

Proposed: “Chicago Small Business Survival Grants” Using the Massive TIFs Surplus Fund (4/1/20)

Chicago Coalition for Small Businesses - Facilitated by Fulton Market Assn. (www.fultonmarketchicago.org)

The COVID-19 virus presents a grave economic challenge to Chicago. Thousands of small, family-owned businesses who provide thousands of jobs are on the brink of collapse. They are deciding whether to pay health insurance, salaries and costs or shut down and put people out of work. They need the city’s financial assistance.

We appreciate the efforts of Mayor Lightfoot and the 50 Aldermen to address this crisis. Here, we offer another idea to stabilize Chicago’s economy and jobs: Open the massive Tax Increment Finance Districts (TIFs) Surplus Fund estimated around \$300 million and issue \$50,000 maximum cash infusion grants to small businesses either inside TIFs only (or throughout the city) and help to save thousands of jobs.

How “Small Business Survival Grants” Would Match the Mayor’s Rightful Effort to Revise TIF Spending

Chicago has 138 geographic TIFs which are local economic development zones. While important gains have been made for Chicago using TIF funds, there are frequent criticisms for not targeting TIF funds to distressed areas and small businesses, even though most TIF taxes are paid by small businesses, residents and property owners.

This February, the mayor announced TIF spending reforms to ensure better public oversight, transparency and distribution of funds for urgent needs. Today’s crisis is one of the most urgent financial needs in Chicago history: Thousands of small businesses and their jobs are risk of disappearing from Chicago’s neighborhoods forever.

Chicago has a financial reservoir to address this crisis: the TIFs Surplus Fund. In 2018, the TIFs generated \$841 million, a \$181 million increase from 2017. In 2019, the mayor declared a \$300 million TIF surplus and used TIF funds to settle the Chicago Teachers Union contract. In 2016, City Hall also settled the contract with TIF funds. Previously, Navy Pier received \$55 million TIF funds even though it isn’t in a TIF district.

Since the mayor and aldermen have wide discretion over TIF spending, they have the opportunity to allocate significant TIF funds for the emergency purpose of saving small businesses inside TIF districts or citywide.

Resiliency Loans and SBA Loans Are Options, But TIF-Funded Matching Grants Are The Answer

Recently, the mayor issued a loan program for some small businesses: “Resiliency Loans.” These are \$50,000 maximum loans at 1% interest for 18-months (then 5.75% interest) with 5-year maximum repayment terms.

Because only businesses with \$3 million annual maximum sales and 50 employees maximum are eligible, the Resiliency Loan’s restrictive parameters exclude thousands of small businesses who urgently need government assistance. With “Small Business Survival Grants,” City Hall can reach many more small businesses, not just very small businesses capped at \$3M annual sales and 50 employees.

The U.S. Small Business Administration defines small commercial businesses on average around \$25 million sales maximum and small industrial businesses around 250 employees maximum. For the SBA’s new “Economic Injury Disaster Loans,” eligible small businesses must not exceed 500 employees.

With urgency, City Hall can offer TIF-funded “Small Business Survival Grants” for small commercial businesses (\$20 million sales maximum) and small industrial businesses (200 employees maximum.) At no fault of their own, these businesses are in jeopardy of collapsing and eliminating thousands of jobs.

These businesses can’t afford to take on new financial debt, in addition to their pre-COVID debt. City grants using TIF funds and requiring equal contributions from businesses are what’s needed. Already, the city gives TIF matching grants to businesses under two programs. Our proposed program pivots on this existing approach.

Proposed Eligible Small Businesses for “Small Business Survival Grants”

Eligible commercial businesses (retail/service/hospitality) would have annual sales at \$20 million or less and eligible industrial businesses (manufacturing/distribution/wholesale) would have 200 employees or less. To receive a grant, businesses must have operated for at least 1 year. An eligible business must also:

- Be located in an existing Chicago TIF district (Note: Citywide small businesses could be eligible if City Hall approves TIF funds beyond TIF boundaries, similar to the use of TIF funds for CTU contracts and Navy Pier.)
- Have no outstanding tickets or fines with the city
- Agree to spend on eligible expenses only over the next 60 days with stern penalties for ineligible expenses:
a) the business’ city’s license is revoked; b) the business repays the grant with 25% interest
- Agree to retain at least 50% of employees over the next 60 days regardless of the employees’ residences.

By comparison, the city’s “Resiliency Loans” and SBA’s “Economic Injury Disaster Loans” burden small businesses with new debt, onerous restrictions and unknown timelines. In this uncertain time, we’re asking the city to release a portion of the TIF Surplus as soon as possible to keep businesses afloat and employees on payroll.

Proposed Grant + Equity Combination: 50% City Hall Grants + 50% Private Equity Contributions

Today, the City of Chicago offers two TIF-funded financial assistance programs to small businesses in TIFs: “Small Business Improvement Fund” grants and “TIFWorks” employee training grants. To be eligible for a SBIF grant, a business is capped at \$5 million annual sales (commercial) and 100 employees (industrial.) These criteria are higher than the Resiliency Loan requirements, but far too low for today’s economic crisis.

SBIF gives \$50,000 - \$150,000 maximum matching grants for property improvements, if a business puts up an equal match. “Small Business Survival Grants” can work the same: City Hall can give \$50,000 maximum cash infusion grants, provided that a business puts up an equal private equity match. Grants could range from \$1,000 minimum to \$50,000 maximum. Grants would be non-repayable, thus avoiding new business debt.

Proposed Eligible & Ineligible Expenses

Eligible Expenses: Employee health benefits, employee salaries, rent, third party debt repayments, inventory, utilities, telecommunications, computers, vehicle-rentals.

Ineligible Expenses: Owner’s salary, property renovations/purchases/environmental remediation.

Proposed Role of Chicago’s Banks

Banks can assist City Hall and small businesses to participate in this program:

- Review a business’ tax returns for past 3 years for commercial businesses OR verify a company’s employee-count for industrial businesses to ensure compliance with the program’s criteria above
- Verify that the business has a 50% private equity financial match equal to the city’s 50% grant
- Receive the city’s deposit and assist the business owner with dispersal of funds.

Small businesses are true victims of this crisis. They can’t be forced to take out expensive, restrictive loans during unpredictable financial times. City Hall can use the TIF Surplus for non-repayable grants and save the day.

For more information on the proposed “Small Business Survival Grants,” visit www.fultonmarketchicago.org.

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