FIRE
FIRST-RING INDUSTRIAL REDEVELOPMENT ENTERPRISE
MILWAUKEE • RACINE • KENOSHA

June 26, 2017

Greg Bischak
Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1801 L St NW
Washington, DC 20220

Via Email

Dear Mr. Bischak:

Thank you for this opportunity to comment on the Community Investment Impact System (CIIS) under OMB Number 1559-0027. First-Ring Industrial Redvelopment Enterprise, LLC is a CDE which focuses on providing equity equivalent debt product and loan pool products to businesses and community facility projects in the counties of Milwaukee, Racine, and Kenosha WI. As a result, our financing tends to support existing small business and renovation and expansion projects. When working with the, August 2016 Business Jobs Guidance, we have found that a number of our projects were affected in their undewriting outcomes.

With regard to working capital, we have found that the provision tends to work in favor of the projects we work with as we fund a number of expansion and renovation projects. When working capital is included, this enables the existing jobs to be included in the impact calculations at least to the extent it is funded on the pro-rata basis allowed. This can support small businesses whose primary need is working capital. It has come up in Advisory and Loan Committee discussions that the division between existing and created jobs related to working capital does not appear to have correlation that is clear. An entity expending working capital is using it to support the entire needs of the entity, not just those related to existing staff. We were not able to explain why only a portion of the staff would be considered under this calculation.

The August 2016 guidance requires fixed assets to be pro-rated on the basis of total project costs and divided over created jobs. We were not able to explain this to our Board/Investment Committee, either in relationship to the division between equipment and real estate assets or the division between existing and created employess. Logically an entity requires both costs to be expended in order for the equipment expense to become functional – unless only equipment is purchased (or if it is a working capital and equipment loan) and it is very difficult to ascribe only created jobs unless the business is a start-up or the line is expansion for which no exiting employees will have positions. Further, in our market a number of small to medium sized business are seeking funding to support capital expenditures to replace equipment in order to keep pace with global competition. Without the support of the NMTCs they cannot access the debt necessary and without the equipment they are likely to lose contracts and fail. Underwriting suggests future job creation, but the primary purpose is stabilization. Technically this would not be classified as creation or even retention – since failure is projected 24-36 months out. Yet the funding is vital to the community as a whole. As currently written these jobs do not qualify for consideration as "impact," meaning that our AB and LC have difficulty classifying these projects as priority despite the clear need for these business assets in the community and the documented "But For" in the file.

We recommend that for both working capital and fixed assets/equipment that all jobs be considered as applicable to the funding with the jobs attributing to the the project as a whole.

We also discussed why we thought the CDFI Fund was seeking ways to guide CDEs on projecting jobs in ways that seemed to "skinny" up what was reported. We believe that similar to the issue of double counting that the Fund is concerned with CDEs over-estimating the value. Based on discussions at the Board level it was deduced that the CDFI Fund is searching for a means to ensure that CDEs are not over-estimating the value of the NMTCs they provide as a part of the capital stack to the projects funded.

We discussed how CDEs could self-test to ensure that they were not over-counting. Outside of having quality estimating methodologies and annual reporting requirements it seems the best way to ensure that a CDE is not overstating its value to a transaction is to actually understand its value to the deal. We require all deals funded to meet our "But For" assessment and to document this as a part of closing. We also test the deals to see what percentage the NMTC equity makes up as a part of the overall structure. In general we like to see the NMTCs at 15-20%, with a floor of 10%. We believe that this evidences that the NMTCs are filling a gap that enables the funders to realistically claim the outcome values underwritten and reported to the CDFI Fund.

Thank you for taking the time to consider our comments. We would be happy to discuss these or to work with the Fund in any working groups that might be established.

Sincerely,

John Stibal

John Stibal
President:
First-Ring Industrial Redevelopment Enterprise, LLC