
No Response	3	8.8%
Total	34	100.0%

- Twenty two of the 34 respondents (64.7 percent) reported that they are still in business in 2007. Nine (26.5 percent) reported that since they repaid the loan, they are no longer operating the original business for which they received the loan. Three respondents (8.8 percent) did not answer this question; however, they completed the rest of the survey and were included in the results of the rest of the questions.

2. If no, what have you done since you repaid your loan?

Activity if not in business	Number of Respondents	Percent of Total Respondents
Started a new business	2	22.2%
Found employment with another employer	4	44.4%
Became self-employed	2	22.2%
No response	1	11.1%
Total	9	100.0%

- Of the nine respondents whose business is no longer in operation, four (44.4 percent) are working for another employer. Two (22.2 percent) of those reported that they started a new business and two (22.2 percent) became self-employed. One respondent (11.1 percent) did not respond to the question.

3. Which of the following industries best describes your business?

Type of Industry	Number of Respondents	Percentage of Total Respondents
Service	10	41.6%
Retail	8	33.3%
Wholesale	2	8.3%
Manufacturing	2	8.3%
Construction	1	4.2%
Other	1	4.2%
Total	24	100.0%

- The service industry was the most prevalent type of business for respondents, accounting for 41.6 percent of the respondents. The second most prevalent type of business was retail, with 33.3 percent of the respondents.

4. Currently, which of the following sizes best describes your business?

Business Size	Number of Respondents	Percentage of Total Respondents
Small: 1-5 employees	14	58.3%
Medium: 6-20 employees	5	20.8%
Large: 20+ employees	5	20.8%
Total	24	100.0%

- Of the 24 respondents whose business is still in operation, 14 respondents (58.3 percent) reported that they employed between one and five employees. Five (20.8 percent) reported that they employed between six and 20 employees and five (20.8 percent) reported that they employed 20 or more employees in 2007.
- A total of 508 employees worked for the 24 businesses that responded to the survey. The average was 21.2 employees per business and the median was five. The largest employer accounted for 240 employees or 47.2 percent of all employees reported.

5. Since the loan was repaid, have you increased the number of employees working for your business?

Increased Employees	Number of Respondents	Percentage of Total Respondents
Yes	14	58.3%
No	10	41.7%
Total	24	100.0%

- Of the 24 respondents that had repaid their loans, 14 (58.3 percent) reported they had increased the number of employees, while 10 (41.7 percent) had not increased the number of employees.
- Of the 14 respondents who increased the number of employees, 12 (85.7 percent) also expanded their business sales and improved their net worth.

6. Currently, what is the total number of employees in your business?

Total Employees	Number of Respondents	Percentage of Total Respondents
5 or less	14	58.3%
6-15	3	12.5%
16-25	1	4.2%
26-35	3	12.5%
36 or more	3	12.5%
Total	24	100.0%

- Businesses that participated in the Urban Initiative Program were generally small in size. Fourteen respondents (58.3 percent) reported five or less employees, followed by seven respondents (29.2 percent) who had between six and 35 employees.

7. Currently, what is the average wage your business pays to employees per hour?

Average Wage Per Hour (excluding benefits)	Number of Respondents	Percentage of Total Respondents
\$7-\$10	8	33.3%
\$11-\$15	8	33.3%
\$16-\$20	2	8.3%
\$21 and over	4	16.7%
No Response	2	8.3%
Total	24	100.0%

- Sixteen respondents (66.6 percent) paid an average wage between \$7 and \$15 per hour. Six respondents (25 percent) paid an average wage of more than \$16 dollars per hour. The average wage for all respondents who answered the question was \$13.47 excluding benefits.

8. Since the loan was repaid, has your business expanded in terms of sales?

Sales Expanded	Number of Respondents	Percentage of Total Respondents
Yes	16	66.7%
No	8	33.3%
Total	24	100.0%

- Of the 24 respondents who reported, 16 (66.7 percent) reported that their business expanded in terms of sales since the loan was repaid compared to eight (33.3 percent) whose business had not expanded.

9. Since the loan was repaid, has the business owner(s)'s net worth improved?

Improved Net Worth	Number of Respondents	Percentage of Total Respondents
Yes	19	79.2%
No	5	20.8%
Total	24	100.0%

- Nineteen respondents (79.2 percent) reported that their net worth as owner(s) had improved since their loan was repaid compared to five respondents (20.8 percent) whose net worth did not improve.

10. What is the most valuable lesson you learned as a result of operating your business?

- Of the 24 respondents that are still in operation, a majority of their comments were positive. For a few respondents it was important to stay local and give back to the community. Other critical success factors cited included being prepared for changes in the industry, being honest, never quitting and local support.
- However, a majority of those 24 respondents did comment that it is hard work operating their own business. Other challenges cited by respondents included long hours and difficulty with health insurance.
- Of the nine respondents that are no longer in business, four respondents (44.4 percent) reported they found work with another employer. Four respondents (44.4 percent) either started a new business or became self-employed and one respondent (11.1 percent) did not indicate what transpired since their loan was repaid but mentioned that they still own several other companies.

METHODOLOGY

The population of the study consisted of 158 participants of the Urban Initiative Loan Program who had repaid their loans. A one-page survey questionnaire was developed to gather data to determine the progress of program participants and how their businesses have evolved since they repaid their loan. The survey instrument was mailed twice to all 158 participants and returns with new forwarding addresses were sent a new survey.

Of the 158 surveys mailed, 33 responses were usable, representing a response rate of 20.9 percent. Since the majority (79.1 percent) of those surveyed did not respond, the extent to which the respondents represent the population was examined. The following table provides a comparison of the respondent group and the metro-area population in regard to the type of industry that best describes the participant's business:

Industry	Percent (Metro-Area Population)	Percent (Respondent)
Service	47.3%	41.6%
Manufacturing	13.1%	8.3%
Retail	12.0%	33.3%
Finance/Insurance/Real Estate	9.7%	0.0%
Transportation/Communication	6.6%	4.2%
Wholesale	5.9%	8.3%
Construction	5.1%	4.2%
Agriculture	0.2%	0.0%
Total	100.0%	100.0%

- The respondent group (the sample) was over-represented by those who were in the retail and wholesale businesses and was under-represented by those in the service, manufacturing, finance/insurance/real estate, transportation/communication and construction businesses. Since the sample was small, some percentage deviations from the population were expected. When interpreting the results, caution should be exercised, taking into consideration those deviations in the table that limits extrapolation of results.

APPENDIX B

Small Business Lending Survey

1. Currently, is the business for which you received a loan still in operation?
☐ Yes [Answer Q3 - Q10]
☐ No [Answer Q2 & Q10 only]
2. Since your loan was repaid, have you: (Choose ALL that apply)
[An individual might have done more than one during that time]
☐ Started a new business
☐ Found employment with another employer
☐ Become self employed?
[SKIP TO Q10]
3. Which of the following industries best describes your business? (Choose ONE)
☐ Retail
☐ Service
☐ Wholesale
☐ Manufacturing
☐ Construction
☐ Other (please specify) _____
4. Currently, which of the following sizes best describes your business? (Choose ONE)
☐ Small company (1 – 5 employees)
☐ Medium company (6 - 20 employees)
☐ Large company (more than 20 employees)
5. Since the loan was repaid, have you increased the number of employees working for your business?
☐ Yes
☐ No
6. Currently, what is the total number of employees in your business? _____
7. Currently, what is the average wage your business pays to employees per hour? \$_____
8. Since the loan was repaid, has your business expanded in terms of sales?
☐ Yes
☐ No
9. Since the loan was repaid, has the business owner(s)'s net worth improved?
☐ Yes
☐ No
10. What is the most valuable lesson you learned as a result of operating your business? _____

APPENDIX A

September 5, 2007

Name
Company Name
Address
City, State, Zip Code

Dear Mr. Name:

Re: Small Business Lending Survey

We need your help. Some time ago you received a business loan from the Metropolitan Economic Development Association, which used our agency's Urban Initiative Program as a source for the loan. We appreciate your payment of that loan and congratulate you on your business endeavor.

Enclosed is a brief survey that will help us gauge the progress our customers are making and how their businesses have evolved since they repaid their loans.

Some questions include:

- Is Company Name still operating?
- Has your business grown?
- Have you discontinued that operation and switched to a new venture?
- What has the experience of starting your business meant to you and your family? [If applicable and it's a new business.]

Please take a few minutes to complete the survey and drop it in the mail. Your responses will be kept completely confidential.

If you have any questions concerning the survey, please contact me at (651) 259-7424.

Thank you for your assistance in this matter.

Sincerely,

Bart Bevins
Loan Officer Senior

Enclosure