THE ROLE OF SMALL LOCAL BUSINESSES IN THE MEMPHIS ECONOMY: THE CASE FOR CDFIS

Diana Dayoub

RIVER CITY CAPITAL INVESTMENT
OVERVIEW

The findings of this research are the fruits of my two-month internship at River City Capital Investment (RCC). The report starts with an introduction to the economy of Memphis, the economic development actors, and the work of RCC as a Community Development Financial Institution (CDFI). The report summarizes the main findings of the growing literature on the contribution of small, local businesses to the prosperity of local economies. It then recommends five indices that future RCC data analysts can utilize to quantify the impact of the small businesses served by RCC’s loans. Finally, the report presents a number of recommendations that serve to increase the flow of capital into the CDFI Memphis ecosystem. Those recommendations are made to banks, the philanthropic community, and to RCC. An appendix delineates the findings of the 2019 River City Capital Business Performance Survey which was conducted for 12 of RCC’s former and current loan clients.

OBJECTIVE

The goal of this research is three-fold. Firstly, it is aimed at highlighting the pivotal importance of local businesses for economic prosperity in a time where economic incentives are servicing almost exclusively large chains and big-box retailers. Second, the proposed indices constitute a stepping stone for future RCC data collection and analysis efforts that seek to quantify the economic impact of small businesses in Memphis and hence make the case for more funding for RCC and other CDFIs in the city. Lastly, the report’s concluding recommendations draw on various conversations with economic development agents, CDFI staff, and small business owners and hope to serve as ideas to further build the CDFI capacity of Memphis.
Community Development Financial Institutions (CDFIs) were created to provide financial products and services to residents and local businesses in low-income communities that do not have access to traditional lending institutions. CDFIs can be credit unions, banks, loan funds, or venture capital providers and all share the goal of community revitalization and injecting capital in underserved neighborhoods to stir economic growth.

CDFIs leverage capital from banks, foundations, and individual donors and re-lend those funds to community actors at below-market interest rates. They typically promote varying causes at the heart of community development such as affordable housing, small business growth, and access to quality education.

River City Capital Investment (RCC) was born in November 2012 to deliver financial services to underserved Memphis neighborhoods and ensure the implementation of Greater Memphis Neighborhoods (GMN) revitalization plan. RCC aims at creating and expanding a redevelopment loan fund at below-market rates and re-lending the capital within its targeted communities in Memphis. It offers several services to the neighborhoods it serves like neighborhood-level economic development planning, technical assistance to growing local businesses, financial literacy services, and small business organizing.

Figure 1.0 “CDFIs: Promoting small businesses and economic development.” Bank of America. URL: https://about.bankofamerica.com/en-us/partnering-locally/cdfi.html#fbid=dTzyTo7X5Ol.
ECONOMIC CHALLENGES IN MEMPHIS

Memphis is trying to keep pace with the ever-expanding information economy and globalization, but the challenges remain numerous. The key challenges that the economic development community attempts to address are the lack of economic diversification, with most economic activity being concentrated in the cargo shipping and transportation sector, low levels of educational attainment that produce large cohorts of low-skill workers and thus a shortage of skilled labor, and add to this a poor public transportation network that cannot connect scattered residential areas with employment hubs. The high concentration of economic activity and employment opportunities in a few clusters (mainly transportation and logistics and medical devices) is also accompanied by a low level of innovation-intensive industries, which, according to the 2014 Roadmap for Transforming the Metro Memphis Economy, makes up 3% of the Memphis economy compared to the estimated 5% national share. While the domination of the transportation sector has multiple virtues such as offering other industries that are reliant on logistics functions a comparative advantage, the roadmap concluded that “[a]lone, it cannot drive economic competitiveness and job growth at the same level into the future.” The issue of segregation and racial inequality remains one of the defining features of the Memphis economy. The 2014 roadmap cited that minority businesses contribute 1% to business revenues despite the large minority population of the region.

RIVER CITY CAPITAL’S WORK IN A DEVELOPMENT FRAMEWORK

River City Capital’s (RCC) objective is to provide otherwise unattainable capital to small local Memphis businesses to the end of growing their capacity and the scope of their business activity. Therefore, RCC’s work fits into an economic gardening approach to economic development since at aims to capitalize on existing local potential in lieu of fighting tax break and subsidy battles to attract large companies to Memphis to stir economic activity. Economic gardening is embedded in a logic which maintains that large, multi-branch corporates are less “environmentally sensitive to local communities”2 and are prone to relocation that could cause the local community a massive loss of jobs. Thus, economic development actors like RCC operating on the basis of this philosophy provide local entrepreneurs with “the technical information, financial planning, or networking assistance they need to stay and grow before they get into financial difficulties or plan for relocation.”3
WHY LOCAL MATTERS: FINDINGS

This summary of key studies on the advantages of economies reliant on small businesses was published by the Institute for Local Self-Reliance and highlights a resounding conclusion agreed upon by the wealth of recent literature on small businesses, namely that “small-scale, locally owned businesses create communities that are more prosperous, entrepreneurial, connected, and generally better off across a wide range of metrics.” It makes the point that communities and local governments that support small businesses enjoy greater economic returns than those that favor big box chains. For purposes of this report, only a handful of those advantages will be discussed in detail. Firstly, studies found that small local businesses drive inequality rates down as they strengthen the middle class. Further, local businesses generate greater economic returns since they create local supply chains and hence “recirculate a greater share of every dollar in the local economy.” Regarding employment, many studies show that local businesses generate more jobs per unit of sales and make the local economy more resilient in the face of economic crises by retaining more employees. The evidence related to the superiority of local businesses regarding wages and benefits feed into the aforementioned point about decreasing inequality. The studies cited also affirm that local businesses generate greater income growth and offer employees better healthcare options than business giants, thus reducing poverty and inequality. Finally, there’s an increasing body of research that explores the effect of local businesses on public finances and suggests that they generate more tax revenue at a lower cost to cities than giant retailers.

INEQUALITY

A study titled Wage Inequality and Firm Growth found a positive, statistically significant correlation between wage differentials between high-skill and low/medium-skill jobs and firm size. In particular, the authors suggest two mechanisms through which firm size might be driving wage inequality: first, bigger firms are likely to automate routine job tasks and thus firm size “may act as a catalyst for task-replacing technological change,” and second, wage inequality may be driven by the trend that larger businesses show “wider spreads between top- and entry-level jobs.” The study also documents this positive correlation between firm size and growing wage inequality in a set of developed countries. Moreover, Anil Rupasingha conducted a statistical analysis to assess the impact of locally owned businesses on the economic performance of counties across the United States.
The databases he uses provide a breakdown of firms based on the business’s location (resident, non-resident, noncommercial) and number of employees (micro, small, medium, large). He finds that the percentage of employment provided by locally-owned, resident businesses has a statistically significant, positive correlation with county income per capita and employment growth and significant negative correlation with poverty rates across sampled counties and nonmetro areas. Finally, Fleming and Goetz find a “remarkably robust” correlation between small, locally-owned businesses and per capita income growth. The authors assert with confidence that “[s]mall-sized firms owned by residents are optimal if the policy objective is to maximize income growth rates.”

ECONOMIC RETURNS

A series of studies conducted by Civic Economics attempted to “quantify the local circulation of revenues” of businesses in select U.S. cities. The methodology of this endeavor relied on obtaining a percentage breakdown of the businesses’ revenue expenditure. Thus, businesses in Salt Lake City, Utah were asked to provide the percentage of revenue that was dedicated to the following purposes: profits paid out to local owners, wages paid to local workers, procurement of goods services for internal use, procurement of local goods for resale, and charitable giving within the community. Fifteen retailers and seven restaurants were surveyed, all of which are locally-owned. The study found that those retailers return 52% of their revenue to the local economy while this number is 78.6% for the surveyed restaurants. Civic Economics also found that the parallel percentage for national chain retailers is 13.6%. This dollar circulation in the local economy is what the Maine Center for Economic Policy (MCEP) explains as “plug[ging] the drain and limit[ing] the dollars that leak out of [the] local economy.” MCEP surveyed several services in Portland, Maine following the aforementioned methodology with the difference that participant services belonged to a variety of sectors such as service, pharmacy, retail, and banking. The study found that, on average, 65% of business expenses are covered by local goods and service providers. Put differently, every $100 spent at a local business generates $58.03 in local impact, while the same amount spent in a big-box retailer only generates $33.43 in local impact.
Finally, Civic Economics compared land use between small, local businesses and large retailers like Target and concluded that small businesses greatly surpass large retailers in sales revenue per square foot using the same property area.

![Figure 1.1: Indie Impact Study Series: A National Comparative Survey with the American Booksellers Association, Salt Lake City, Utah. Civic Economics & American Booksellers Association. Summer 2012.](image)

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![Figure 1.2: Amar Patel & Garrett Martin. “Going Local: Quantifying the Economic Impacts of Buying from Locally Owned Businesses in Portland, Maine.” Maine Center for Economic Policy. December 2011.](image)

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![Figure 1.3: Dan Houston & Dana Enness. “Thinking Outside the Box: A Report on Independent Merchants and the New Orleans Economy.” The Urban Conservancy in partnership with Civic Economics. September 2009.](image)

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WHY LOCAL MATTERS: FINDINGS

It is a fairly popular statistic that small businesses created 1.9 million jobs, employing 47.5% of the country’s private workforce in 2018. In January 2018, small businesses were employing 42.7% of all Tennessee employees. A 2008 study found that businesses that with a 20-499 workforce has a positive effect on net job creation that takes off its first year of operation, hits a ceiling after five years, and moderates afterwards. Neumark, Wall and Zhang conducted a study in 2008 using the National Establishment Time Series (NETS) database and concluded that “a negative relationship between establishment size and job creation holds for both the manufacturing and services sectors.” An increasing number of economists agree that small businesses drive job growth across the United States.

EMPLOYMENT

There is a wealth of studies published on the positive correlation between income growth and the percentage of locally owned businesses in a given economy. For example, the aforementioned Fleming and Goetz 2011 study highlights a robust positive effect of locally owned small businesses’ density and income growth per capita. Regarding healthcare, most Americans get their health insurance through their employer, but since many big corporations and large chain retailers rendered this option unavailable or too expensive, many are turning to taxpayer-funded healthcare programs like Medicaid and the State Children’s Health Insurance Program (SCHIP).

Good Jobs First compiled an exhaustive list in 2013 of the companies that are contributing the most employees to state and federal healthcare programs in 23 states and hence burdening the taxpayer. The study finds that most of those companies are big-box retailers and chain restaurants like Kroger, Target, McDonald’s, and Burger King. In 2009, 94.3% of private establishments with 100-999 employees provided healthcare while the rate for establishments with 10-24 employees was 62.5%.
WHY LOCAL MATTERS: FINDINGS

The question of economic development policy is necessarily intertwined with generating sufficient government revenue. Joe Minicozzi examines an ensemble of studies that analyze land use efficiency in economic development policies in 10 states and writes that “mixed-use, dense development produces greater revenues per acre than low-density patterns,” citing that revenue grows exponentially with density and not merely proportionally. Thus, the economic development model Minicozzi recommends is one that is “higher density transit-oriented.” The rationale behind that is the simple fact that land is not like any good; it does not get more expensive as the area increases because the larger a land parcel is, the more expensive it becomes to service it. And if that land was far from the community center, those expenses further increase since more infrastructure is needed to connect it to the community. In this light, tax discounts on this kind of land are logical, resulting in less government revenue.

Richard Gsottschneider in a study titled Understanding the tax base consequences of local economic development programs asserts that economic development policy with all its famous merits of job creation, affordable housing, retail centers and flourishing neighborhoods does not always overlap with expanding the tax base. In fact, he draws attention to “the potential for a conflict between these two distinct, yet overlapping areas of public policy.” Gsottschneider identifies three mechanisms through which this conflict typically emerges: first, new development may detract from the existent tax base (e.g. a new shopping center or a subsidized housing project will have a negative impact on market rates). Second, zoning may not always protect existing value (e.g. constructing an industrial zone next to office buildings can substantially lower the value of the latter). Thirdly, much of the available funding is fed into new revitalization projects and less resources go to maintaining present tax-generating infrastructure whose value starts to deteriorate.

![Figure 1.5: Joe Minicozzi. "Thinking Differently About Development. Government Finance Review. August 2013.

Exhibit 4: County Property Taxes per Acre

For every dollar of county taxes a resident pays, the city pays $4 in county taxes per acre.

<table>
<thead>
<tr>
<th>Type</th>
<th>Residential</th>
<th>Commercial</th>
<th>Mixed-Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Single</td>
<td>$0.00</td>
<td>$5.99</td>
<td>$7.11</td>
</tr>
<tr>
<td>City Single</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big Box Retail Center</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mall</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mix-use (Units)</td>
<td>$17.40</td>
<td>$95.77</td>
<td></td>
</tr>
<tr>
<td>Mix-use (Placem)</td>
<td></td>
<td></td>
<td>$287.25</td>
</tr>
</tbody>
</table>

Ratio difference of 30 city sample set across 10 states

Source: Author

Richard Max"
A 2002 fiscal analysis of land use prototypes in Barnstable, Massachusetts found that the nonresidential prototype that generates the most revenue per square foot is the specialty retail shop, which yields $326 per 1,000 square feet annually. This is because those retail stores have a high average assessed value. In the case of Memphis, optimizing land use to generate the highest possible revenue is a pressing issue. According to the 2018 Brookings Metro City Fiscal Policy report, Memphis had a composite fiscal base score of 2 out of 6, which stipulates that the local economy “defined as real estate values, retail sales, and income” and the tax structure (sales tax, income tax, and property tax) are only moderately aligned.

What renders impact assessment immensely complicated and challenging for several CDFIs is that is conducted for several purposes. The multi-purpose nature of such an investigation makes it very difficult to formulate one coherent impact assessment methodology. A 2011 report titled Assessing the Impact of Community Development Financial Institutions: Recommendations for New Jersey Community Capital notes that impact assessment studies are conducted “to decide organizational priorities, develop staff capacity, appease funders, attract investors, identify borrowers, and influence policy—each of which demands a distinct focus and has a different definition of success.” Another fundamental challenge is the need to assess impact over the long term since the impact of CDFI investments might not be immediately visible, an endeavor that would usually strain CDFI capacities. Given the resource-intensive nature of those longitudinal assessments, CDFIs have to expand their resource base to be able to conduct such research. Further, a main concern for CDFIs seeking to measure the impact of their programs are the limited staff, time and financial resources they can allocate for the task. Lastly, data collection in and of itself is significantly challenging since different borrowers have “diverse output and outcome measures.”

**Figure 1.6:** Tischler & Associates, Inc. "Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes. Town of Barnstable, Massachusetts. July 2002.
Given those hurdles, the following proposed indices are not assumed to represent an easy way out. Those challenges persist for most CDFIs and addressing them requires reforming the entire CDFI ecosystem.

Recommendations for Economic Indicators

Throughout my research, I found the Prototype Land Fiscal Analysis prepared for the town of Barnstable, Massachusetts particularly interesting and sufficiently simple to create an index that measures the public revenue generated by a given local business. The approach relies on calculating net expenditures of the city on the business and net revenue in taxes and other fees to approximate the net contribution of the business to the city budget. The following table illustrates the breakdown of the city’s revenue from a given business in the Massachusetts study:

![Table showing net public revenue index](Figure 1.7: Tischler & Associates, Inc. “Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes. Town of Barnstable, Massachusetts. July 2002.)
Those categories have to be tailored to the local economy such that they capture the tax types and other fees that businesses usually dispense in Memphis. Next, the city’s expenditures on the business in the form of administrative services, police provision and so forth ought to be calculated. Again, the categories are to be adjusted as these only serve as an example. If RCC can get the businesses to open their books and provide those numbers to a certain level of accuracy, RCC should be capable of accurately estimating the public revenue the business is generating.

To provide an idea of the breakdown of public costs and revenues from businesses in Memphis, some insights are worth highlighting from the Fiscal Impact Analysis Technical Memorandum of the Proposed Saddle Creek IV Town Center Development prepared by Miley, Gallo & Associates, LLC and Rose & Associates, SE, INC. in 2009 for a proposed town center project in Germantown (a Memphis suburb) kindly provided to me by Joshua Poag. The two main sources of revenue seem to be property taxes (dependent on real-estate area and Memphis property tax rate) and annual sales tax revenue (dependent on estimated sales per square foot, estimates annual sales, and the sales tax rate). The main two sources of cost to the city seem to be levied on the fire and police departments.

The Fiscal Impact Analysis Model (FIAM)

The Fiscal Impact Analysis Model (FIAM) is likely to be the best tool that future RCC analysts can deploy to calculate the net public revenue generated by a given business. The FIAM manual prepared by Fishkind & Associates, Inc. for the Florida Department of Community Affairs asserts that “[t]he fundamental purpose of the FIAM is to provide additional detailed fiscal information for local government land-use decision making and [serves] as a tool for budget and revenue structure analysis.”
The model adopts a hybrid approach to fiscal impact analysis combining average cost and per capita analysis. This “modified per capita approach” helps “[estimate] the cost and revenue impacts on local governments associated with land development or other economic activities.” The manual provides an excellent and concise description of the FIAM methodology:

The approach used in the FIAM model is the modified per capita approach. When possible, the revenues and expenditures that can be identified from the subject population(s) are directly estimated or calculated. Ad Valorem property taxes, sales taxes, gas taxes and impact fees are examples of revenues that may be calculated using current millage, sales and fees information. The capital costs of building new roads, parks and schools may also be calculated using area specific cost data. The remaining cost and revenue categories are then projected based on modified per capita estimates. The per capita approach involves the calculation of revenues and expenditures using the latest published budgets or financial statements for the appropriate population basis (i.e. per person, per employee, per tourist, per student).

The obvious challenge involved in undertaking such an endeavor is the data collection for purposes of such fiscal analysis since the process is very labor- and time-intensive. Revenue data requires businesses to open their books while cost data requires painstaking digging into city financial statements and budgets. The City of Memphis Comprehensive Annual Financial Report is an example of documents that can serve the fiscal impact analysis.

Generating jobs that pay a living wage has become a standard requirement to qualify for most state economic development subsidies. This is seen as an effort to “[avoid] the “hidden taxpayer costs” (e.g., food stamps, Medicaid, and the Earned Income Tax Credit) that accompany poverty-wage work,” according to a Good Jobs report titled *The Policy Shift To Good Jobs*. Borrower surveys conducted by RCC in the future ought to include questions about the wage rate if the borrower is an employer business. The results then can be juxtaposed with state poverty measures, Memphis poverty measures, federal and state minimum wages, and federal and state wages for comparable job positions in the corresponding industry. A wage comparison could also be made with the wage standards required by EDGE for their PILOT (Payment-in-Lieu-of-Tax) program, which requires the generation of jobs that are paid at a $12/hour rate excluding benefits, alongside the obligation to cover more than half the cost of health insurance. The survey could draw on the job categorization released by the 2018 State Occupational Employment and Wage Estimates for the state of Tennessee, which provides an exhaustive list of different job positions throughout the state alongside corresponding mean hourly wages and mean annual wages. However, since this list is very comprehensive and many of the positions do not exist in the small businesses to which RCC loans, a more concise breakdown of job positions is provided by a 2015 working paper titled *Wage Inequality and Firm Growth*. For this year’s survey, the wage questions in the survey were the following:

1. Has your business attempted to hire in the last 12 months? Yes/No
2. If you answered Yes, please specify the average hourly wage of your employees (excluding contract workers): full-time employees & part-time employees.

An increasing number of economic development agencies across U.S. states are attaching health benefits requirements to jobs generated by companies benefiting from subsidies and incentives. This is a part of a common trend geared towards diversification of compensation where enterprises may include health benefits, retirement plans, sick leave, and vacation as a part of the compensation package. Health benefits are an important component of quality jobs and its inclusion in job standard requirements by different subsidy programs serves to reduce the “hidden taxpayer costs,” which are incurred when employees working for subsidized enterprises still qualify for food stamps, Medicaid, Earned Income Tax Credit, and housing subsidies.
In this light, including questions about provision of health benefits in future RCC surveys that seek to evaluate the impact of loans is critical because it allows for quantifying RCC’s contribution to helping small business borrowers’ build their capacity and provide quality jobs to the local communities RCC serves. According to the NSBA (National Small Business Administration) 2015 Small Business Health Care Survey, only 41% of firms with zero to five employees offered their workers health benefits, and most respondents said that they offer PPO (Preferred Provider Organization) insurance and dental benefits. RCC could benefit from the NSBA survey questions in crafting its own future surveys. Future healthcare-related questions could be:

1. **What is the average age of your employees?**
2. **Please rank the following factors in order of most important in determining how or if you offer or purchase health insurance:**

<table>
<thead>
<tr>
<th>Job Level</th>
<th>Examples of Job Titles</th>
<th>IDS Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cleaner, Labourer, Unskilled Worker</td>
<td>Work requires basic literacy and numeracy skills and the ability to perform a few straightforward and short-term tasks to instructions under immediate supervision. Previous experience is not necessary (IDS Job Level 1). Work requires developed literacy and numeracy skills and the ability to perform some routine tasks within procedures that may include keyboard and practical skills and initial contact with customers. Some previous experience is required (IDS Job Level 2).</td>
</tr>
<tr>
<td>2</td>
<td>Administrative Assistant, Driver, Operator</td>
<td>Work requires specific administrative, practical, craft or technical skills gained by previous experience and qualifications to carry out a range of less routine work and to provide specialist support, and could include closer contact with the public/customers (IDS Job Level 3).</td>
</tr>
<tr>
<td>3</td>
<td>Technician, Craftsman, Skilled Worker</td>
<td>Work requires broad and deep administrative, technical or craft skills and experience to carry out a wider range of activities including staff supervision, undertaking specialist routines and procedures and providing some advice (IDS Job Level 4).</td>
</tr>
<tr>
<td>4</td>
<td>Craftsman - Multiskilled, HR/Personnel Officer, Retail Manager</td>
<td>Work requires detailed experience and possibly some level of vocational qualification to be able to oversee the operation of an important procedure or to provide specialist advice and services, involving applied knowledge of internal systems and procedures (IDS Job Level 5).</td>
</tr>
<tr>
<td>5</td>
<td>Engineer, Marketing Junior Manager, Warehouse Supervisor</td>
<td>Work requires a vocational qualification and sufficient relevant specialist experience to be able to manage a section or operate with self-contained expertise in a specialist discipline or activity (IDS Job Level 6).</td>
</tr>
<tr>
<td>6</td>
<td>Area Sales/Account Manager, Engineer - Senior, Manager - Middle</td>
<td>Work is concerned with the provision of professional services and requires an experienced and qualified professional to provide expertise and advice and operate independently. Also includes operational managers responsible for service delivery (IDS Job Level 7).</td>
</tr>
<tr>
<td>7</td>
<td>Engineering Manager, Lawyer - Senior, Operations Manager</td>
<td>Work requires deep professional experience and qualifications in a specific discipline to be able to carry out a range of specialist technical or scientific activities, which may include the management of a team or services. May also include specialist management roles responsible for delivery of a major service (IDS Job Level 8).</td>
</tr>
<tr>
<td>8</td>
<td>Finance Function Head, IT Function Head, Sales Function Head</td>
<td>Senior managerial roles involved in managing an important activity or providing authoritative expertise, also contributing to the organisation as a whole through significant experience (IDS Job Level 9).</td>
</tr>
<tr>
<td>9</td>
<td>Finance Director, HR Director, Lawyer - Head of Legal</td>
<td>Very senior executive roles with substantial experience in, and leadership of, a specialist function, including some input to the organisation’s overall strategy (IDS Job Level 10).</td>
</tr>
</tbody>
</table>
• Cost of plans
• Benefits offered
• Coverage
• Deductibles
• Out of pocket expenses
• ACA (Affordable Care Act) requirements
• Administrative time required
• Complexity

3. If your business does not offer health benefits: Do you have plans to offer any health insurance benefits to your employees in the next 12 months?

4. How important do you believe offering health insurance as an employee benefit is in recruiting or retaining top quality employees?

5. Please select the types of health-related benefits that you offer:
   • PPO insurance plan
   • Dental benefits
   • Vision benefits
   • HMO insurance plan
   • High-deductible plan
   • Health Savings Account
   • Flexible Spending Account
   • Wellness programs
   • Prescription discount card
   • Health Reimbursement Agreement
   • Fitness programs/gym memberships
   • Hospital discount card
   • Other

6. Among employers offering the following benefits: please indicate your average employer contribution toward the following health-related benefits. The following table provides an example of how the results from the NSBA 2015 survey were summarized.

![Figure 2.1](national_small_business_association_nsba_2015_small_business_health_care_survey)
7. Among employers who provide health insurance: please indicate which employee groups you offer health benefits to. (Check all that apply)
   - Full-time employees
   - Full-time-employees and a spouse
   - Full-time employees and their families
   - Part-time employees
   - Part-time-employees and a spouse
   - Part-time employees and their families

8. Approximately what percentage of your workforce is covered by your health insurance plan?

9. Through which of the following sources do you plan to purchase health insurance in the coming year? (check all that apply)
   - Existing insurance broker
   - Direct from the insurance company
   - Trade or membership association
   - Small Employer Health Options Program (SHOP exchange)
   - Individual exchange
   - Other

10. What is the impact of health insurance increases on your business? (Check all that apply)
    - Less profit available for general business growth
    - Increased deductible
    - Held off on salary increases for employees
    - Increased employee share of the premium
    - Switched insurance carriers
    - Reduced employee benefits
    - Held off on hiring a new employee
    - Increased prices
    - Delayed purchase of new equipment
    - Held off on implementing growth strategies
    - Reduced workforce/laid off an employee
    - Dropped insurance
    - Other

11. In the next 12 months, are you considering making any of the following changes?
    - Increase employee’s contribution
    - Change to policy with higher deductible
    - Change to policy with higher co-payments
    - Reduce benefits offered 22% 29% 29%
    - Change insurance company
    - Drop coverage and give money directly to employees to purchase insurance individually
    - Drop coverage
    - Add a Health Savings Account plan
    - Switch to full or partial self-insured Institute wellness programs (preventive care)
    - Switch to HMO or PPO plans
    - Switch to cafeteria-style program Institute managed care
    - Other/None of the above
A Livable City and Civic Economics joint study on the economic impact of small, local businesses in Austin in 2002 found that local businesses had a substantially more sizable positive impact on the local economy since most of the revenue they generate relies on mobilizing local labor and purchasing supplies and inventory locally. In fact, the study concluded that $45 of every $100 that people spend in those local businesses stay in the Austin economy while this number was at $13 for a national chain. A similar study in 2004 in Chicago showcased the same results suggesting that local retail business injected the local economy with $44 for every $100 of revenue, while the chain figure was at $27. Further, another study in the same vein was conducted in Phoenix, Arizona and the resulting report titled *Procurement Matters: The Economic Impact of Local Suppliers* found that Wist Office Products, a local business equipment supplier, was responsible for 33.4% of the total revenue generated in the local economy “through profits, wages, procurement, and charitable giving.”

Not only quantifying the recirculation of local business revenue in the local economy is critical because it helps make the case for supporting local businesses in grand economic development schemes, but it also is an excellent indicator to gauge the local impact of those businesses and highlight the importance of RCC’s loans. To measure the economic impact of small, local businesses across different U.S. cities, Civic Economics adopted a methodology that was employed in all the Indie Impact Study Series reports. What follows is a summary of this three-part approach.
The approach for calculating the market share of local businesses in different sectors relies on identifying the market shares of chain and nonlocal businesses that is publicly available in annual and quarterly reports as well as in market analysts reports and corporate press releases. The local businesses market share ought to be calculated for every business sector examined, which is a very labor-intensive process. The table below provides a summary of the required calculations. The accuracy of the results obtained from those calculation evidently depends on the quality of the data available on online, specialty, general merchandise and chain stores.

### Part Two: Revenue Recirculation Methodology

This part relies on conducting a questionnaire to determine how owners spend their business earnings and hence calculate the fraction that gets recycled in the local economy. The questionnaire will simply ask the business owner to provide numbers for the following spending categories:

1. Wages and benefits paid to local residents
2. Profits earned by local owners
3. Purchases of local goods and services for resale and internal use
4. Contributions to local nonprofits

<table>
<thead>
<tr>
<th>MARKET SHARE CALCULATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CALCULATING SALES AT INDEPENDENT LOCAL MERCHANTS</strong></td>
</tr>
<tr>
<td>Local Retail Sales for Line of Goods at Specialty Stores</td>
</tr>
<tr>
<td>Local Retail Sales at Specialty Chain Merchants</td>
</tr>
<tr>
<td>= Local Retail Sales Remaining to Independent Merchants</td>
</tr>
</tbody>
</table>

| **CALCULATING TOTAL SALES FOR LINE OF GOODS** |
| Local Retail Sales for Line of Goods at Specialty Stores | Source: Claritas |
| + Local Retail Sales for Line of Goods at General Merchandise Stores | Source: Analysis of Public Filings and Trade Journals |
| + Local Sales for Line of Goods at Major Online Merchants | Source: Analysis of Public Filings and Trade Journals |
| = Total Local Sales for Line of Goods |

| **CALCULATING MARKET SHARE FOR EACH MERCHANT TYPE** (Specialty Chain, Independent, General Merchandise, Online, Other) |
| Local Sales for Line of Goods for Merchant Type | |
| + Total Local Sales for Line of Goods | Merchant Type Market Share |

**Figure 2.4**: Civic Economics & Local Works. "LOCAL WORKS! Examining the impact of local business on the West Michigan economy." September 2008.
Part Three: Economic Impact Methodology

Using IMPLAN, an economic impact analysis software, the market share of businesses producing a given line of goods was entered as an input while the regional purchase coefficient, which is “the percentage of activity taking place locally,” corresponded to the percentages provided by business owners in the questionnaire. The model allows to calculate the direct impact of businesses which is measured in terms of **business output** (total production/sales), **employment count** (total full-time equivalents or FTEs), and **wages**. However, it ought not be omitted that there is also an indirect impact when businesses buy supplies and equipment from local suppliers and an induced impact when employees spend their earnings in local retail and restaurant businesses.

Finally, results can be demonstrated in graphics like the following from an analysis of local businesses’ economic impact in Grand Rapids in West Michigan to depict the percentage of business revenues that recirculate in the local economy.

![Figure 2.5: Civic Economics & Local Works. "LOCAL WORKS! Examining the impact of local business on the West Michigan economy." September 2008.](image)

Application of the IMPLAN software to conduct local economic impact analysis

The IMPLAN Economic Impact Analysis for Planning is the optimal software to quantify the circulation of local business dollars in the local economy. The idea behind the software is to “[pair] classic input-output analysis with regional social accounting matrices (SAMs)” to produce revealing, region-specific results about the ripple economic impact of the local businesses of interest. IMPLAN is used by a variety of community actors ranging from non-profits to corporates to researchers to government actors. The main feature that makes it immensely useful for RCC’s impact measurement efforts is that it is designed to produce nuanced, region-specific analyses that quantify impact; “IMPLAN quantifies the effects of changes in production on local economies – and on neighboring economies, if desired.”
That gives you the power to demonstrate the importance of your industry to your local economy," the website reads. To get some details on how to conduct a local economic impact analysis like the one cited above from the Grand Rapids study, I requested an IMPLAN demo and spoke to an IMPLAN staff on the phone. The staff member explained the step-by-step process that I will delineate here alongside some explanatory screenshots from our conference call.

**Input**

After selecting the region based on the scope of the study (if the ripple economic impact of the studied businesses is estimated to be expansive, then one would choose the Mid-South Area (MSA) while if the impact is to be limited, one would select Shelby County as the focus region of the study), the analyst enters the different industry categories to which the ensemble of the studied businesses belongs. One of the categories that is apt to characterize many RCC business clients is “General Retail.” One can add as many industries as the business sample demands and the software produces combined economic impact results as well as industry-specific results. Secondly, the local revenue share of the industry has to be input as well. The third principal line of input is the *Industry Spending Pattern*. This information will be provided by the businesses when they take the questionnaire mentioned in the Revenue Recirculation Methodology above. The different spending categories that comprise this spending pattern include the percentage of revenue the business dedicated to non-profit donations, to employee wages, to purchasing equipment from local suppliers etc. If the Social Accounting Matrix (SAM) box is ticked next to a given line of spending, it means that the software applies the Regional Purchase Coefficient (RPC) (which is the percentage of the activity taking place locally) to that spending category. By way of example, consider coffee paper cups as a spending category. There are local, regional, and national suppliers of this good. The software will have the percentage of this trade that takes place locally (represented by the RPC) and the SAM option will apply this percentage to the spending of the business at hand.

*Figure 2.6: Screenshot from demo call with Andrew Fennell from IMPLAN. July 2019.*
The next step of input is to include all relevant output and expenditure values for the business. This information will be collected in surveys asking for businesses’ financials. Examples of these numbers are total expenditure, total output, employment compensation, proprietor income, etc. If businesses can provide marginal revenue (i.e. profit values) as opposed to total revenue, the model's results will be more telling.

Figure 2.7: Screenshot from demo call with Andrew Fennell from IMPAN. July 2019.

Output

The economic impact are then presented in terms of five categories: output, employment, value added and tax results. The software also presents direct, indirect, and induced impact.

Figure 2.8: Screenshot from demo call with Andrew Fennell from IMPAN. July 2019.
It is a known fact that local, small businesses create local employment and maintain the circulation of dollars in the local economy by creating cycles of spending (employees spend their earnings in other local businesses and there’s more local demand for supplies). Against this backdrop it is imperative that future RCC neighborhoods assessments evaluate local businesses’ job creation capacity. From my conversations with former RCC loan clients, this turns out to be a tricky subject. While we might like to believe that all local businesses across the board generate employment, some specialized, niche businesses require very high-skill labor that is challenging to locate in most local labor markets. This is one of the main challenges for Kevin Ferner, the owner of Memphis Guitar Spa and a three-time loan client of RCC. Ferner talked to me extensively about this inability to find part-time or full-time employees with sufficient lutherie background. His expanding workshop where manufactures and repairs guitars seem to desperately need more workers, but the labor market in Memphis has very little to offer Ferner. This is not an isolated case. Euro Imports, another RCC client, is based in the Binghampton Memphis neighborhood and specializes in repairing European cars. Livingston Wilson, the business’s owner, also spoke to me about the constraints he grapples with because of the limited options offered by the local labor market. “Not everyone knows how to repair a European car,” he said, “it’s a very high-skill job with lots of technical knowledge prerequisites.” Therefore, given this nuanced picture of local businesses’ role in expanding the job market, it is of pivotal importance to survey respondents about their businesses’ contribution to job creation. The employment questions I included in this year’s survey are the following:

1. Does your business have any paid employees excluding owner(s) and contract workers? Yes/No
2. Please specify the source of your employees’ health insurance. Select all that apply. Veteran benefits or Tricare, Medicare or Medicaid, Spouse's or parent's health insurance plan, State-run health insurance system, Prior employment pension or retirement/severance packages, Pay for my own insurance, Labor union, Other.
3. If your business is an employer business, please specify the number of your employees by job category. Full-time employees (more than 30 hrs/week), part-time employees (less than 30hrs/week).
4. Please indicate the ethnicity of your employees.

Some of the questions asked in the 2017 Small Business Workforce and Labor Survey may be useful to include in future RCC surveys:

1. **How do you recruit new employees? (Check all that apply)**
   - Friends and family
   - Online jobs posting services
1. My company’s website
2. Vocational schools
3. Local career fairs
4. School job fairs
5. Other

2. What level of education do you seek for your employees? (Check all that apply)
   - Masters of higher degree program
   - College degree
   - Some college
   - Technical or vocational training
   - Industry certifications
   - High School diploma of GED
   - No education requirements

3. What kind of training/education programs do you offer your employees? (Check all that apply)
   - On-site training for their specific position
   - Company paid off-site training
   - Money for employees' continuing education or certifications
   - Apprenticeships for certain trades
   - None
   - Other
   - Do you employ any union workers? (Yes/No)

In addition to quantitative impact assessment, the previously cited 2011 study that makes recommendations to the New Jersey Community Capital CDFI makes the point that qualitative data collection through case studies, interviews, and open-ended surveys provides CDFIs with data that numbers alone cannot convey. This type of impact assessment has the three-fold benefit of providing marketable success stories, strengthening relationships with clients, and motivating the CDFI staff members. While qualitative data may be viewed by some as subjective and only reliable to a limited extent, it is an important complement to quantitative data because exclusive reliance on numbers for impact assessment could “skew organizational activity towards the simple fulfillment of benchmarks that the CDFI did not necessarily choose for itself or that do not reflect the true and complex needs of the family or community being served.” Thus, it is important that qualitative data collection finds its way to the impact assessment agenda of CDFIs.
Impact investing is now a central concept for community developers across the board; “No longer an idealistic niche, impact investing is becoming a dynamic, diverse market, brimming with optimism and confidence” Debra Schwartz remarks. More foundations are increasingly offering “more flexible, risk-tolerant, and patient capital”—or what is also known as catalytic capital—to invest in communities and concertize their status as community leaders. Catalytic impact investing makes a long-lasting, ripple impact in communities because philanthropic organizations help CDFIs, community development corporations (CDCs) and a variety of other community actors “effectively absorb and deploy capital, wield their proven credibility, tap powerful networks of relationships, and tackle challenges that once were insurmountable,” in the words of Schwartz. In effect, impact investing is not a charitable vehicle; it is a community empowerment one. Program-Related Investments (PRIs) is one of the financial instruments of impact investing and “counts as a qualifying charitable distribution towards the foundation’s annual payout requirement in the year it is made.” Investments under the PRI banner are one’s that are meant to further the foundation’s mission and “that would not have been made except for their relationship to the exempt purpose,” according to the Internal Revenue Service. PRIs are usually in the form of equity investments, loans, and guaranties provided at below-market interest rates, hence providing community development actors like CDFIs with low-cost capital. The causes PRIs usually support are ones like “microenterprise lending, affordable housing production, land acquisition, and pre-development for community development projects,” all of which are the leading missions for most CDFI missions. Unfortunately, “[o]f the many thousands of grantmaking foundations in the United States, only a small percentage make PRIs.”

It is critical for the foundation community to think seriously about allocating more of their endowments to fund PRIs. Many will express concerns about the hurdles embedded in taking on an endeavor like this, but Amy Robinson, the Vice President of the Kresge Foundation, begs to differ. She asserts that restructuring the staff body and internal procedures to join the impact investing community is a learning process and an “uphill climb.” “I frequently hear from foundations that are wary to jump into impact investing because they don’t have all the internal processes figured out, and I understand,” she writes, “[b]ut I also know from our experience that there is an element to building it as you go.” Be it obtaining lending software, building an invoicing process or accounting for PRIs on tax returns, Robinson makes the point that is working through trial and error is critical to the foundation's growth process and is definitely feasible if communication across departments.
is ensured. Further, she notes that the additional workload can be handled by adding two or three staff members to the foundation’s social investment team or by creatively outsourcing the work to external firms.

But the difficulties are not to be underestimated. Robinson’s view is surely valid, but the obstacles take different forms and can be elaborate depending on the situation. A study that examines the barriers that the philanthropic community faces when considering impact investing published by the Center for High Impact Philanthropy at the University of Pennsylvania concludes that one of the main obstacles to many foundations is the lack of “a trusted, high-quality intermediary providing inexpensive due diligence, structuring and underwriting.” The study provides a schematic description of the system within which foundations operate and notes that the intermediaries in this system, which include consulting and advisory services as well as non-profits and universities, whose role is to deliver “consulting, business development, legal and fund management skill and experience” are underdeveloped or still at their infancy. This is to say that not only foundations are faced by internal challenges when intending to invest in PRIs, but there is also dysfunctionings in the grand system that need to be addressed. The study recommends establishing a “center of expertise” or a “clinic” that can provide resources to foundations intending to dedicate capital for PRIs or expand their existing PRI investments.

Figure 2.9: The Center for High Impact Philanthropy: The University of Pennsylvania. “Program-Related Investments.” 2016.
RCC lacks the tools and the staff capacity to measure the impact of the small businesses serviced by its loans and not only is this a missed opportunity for RCC to make the case for more funding for its loans, but it also creates one of the principal malfunctions in the system depicted by the schematic above. According to the aforementioned University of Pennsylvania study, there is a substantial “the lack of consistent data to enable a strong feedback loop between the initial investment and the programmatic and financial outcomes from the investment over time.” The study estimates that building such database on the impact of investments has a three-fold advantage: “(1) enable foundations to better understand the impact of PRIs and MRIs, (2) allow for benchmarking of investments and (3) provide analytics and insight for the impact investing community.” Secondly, impact assessment is critical for CDFIs to highlight the importance of their investments and quantify the impact of their community development efforts to the end of attracting new funding. Further, the aforementioned 2011 report that presents impact assessment recommendations to the New Jersey Community Capital CDFI argues that quantifying impact is equally important for improving internal functions within the CDFI. The authors write:

...a CDFI can utilize assessment tools to guide the development of organizational goals and strategic plans, better focus its programs, and ensure it is targeting resources towards the most effective activities. CDFIs also can use internal assessment as a method of maintaining awareness, cohesion, and accountability among staff around broad strategic goals. Further, by engaging staff in the development of its assessment process, a CDFI can improve its systems and enhance the sense of collective ownership of the outcomes and impacts of its work.

This same report recommends a handful of best practices for impact assessment which are worthy of mentioning. Firstly, CDFIs need dedicate one or two staff members to outcome data entry and performing statistical analysis of the data to produce impact assessment annual reports. Secondly, a culture around measuring impact ought to be created through incorporating impact assessment into organizational goals and into staff work plans (staff are asked to report data on a regular basis), staff training in order to build the knowledge base necessary for data collection and analysis, and through making impact assessment a shared responsibility by requiring staff across departments/teams to report data and create data summaries. Further, CDFIs should tailor the metrics they choose to conduct impact assessment such that they serve internal needs (reflecting on the organization’s performance) as well as external requirements of funders. CDFIs should also look into the possibility of developing a “Customized Output and Outcome Tracking Database” that is tailored to the CDFI’s programs such that outcome data can be entered once a loan is
closed or a grant is given. Such a data entry and analysis system is time-efficient and requires less staff members to oversee impact assessment, so while it might be judged costly by some, the long-term efficiency gains makes the investment worthwhile. Add to that the need to create some efficiency measures to provide proof that the CDFI is leveraging funds effectively. For some CDFIs, those measures include “capital deployed per dollar of net public support, dollar amount of development generated per dollar of net public support, economic benefits to society per dollar of net public support, and net cost per dollar of capital provided.” Additionally, as shown previously, qualitative impact assessment is integral to forming a comprehensive impact portfolio and helps preserve and potentially develop relationships with former borrowers. It is hence recommended that CDFIs interview borrowers to complement their quantitative data sets. As far as staff capacity goes and the potential strain that impact assessment may impose on CDFIs, it is always worth considering commissioning impact assessment tasks to external evaluators.

Once collected, this data ought to be shared with academics and external evaluators who are able to conduct ecosystem-level studies to analyse CDFI outcomes on a macro level. Those studies are critical to "ongoing learning in timely and cost-effective ways." Additionally, it is recommended that there be more systematic efforts to institute collaboration and data sharing between the different CDFIs in the ecosystem to boost impact and improve outcomes. Specifically, a 2014 report by the University of New Hampshire titled *CDFIs Stepping into the Breach: An Impact Evaluation—Summary Report* proposes that CDFIs collaborate to put in place a “Comparative Performance System” where CDFIs targeting the same community development area can “report on the same measures, using identical definitions and methodologies.” This allows CDFIs to learn from their partners’ practices, improve performance and increase their programs’ efficiency by making their work complement other CDFIs’ efforts, and “collect reliable field-wide data.” The report also recommends designing an “Adaptive Learning System” that allows different CDFIs working on a multi-faceted development issue to coordinate efforts, compare their impact assessment metrics, and prepare future projects jointly. Why is putting those systems in place important for attracting more capital? Because these tools can help make the CDFI ecosystem function as a cohesive unit, use the available resources efficiently and therefore significantly improve its impact outcomes, which can greatly incentivize funders across the board to invest in CDFIs.

**RELY ON NON-PROFIT DATA SCIENCE PROGRAMS & INTERNSHIPS**

Capitalize on the opportunities provided by non-profit data science programs and internship programs of local universities to overcome staff capacity deficiencies that hinder impact assessment. Since many CDFIs are not in the position to employ an additional one or two staff devoted to impact assessment, they can attempt to fulfill this need by seeking free or low-cost third party services.
Several organizations offer to pair scholars, students or any individuals with relevant knowledge of statistics and data analysis with non-profits to offer those volunteers and exposure to the nonprofit world and the nonprofits the resources to perform tasks that their staff capacity cannot serve. Organizations like Statistics Without Borders, Delta Analytics, and Data Kind either catalyze cooperation between interested volunteers and nonprofits or offer pro bono data analysis services for nonprofits. The goal of such organizations is to “help democratize access to machine learning and data tools” and enhance nonprofits’ capacities to perform daily operations. Another available resource are local internships that pair universities with nonprofits like a Christian Brothers University’s program called the Nonprofit Internship Community Experience (NICE). NICE, for example, pairs students with local nonprofits for a summer internship at no cost to the nonprofit. Similar programs exist in other local universities, but the challenge remains to seek graduate-level students who typically dispose of more expertise and knowledge to offer CDFIs in service of their impact assessment projects.

GIVE CDFIS THE RIGHT TO COLLECT DATA

Give CDFIs the right to collect data on borrowers’ businesses and utilize their photographs by CDFIs’ public relations teams. Data collection pertaining to businesses’ financials, employee capacity, and financial challenges is integral to impact assessment and thus to making the case for more funding for CDFIs. It is a simple given that without regularly incoming, quality data, CDFIs cannot measure the impact of their products. During my visits to RCC’s previous borrowers’ businesses to collect responses for the RCC Business Performance Survey, several business owners hesitated to disclose certain information related to their payroll or their tax liabilities. In this light, it is imperative that future borrowers consent to data collection as a part of closing documents to enable RCC and other CDFIs to obtain the data necessary to feed their impact measurements systems regularly. RCC would make it clear that the client’s information will not be disclosed to any party except for trusted software. In the same vein, future borrowers ought to agree that photographs be taken of themselves and their businesses by public relations staff for marketing purposes. Advertising CDFI missions and efforts is fundamental to spreading the word about the critical economic development work CDFIs carry on and is sure to attract more funding interest.
Establish a communication medium for the different actors in the ecosystem to facilitate communication and match interests. From my conversation with Jarrett Woods, the Vice President of lending in the Delta Region from the LIFT Fund CDFI, the overarching conclusion was that the ecosystem is in need of a common platform that brings all actors together to have conversations, share resources, and match interests. Mr. Woods made the point that in the economic development ecosystem as it stands today, “we don’t always know who is looking for what type of impact.” Thus, such a platform can provide the means to bring together individual philanthropists, foundations, CDFI leaders, community development corporations, and representatives of chambers of commerce to make connections categorically. In other words, and specifically for CDFI purposes, such a platform will allow CDFIs to specify the goals and theories of change they target through their programs, and on the flip side, will give foundations the chance to showcase their social impact interest areas. Through my conversation with Mr. Woods, I envisioned such a platform to be a digital one where actors will be matched based on social impact interests and can coordinate amongst each other to address different facets of complex social problems. Another forum for realizing the same objective is the Investment Connection (IC) program organized by the Federal Reserve Bank of St. Louis. This event has been launched in 2017 and is hosted annually to “bring community and economic development organizations, financial institutions and other funders together to build impactful relationships and find innovative ways to meet community needs within low- to moderate-income (LMI) communities.” The idea behind this event is to select funding proposals by community development organisations that are eligible under the Community Reinvestment Act (CRA) and then give them the platform to present their proposals to banks and other funders. Consequently, not only does the event help actors match interests and conclude deals, but it also acts as an incubator for growing impactful partnerships and allows community development organizations to “connect with community organizations with similar missions and highlight the needs facing LMI communities. The feedback obtained from participants highlighted that the IC event “created a platform for them to network with one another and provided opportunities to partner.” This event sets an important precedent and there is hope that it will start a conversation about the need to establish more efficient communication channels amongst the actors in the ecosystem.
Establish partnerships with journalists who write for local advocacy journalism outlets to spread the word about the CDFIs’ role in community development and attract funders’ interest. My conversation with Mr. Woods from the LIFT Fund underscored the need to keep the work of CDFIs on the front page of community development news. Mr. Woods said funds go to actors who work on the hot topic, and the hot topic changes almost every week. “One week it’s small business growth, another it’s coastal restoration, and the next is affordable housing,” he told me, “it’s hard to maintain a consistent focus on the work of CDFIs and the vitality of the small businesses they serve to the local economy.” Hence, it is critical that CDFIs build and maintain relationships with local journalists and reach out to communicate their success stories and impact outcomes to sustain a public focus on CDFIs’ work. Examples of such outlets is the YES! Magazine, Next City, and Colorlines.
River City Capital Investment conducted a business performance survey to collect data on the state of previous borrowers’ businesses. The intention was to fill in some of the data gap that RCC ought to address more systematically in the future. The survey questions were taken from the 2018 Small Business Credit Survey of the Federal Reserve Banks and were selected to target five areas of business performance: demographics, size of business, business performance, financials, and workforce. The RCC survey included 27 questions that were answered by 12 respondents. The total number of RCC borrowers is 37, hence the sample is fairly representative. What follows is the summary data collected.

**Is your business still operating?**

![Pie chart showing the majority of businesses are still operating.]

**Which industry is your business in? (Other industries include automotive, musical manufacturing, and artist collective.)**

![Bar chart showing the distribution of industries.]

**For how many years has your business been operating?** (Note: business #1 and #2 have been operating for less than a year and business #6 is not operating as of July 26, 2019)

![Bar chart showing the distribution of years of operation.]

How does owner(s) hourly wage compare to the state's minimum wage ($7.25/hour)?

What is the source of owner(s) health insurance? Select all that apply. (Note: Other responses include Obamacare benefits, Church Health, no health insurance, and shopping for health insurance).

Business Size

Does your business have any paid employees, excluding owner(s) and contract workers? (Note: The other category includes businesses intending to employ but have not yet done so).
If you have paid employees, please specify the number of your employees by job category (Note: 8 respondents answered this question)

If you have paid employees, please indicate the ethnicity of your employees (Note: 9 respondents answered this question)
**Business Performance**

Roughly, what was your business's total revenue in 2018?

At the end of 2018, was your business operating at a profit, break-even, or loss?

Describe the change in your business over the past 12 months compared to previous years (Note: 2 on this scale is taken to mean “decreased a little” and 4 to mean “increased a little”)

![Graphs showing business performance metrics]
Has your business experienced any financial challenges during the past 12 months? Select all that apply (Note: Other responses include normal challenges of opening, truck maintenance expenses, and treasury management difficulties).

What actions did your business take to deal with those challenges? Select all that apply (Note: 10 respondents answered this question and other responses include seeking partners to expand and did not face challenges)

On whom do you rely most for your business strategy and planning? (Note: Other responses included business associates, attorney, and a coach).

How does your business primarily fund its operations? (Note: The other response was “all of the above”).
Does your business have any debt outstanding?

How much total debt outstanding does your business have, if applicable? (Note: 9 respondents answered this question)

Did your business apply for any financing in the past 12 months?

Please specify the amount of financing your business obtained in the last 12 months, if applicable (Note: 9 respondents answered this question)
Please specify the sources of funding and the status of the loans that your business applied for in the last 12 months, if applicable (Note: 10 respondents answered this question and the orange columns indicate those who preferred not to specify the amount approved)

### Workforce

Has your business attempted to hire in the last 12 months?

Please specify the source of your employees' health insurance, if applicable. Select all that apply (Note: 9 respondents answered this question. Other responses include TennCare, Church Health, and not sure).
Please specify the average hourly wage of your employees (excluding contract workers), if applicable (Note: 8 respondents answered this question).
EVALUATION OF BORROWERS' BUSINESS PERFORMANCE

- ~92% (11/12) of businesses are operating
- ~33% (4/12) of businesses are in the food industry
- ~58% (7/12) of businesses are operating at a profit

- Part-time wages
- Full-time wages

- ~67% (8/12) of businesses hire paid employees and ~8% (1/12) are planning to

- 67% (8/12) of businesses said their profitability increased marginally over the past 12 months

9 OUT OF 12 BUSINESSES COMPLETED AT LEAST ONE APPLICATION FOR FUNDING IN THE LAST 12 MONTHS

- 33% (4/12) of businesses faced financial challenges making payments on debt and paying operating expenses
- ~83% (10/12) of businesses have debt outstanding
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