

# **Tucson IDA**

# **Capital Landscape + Opportunities**

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Tucson IDA Board Meeting

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# Key Capital Access Indicators

**Surveying the data, a few points stand out:**

**Few Latino-owned firms:** Tucson ranks 79th among top 100 US metros for Latino business ownership (3 Latino-owned firms for every 1,000 Latino Tucson residents; US average = 19)

**Peers running ahead of us:** Tucson metro runs behind benchmark San Antonio for 7(a) lending, critical working capital

**It's a chronic national challenge:** 83% of entrepreneurs access do not access "traditional" capital, instead relying on friends, family, personal credit cards

## Peer Comparison: Tucson MSA vs. San Antonio, city

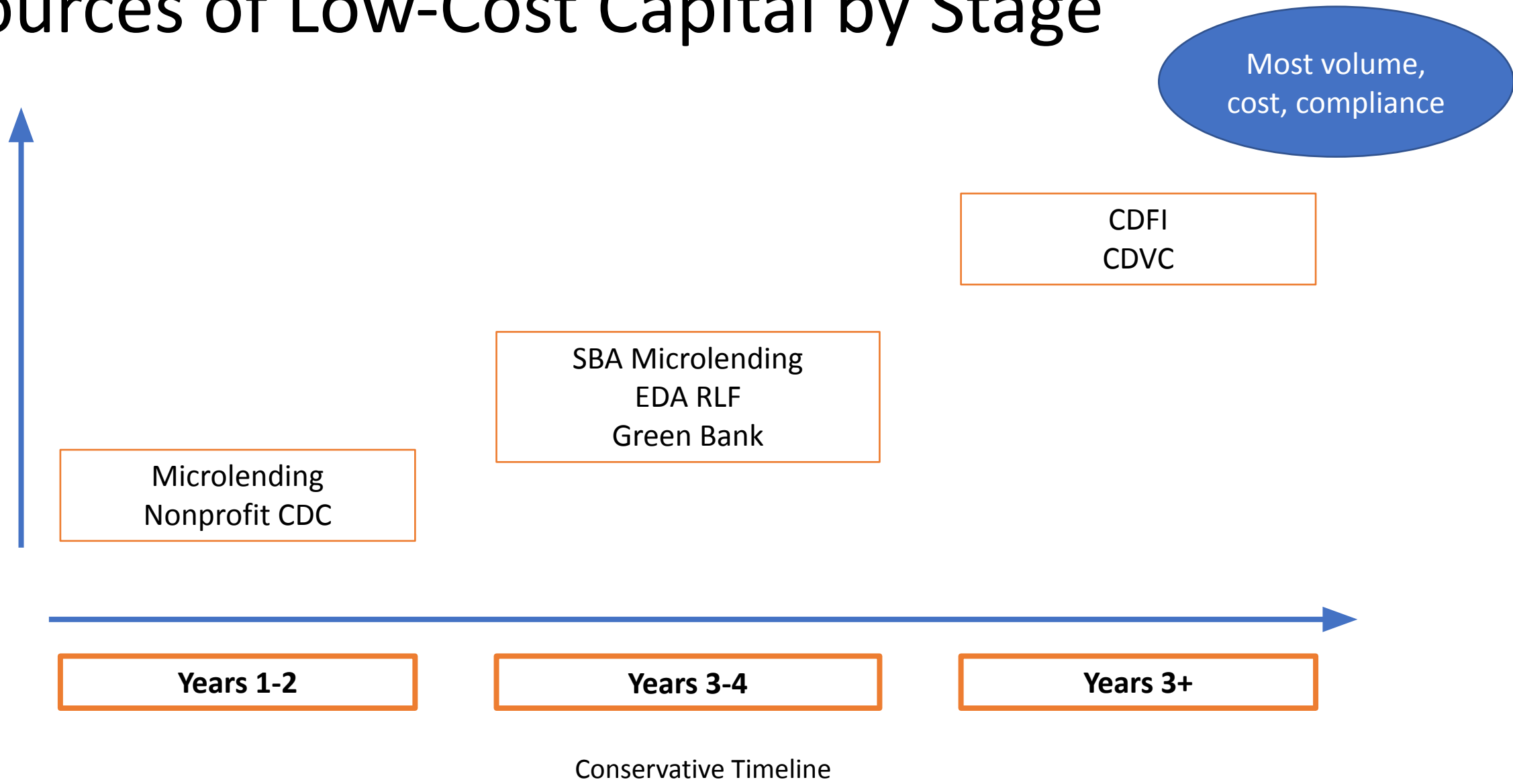
	SBA 7(a) Loan Total, 2019*	SBA 504 Loan Total*	Total Population	Latino Population	Latino Business Density (Latino-owned business per 1,000 Latino residents)
Tucson MSA	\$28.9 million	\$8.2 million	1 million	39%	3.4
San Antonio, city	\$121 million	\$11.7 million	1.5 million	64%	4.9

SBA data for San Antonio was pulled from the Aspen Institute Latinos & Society City Learning and Action Lab Data Dashboard here, data presented for 2019, [https://clal-dashboard.herokuapp.com/nowak/clal/clal\\_insights](https://clal-dashboard.herokuapp.com/nowak/clal/clal_insights); Tucson MSA SBA data was pulled directly from the SBA datasets, <https://data.sba.gov/dataset/7-a-504-foia>; population figures are from the US Census; Latino Business Density statistics are compiled by the Small Business Equity Toolkit, <https://www.smallbusinessequitytoolkit.com/>

**Core Objective for the Tucson IDA:** access low-cost capital for community access and investment

How can we achieve this?

# Sources of Low-Cost Capital by Stage



# Focusing on Years 1-2, Microlending

## The Tucson IDA is on the right track:

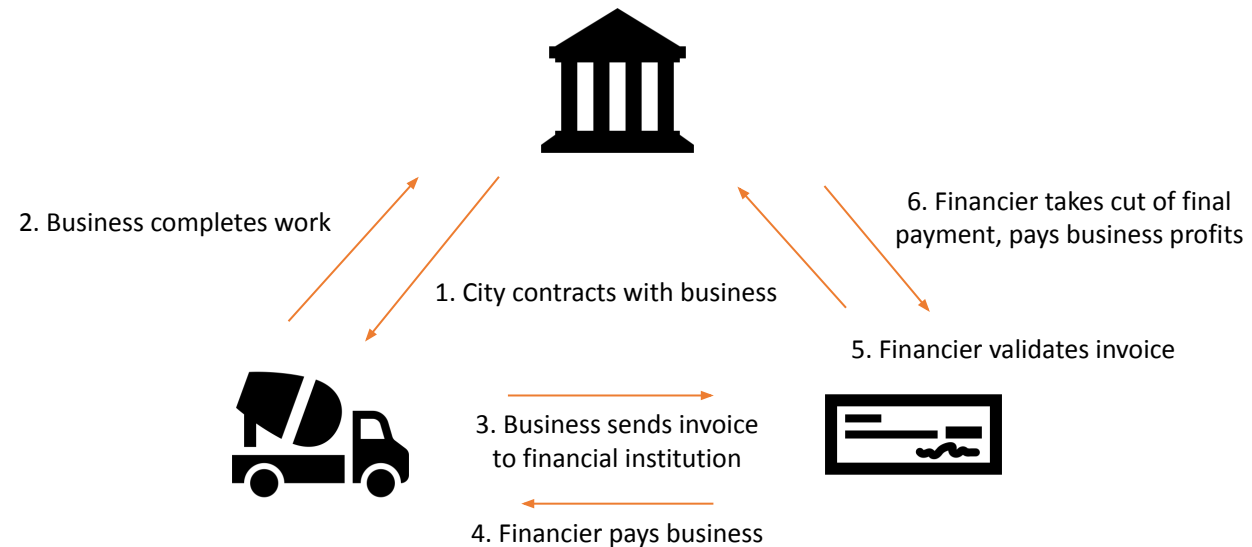
**Small loans are among the most needed:** hard to come by small business loans below \$50,000 without high APR, personal guarantee in Arizona, high upside

**Build deal-flow, learn by doing:** get to know your community, entrepreneurs and areas of need, intermediaries for TA, lending pipeline, and support for business success.

**Develop alternative underwriting guidelines:** demystify loan underwriting... alternative underwriting, “character-based” lending, and intimate knowledge of business model essential tools to expand access and basis of financial innovation

# Microlending 2.0: Supply Chain Finance

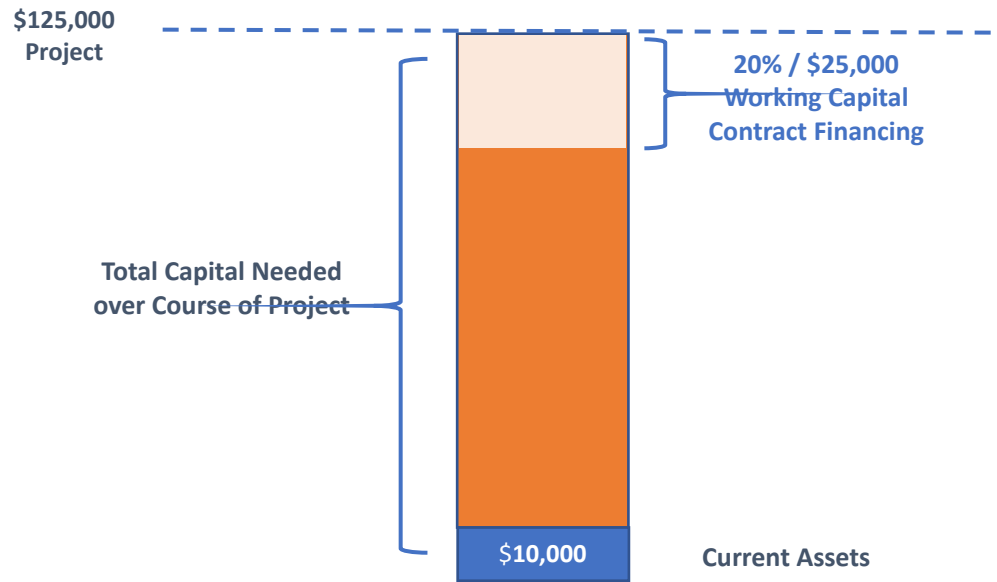
- **Need:** government can take as long as 90 days to pay contractors *after* work is completed
- **Opportunity:** new federal infrastructure dollars are major way to support local, diverse firms
- **Solution:** create financing facility to front payment on contractor invoices



**SCF works best at scale:** financier (IDA) gets surety doing *all* contracts for city/region, keeps % cut low with volume

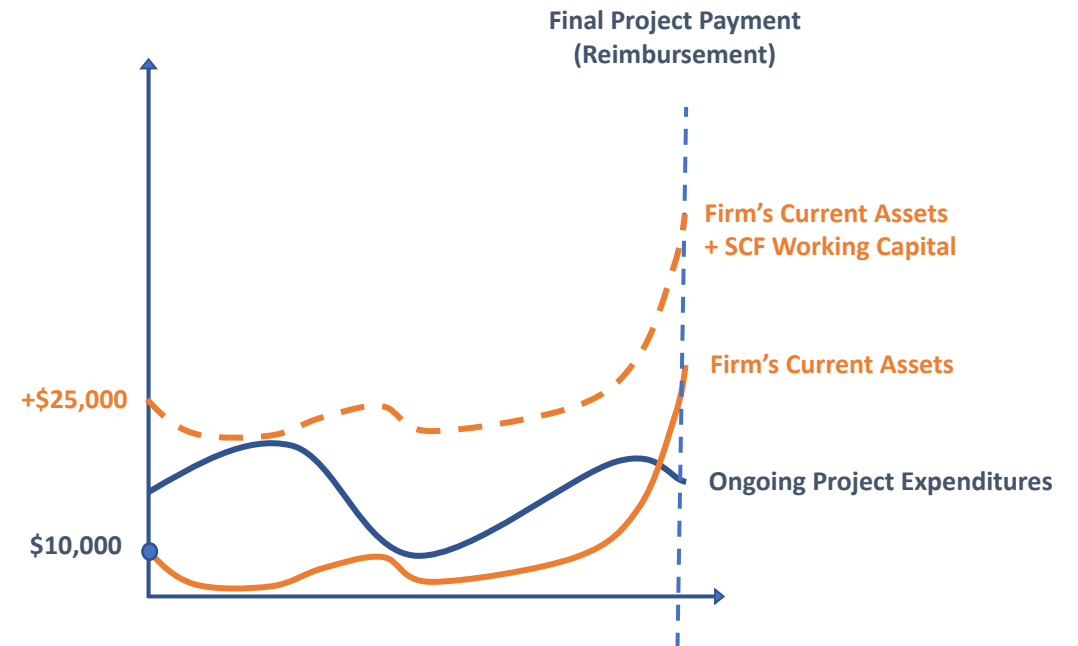
# Visualized: Supply Chain Finance model\*

## Project Financing



\*working line of credit model vs. funds administrator model on previous slide

## Firm Cash Flow



**SCF's key innovation:** underwriting against invoices, expectation of future revenue



# Another new federal opportunity: Green Banking

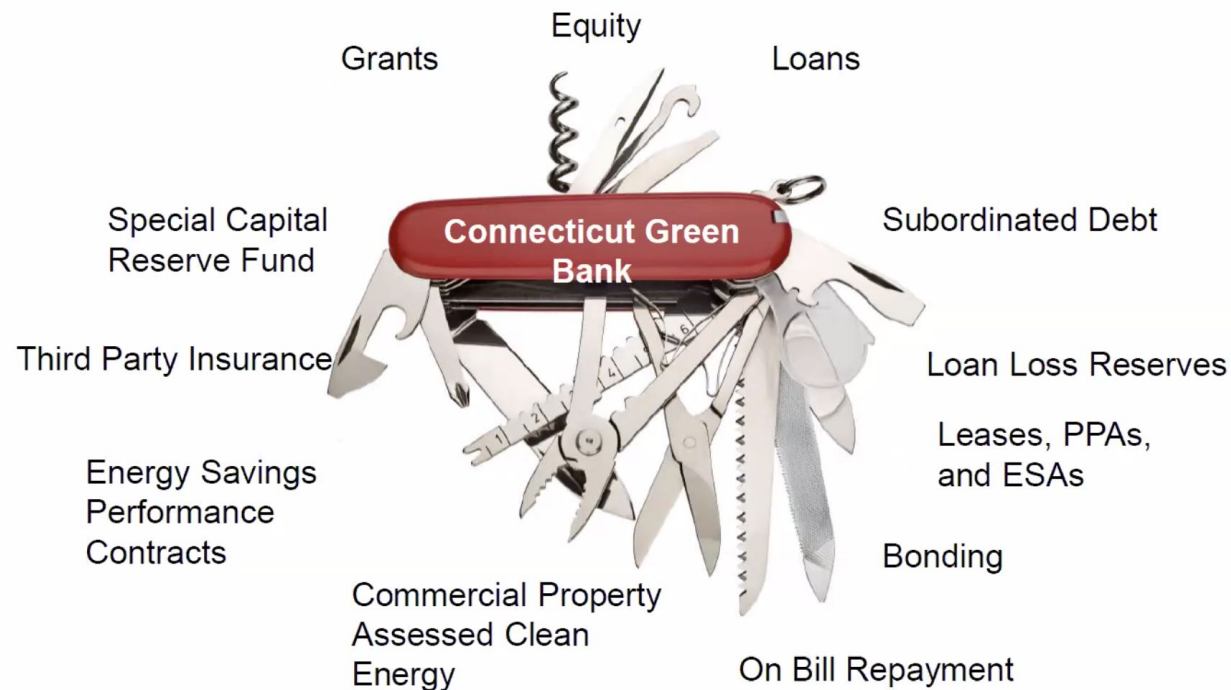
## The Inflation Reduction Act created a \$27 billion National Green Bank:

- **\$7 billion is specifically reserved for political subdivisions like the Tucson IDA:** for “loans or grants for programs aimed at reducing GHG emissions and deploying clean energy, like rooftop solar, and pollution-reducing technologies in low-income and disadvantaged communities...”
- **Tucson IDA would be the first green bank in Arizona:** in other words, these funds are much less likely to reach Arizona, let alone underserved communities, *unless* there is a local green bank
- **Far-reaching leverage with very flexible uses:** Leverage estimates of 10x seed funds; “Funds can also be spent delivering TA to supporting these entities, and for the creation of new non-profits designed to provide capital, leverage private capital, and provide other forms of financial assistance for the rapid deployment of low- and zero-emission products, technologies, and services.”
- **Timeline begins soon:** EPA to announce program rules and application process likely in December, looking for conduits across the country that can leverage investments into; funds deployed in early 2023

# What do Green Banks Do?

Almost any financial product we can imagine...

## Connecticut Green Bank Financial Tools



- ✓ Flexible funding
- ✓ Low-cost capital
- ✓ Expanding access
- ✓ Large social impact

# Takeaways + points for discussion from today

**North Star:** The Tucson IDA should take advantage of near-term opportunities to attract and deploy low-cost capital into the community, where it is needed most, for public benefit, while growing into larger opportunities to attract and invest capital

## Specific tactics:

- Tucson IDA has clear, near-term strategies for expanding capital access and filling market gaps (microlending)
- Opportunities are presenting themselves the Tucson IDA should take advantage of (IIJA, IRA)
- Tucson IDA will grow into more sophisticated (also costly) instruments as its operations expand (CDFI/CDVC)

# Thank you!

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# Slide Appendix

# Overview

- Current Capital Sources (7a, 504, CRA)
- Debt Products Picture
- Employer vs. Nonemployer Firms by Demographic
- Small Business Equity Metrics – Tucson's Latino Entrepreneurship
- Recommendations: Small Business Support
- Recommendations: Building a Fund

# Small Business Debt Capital

City of Tucson, in million dollars, 2016 vs. 2021



**Small Business Loans.** Non-SBA guaranteed bank lending reported by FFIEC CRA. Only banks above a certain asset threshold are required to report CRA loans.

**SBA 504 Loans.** Provides long-term, fixed rate financing for major fixed assets that promote business growth and job creation (e.g., existing buildings or land, new facilities, and long-term machinery and equipment).

**SBA 7(a) Loans.** SBA's most common loan program, includes financial help for small businesses with special requirements. It can be used for purchasing real estate, short- and long-term working capital, refinance current business debt, and purchase furniture, fixtures, and supplies.

**CDFIs Loans.** Financial institutions dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people.

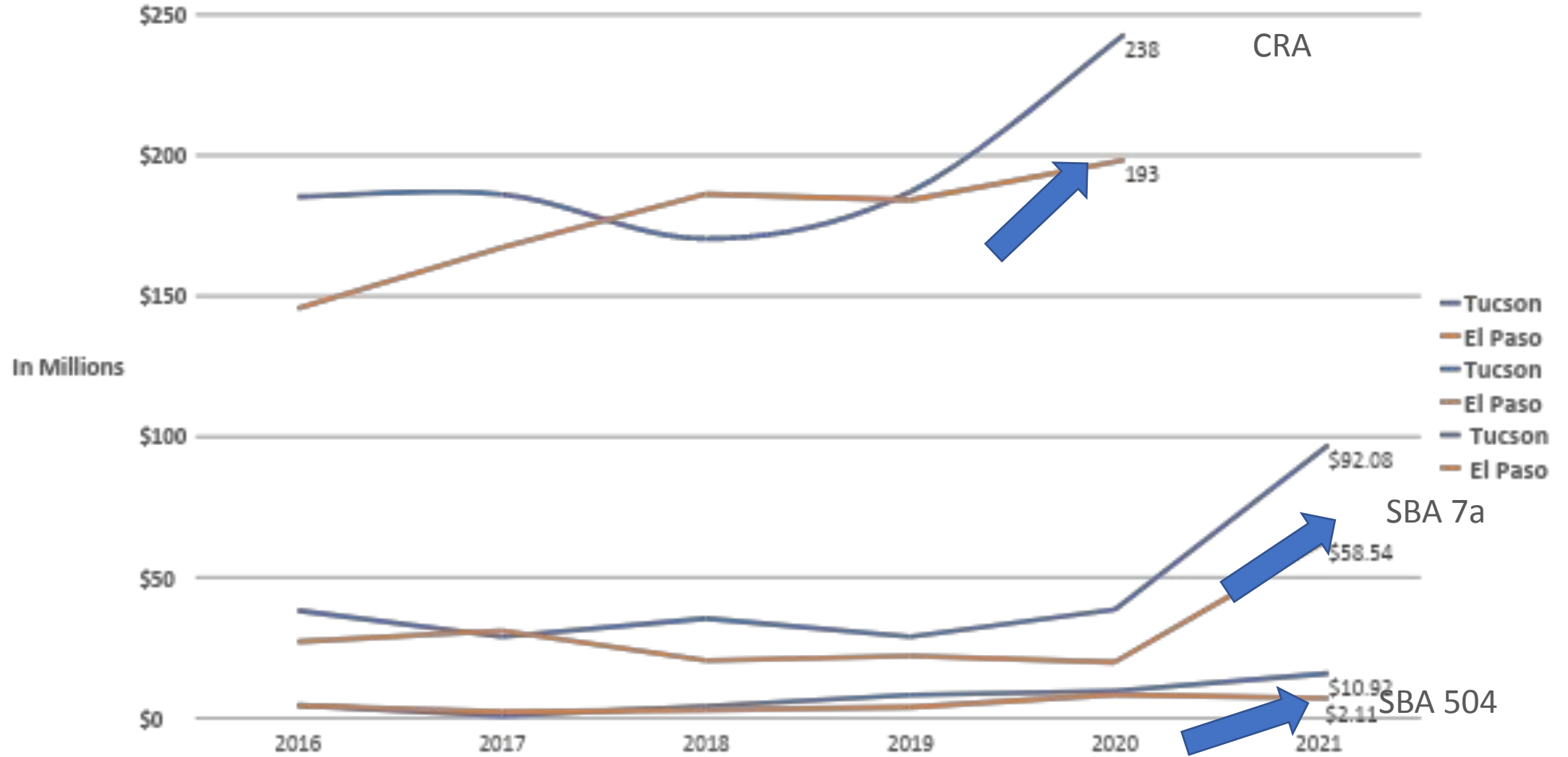
**CRA data:** Loans to qualified small businesses, < \$1M loan **Source:** [ffiec.gov/craadweb](https://ffiec.gov/craadweb)

**504 + 7(a) loan data:** [data.sba.gov/dataset/7-a-504-foia](https://data.sba.gov/dataset/7-a-504-foia)

**CDFI lending data:** Total dollar amount of CDFI loans to business borrowers that closed in 2017, compiled by PolicyMap from Community Investment Impact System.

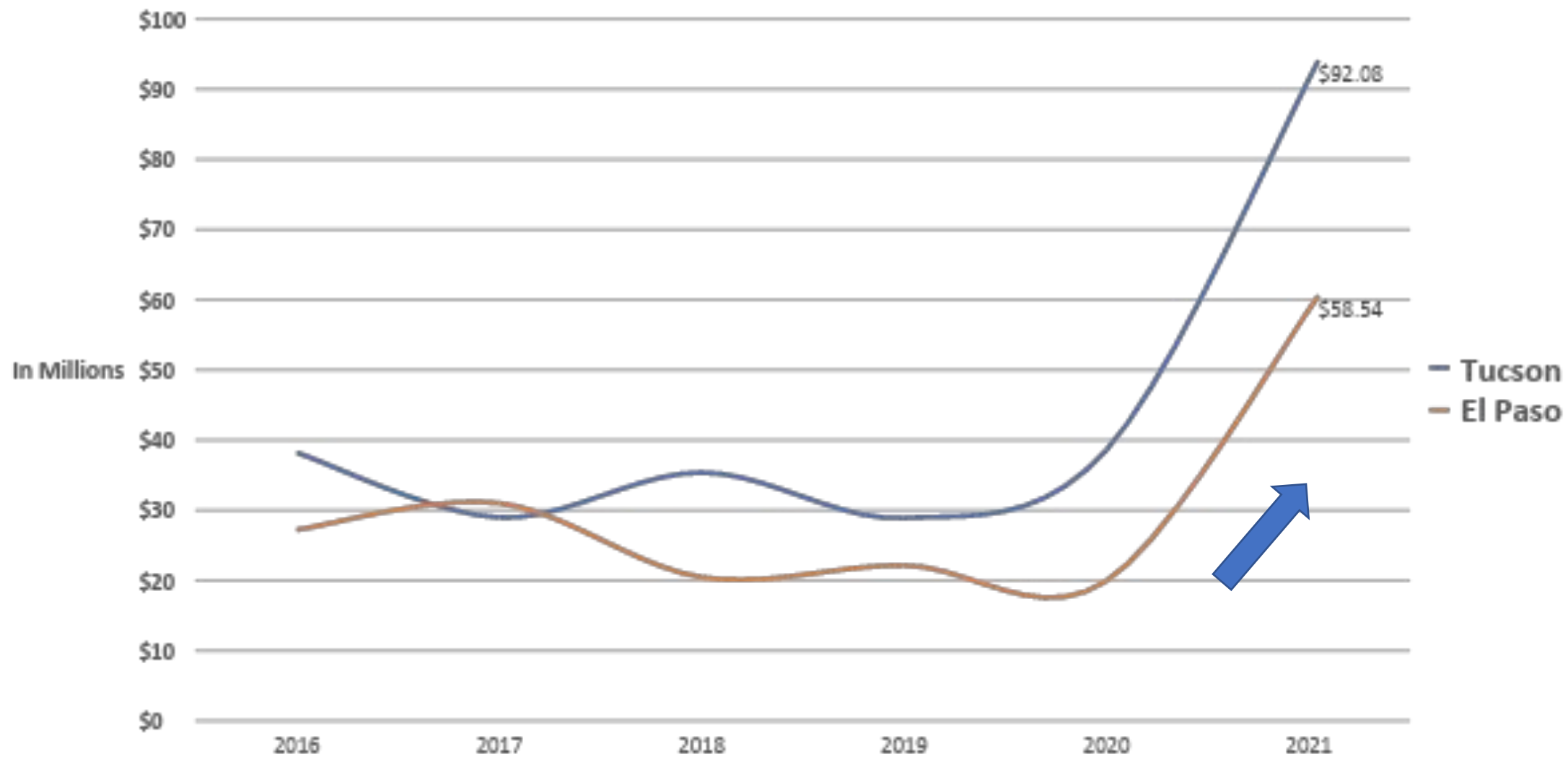
CRA Data is for Tucson, AZ MSA.

# Small Business Lending

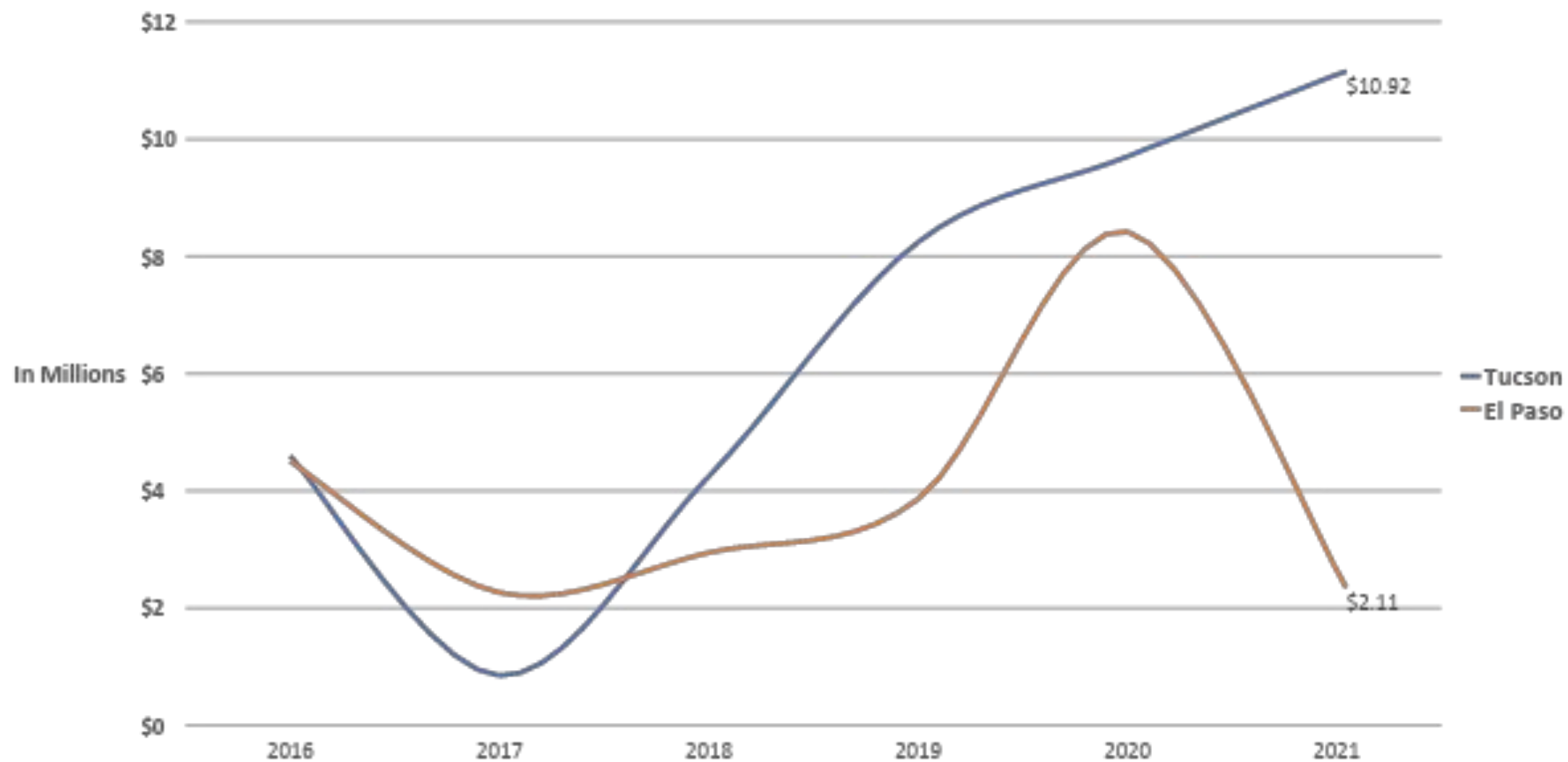




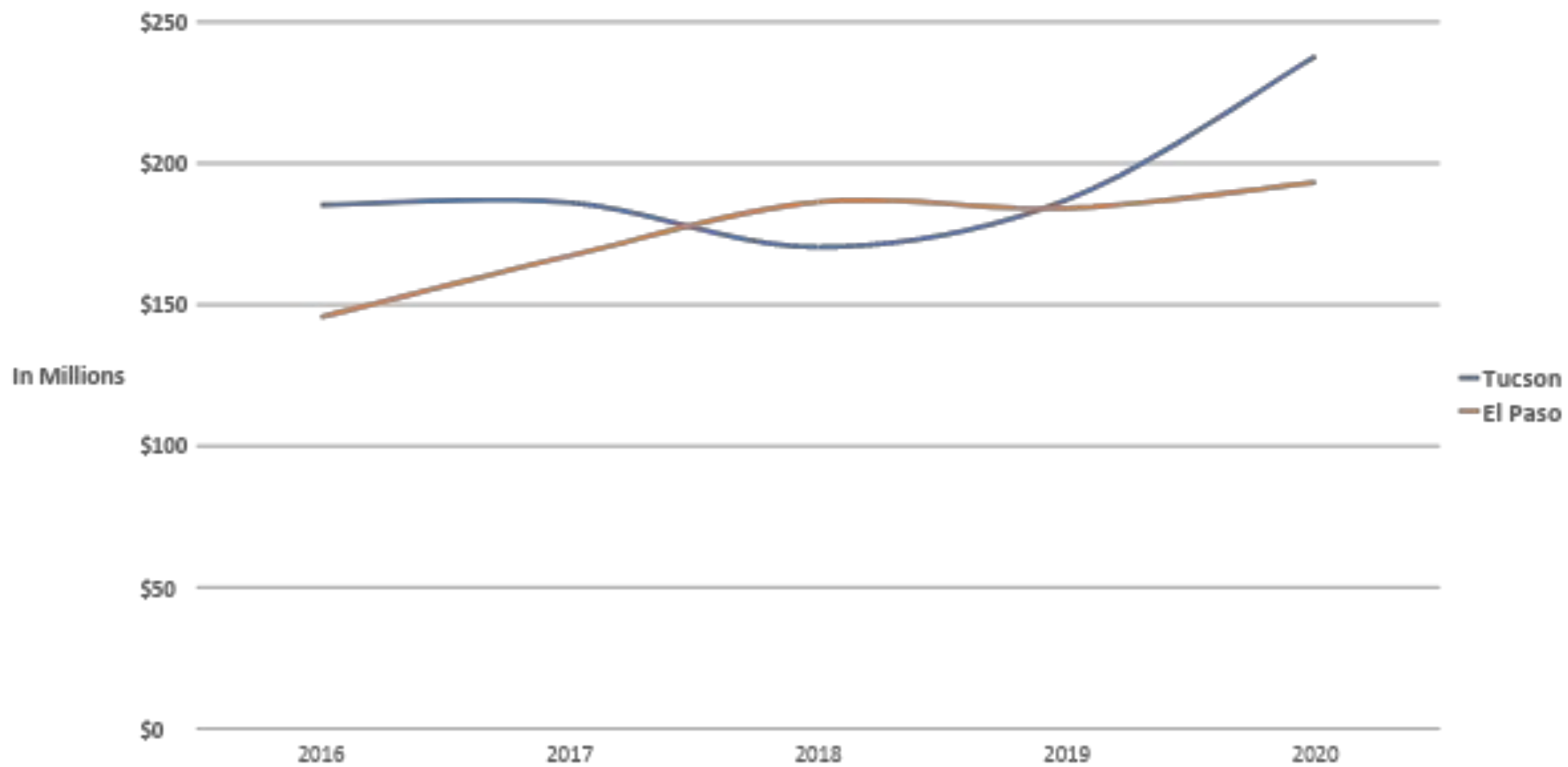
### SBA 7a Lending



### SBA 504 Lending



### CRA Small Business Lending



# Nonemployer vs. Employer Firms

Tucson and El Paso MSAs, 2018

	Tucson MSA			El Paso MSA		
	Nonemployer	Employer	Ratio	Nonemployer	Employer	Ratio
Black	2,400	185	12 to 1	3,500	204	17 to 1
Asian	3,100	743	4 to 1	1,900	504	34 to 1
Latino	18,500	1,312	14 to 1	48,500	5,000	10 to 1
NH White	43,000	11,210	4 to 1	9,300	4,056	2 to 1
Women	30,000	3,028	10 to 1	25,500	2,028	13 to 1
Men	35,000	7,574	5 to 1	34,500	6,604	5 to 1

Sources: 2018 Nonemployer Statistics (2018 NES).

# Latino Business Equity Indicators

Latino-owned business ownership equity metrics, Tucson MSA

Metric	Tucson	National Avg.	Tucson Rank (100-largest metros)
Business Density (per 1,000 Latino residents)	3.4	19	79th
Business Density Parity Ratio (vs. non-Latino residents)	17%	27%	78th
Avg. Annual Sales	\$767,000	\$1,553,000	78th
Sales Parity Ratio	49%	64%	45th
High-wage Industry Representation	12%	19%	23rd
High-wage Industry Representation Parity Ratio	62%	65%	36th
<b>Composite Rank</b>			<b>75th</b>

Tucson Metro data show barriers for Latino firm creation and ownership overall, but strong representation in high-wage, high-growth industries.

Source: Nowak Metro Finance Lab's Small Business Equity Toolkit, analysis of 2017 American Community Survey and 2018 Annual Business Survey.

## Small Business Equity Tool™

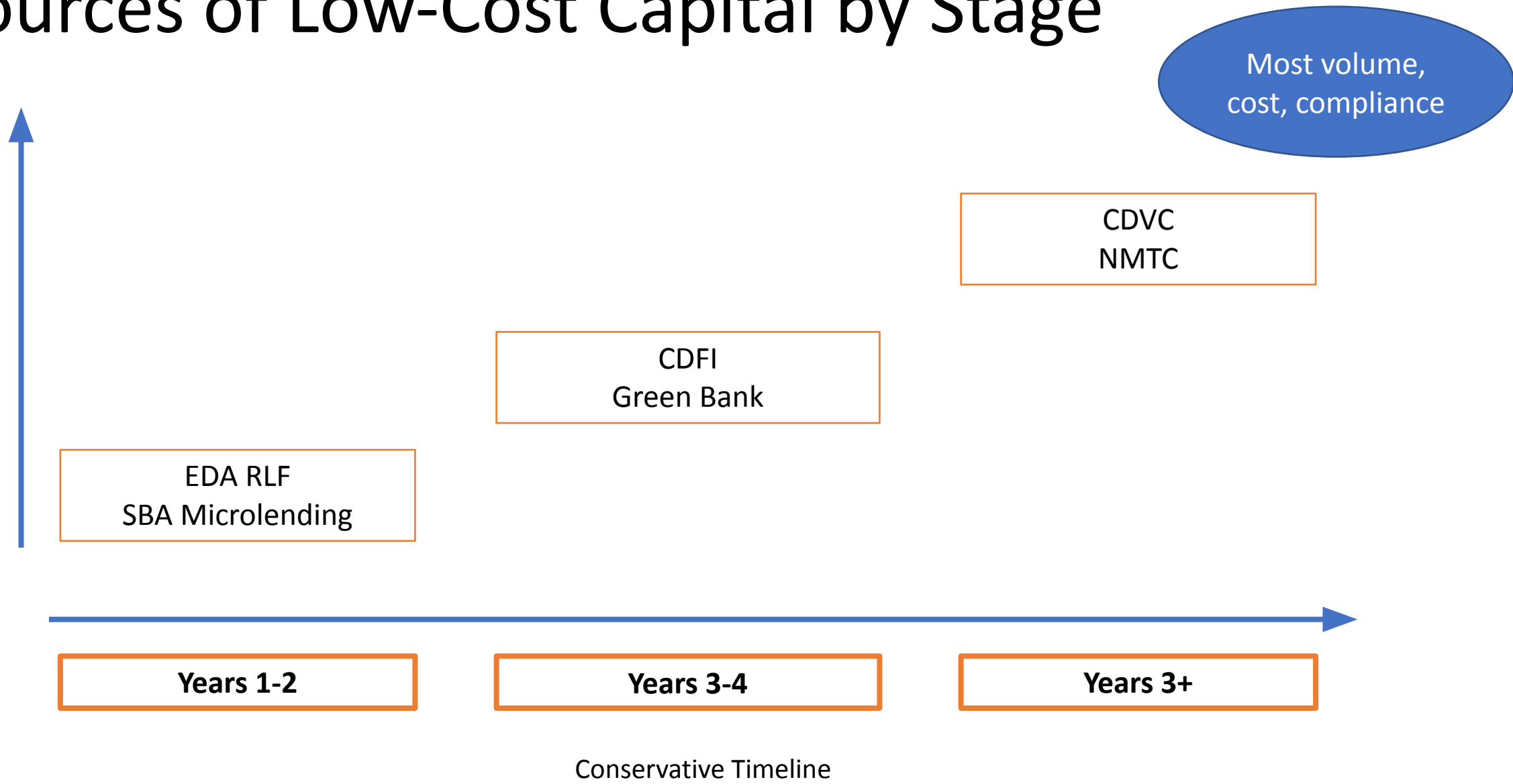
The Small Business Equity Tool™ was produced in partnership with the following organizations:



# High-Level Observations

- Gap in forming and scaling Latino-owned businesses
- Promising development in high-wage sectors
- Modest capital availability, though overall low firm density
- CRA activity could improve

# Sources of Low-Cost Capital by Stage



# Recommendations



# Four Pillars of Small Business Support

- Accounting
- Marketing
- Business Planning
- Legal

from National League of Cities, “A Roadmap to Inclusive Entrepreneurship” [report](#)



DREXEL UNIVERSITY

Nowak Metro Finance Lab

*Lindy Institute for Urban Innovation*

# Next Steps for Building Fund

- **Fit means to ends:** which entrepreneurs, what needs, with which products
- **Build fund from product:** type of capital will shape fund parameters
- **Fund type shapes trajectory, not start:** CDC, CDFI, RLF, SBA Micro, philanthropies etc.
- **Key questions:** Which businesses? Stage? Repayment term? Target cost of capital? Return?