

## **NAME OF PROJECT: The Phoenix Capital Fund**

### **ORGANIZATION PREPARING/SUBMITTING PROPOSAL: Rock County Economic Development Agency**

#### **Objectives:**

The Phoenix Capital Fund will provide a source of primary, as well as subordinate, financing for existing and emerging businesses throughout Rock County. The Fund will be managed by an appointed Board and governed accordingly to local employment, industry sector and investment standards. Since this Fund is designed to be revolving, there will be an emphasis on establishing loan terms that expedite this program's feature. If and when appropriate, the Fund will take into account flexible equity and/or collateral requirements. However, the Fund is not designed as a source of restructured debt financing.

#### **Progress to Date:**

The County's Economic Development Agency, under the governance of the Planning & Development Agency, administers a Revolving Loan Fund (RLF) program. Originally capitalized from the principal and interest proceeds collected from a Wisconsin Development Fund loan, the County's RLF provides traditional gap financing. An appointed Loan Review Board, staffed by volunteer public and private sector representatives, provides RLF-related due diligence. On average, the loans provided by the County's RLF range between \$50,000 - \$100,000; they typically have a five-year term; and these loans are often packaged with various other capital sources.

Ongoing stakeholder discussions have discussed the feasibility of capitalizing this existing RLF to a higher level or completely revamping it and then transforming the fund into a more functional, visible capital alternative – including provisions allowing fractional (i.e. Angel Investment equity) ownership. Furthermore, an expanded RLF will support the ongoing entrepreneurial / small business programming that has emerged from an existing Economic Development Administration (EDA) grant and funds raised through the Rock County 5.0 initiative, respectively.

#### **Barriers:**

To date, existing state and/or federal regulations have created artificial operational and utilization barriers. For instance, the existing RLF cannot be used within the Cities of Beloit or Janesville due to their HUD (i.e. entitlement / small cities) status. Oddly enough, the lion's share of the economic development activity occurs within these two anchor communities. Conversely, these cities are prohibited from utilizing their block grant funding for projects that are located outside of their corporate limits. While Wisconsin has allowed some form of regional RLF consolidation, their process provides a preference for multiple-county versus single-county utilization. While in theory this approach has merit, in practice it often overshadows those critical *local* nuances that drive economic development projects.

Complicating matters is the current state budget crises, which restricts the ability to recapitalize an existing RLF. Mandated low-to-moderate income / Davis-Bacon requirements and "soft costs" prohibition (e.g. architectural, engineering, feasibility, etc.) often serve as financing deterrents. Lastly, RLF programs typically have allowed said proceeds to be utilized for value-added, consultative services (i.e. staff stipends or third party fee-to-service arrangements). When combined, these factors pose challenges for an effective and efficient RLF program.

**Where feds can help/what type of partnership would help:**

Considering the uphill battle often attributed to broad, policy changes an interim waiver from the aforementioned federal regulations will provide much needed relief. Added benefit will derive from removing the traditional three-year project period and reducing the local match requirement to a 10% level.

**Budget:**

Based on stakeholder feedback, the total budget for a functional, five-to seven year Phoenix Capital Fund is pegged at \$10 Million. Specific budgetary needs include:

- Phoenix Capital Loan Fund \$8,000,000
- Phoenix Administrative / Operational Costs \$1,500,000
- Phoenix Staff Stipends / Contracted Services \$500,000

Key performance indicators include reducing the number of small business bankruptcies; expanding and strengthening small businesses through successful product / service enhancements; accelerating the formation of value-added, entrepreneurial activities; and enhanced and/or sustained employment opportunities.