

Case Study — Chicago Small Business Improvement Fund

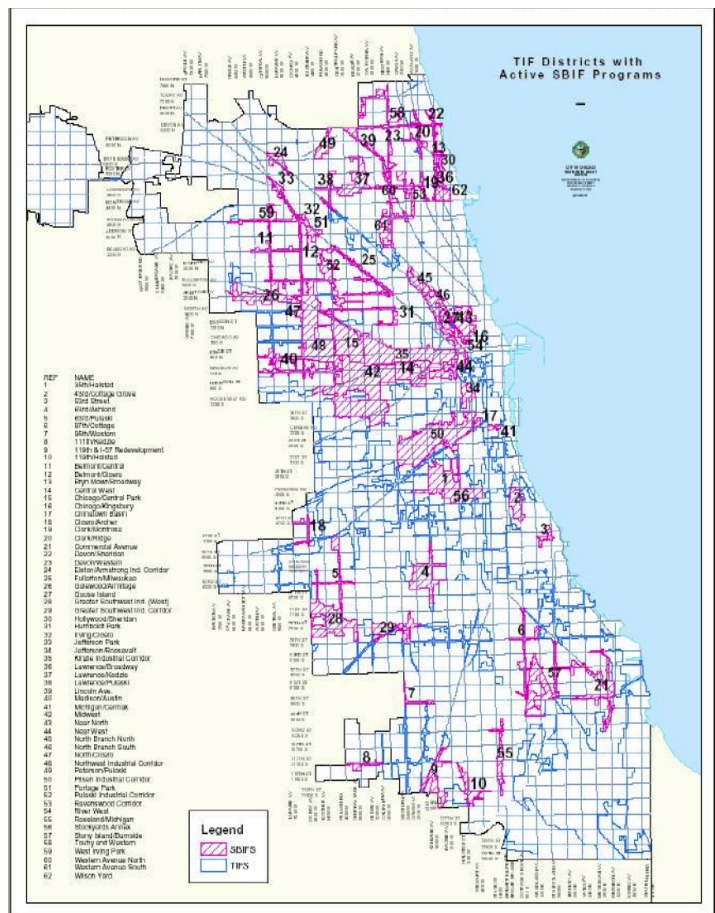
In Brief

Location: Chicago, Illinois
Policy type(: Financing Mechanism, Retrofits, Industrial Energy Efficiency
Sector: Commercial, Industrial
Start Date: 1999
Summary: This program uses revenue from tax increment financing (TIF) districts to provide grants to small commercial and industrial businesses (property owners or tenants) to be used for permanent building improvements, including energy efficiency investments.
Impact: In two years, the program has provided \$800,000 in funding to twenty efficiency-related projects and helped to leverage an equal amount of private funds. Lighting retrofits have been the most popular energy-related projects to make use of the funds.

Overview

The City of Chicago's Small Business Improvement Fund (SBIF) helps fund improvements to small business properties in Chicago neighborhoods. Each tax increment financing (TIF) district in the city can elect to set aside a portion of its funds for SBIF grants to help owners of commercial and industrial properties repair or remodel their facilities. Grants cover a range of permanent improvements to buildings, including energy-related investments such as HVAC and lighting. Projects are awarded grants ranging from 25% to 75% of project cost, depending on the size of the business. Generally, entities with lower net worth or lower liquidity qualify for higher rebates. The program has been in place since 2000, and approximately 80 out of Chicago's 150 TIF districts participate in the SBIF grant program. The program has been particularly popular in industrial districts such as the Kinsey industrial corridor, which was one of the first participant TIF districts and has granted more than \$8 million dollars to businesses over the past 10 years.

Program participants can be either the landlord or tenant and can receive matching grants to cover the cost of remodeling work, with a maximum grant amount of \$150,000. The grant does not have to be repaid. Funding covers 25% to 75% of SBIF-eligible costs, determined by a sliding scale based on business size. If there are more qualified applicants than available funds, projects are selected by a lottery or waiting list.



Map of Chicago's TIF districts (blue) and those districts participating in the SBIF program (magenta)

Participants must meet the following criteria:

- Property owners/landlords must have a personal net worth of no more than \$6 million and a total liquidity of no more than \$500,000.
- Commercial tenants must have gross sales of no more than \$3 million on average over past three years.
- Industrial properties may have no more than 100 employees.
- Vacant properties are required to have a plan for 60% lease-up, including 100% lease-up of the ground floor.

SBIF grants cover permanent building improvements, such as:

- Roof and façade improvements
- HVAC and other mechanical systems
- Floor and interior build out
- Environmental remediation measures
- Signs or awnings that are permanently affixed to the building
- Alterations or structures needed for ADA compliance
- Certain beautification efforts located in the public way
- Purchase of adjacent land parcels for expansion or parking
- Parking facility paving



Green roof on top of a SBIF financed building improvement project

An increasing number of projects are focused on building energy-related investments such as lighting retrofits, green roofs, furnace replacements, photovoltaic installations, geothermal heating and cooling, insulation, and industrial-size ceiling fans. While energy efficient building improvements are strongly encouraged, the program has no minimum energy requirements beyond code. Many energy efficiency investments can be layered with the utility funding, like ComEd Smart Ideas incentives. Several local contractors are successfully marketing the programs together. The median grant size for the program as a whole is approximately \$35,000, while lighting improvement projects average \$20,000–25,000.

Management and Funding

The enabling legislation for the SBIF program was passed by Chicago City Council in 1999 (although since amended, the original authorization is published as [pages 8307 to 8344 in the council's Journal of Proceedings](#)). Each TIF district that elects to participate in the program must add an amendment to its original charter, and can determine the level of funding to be allocated to SBIF grants within the district. The SBIF program is then administered by SomerCor 504, Inc, a nonprofit community development company certified by the U.S. Small Business Administration (SBA), which also originates SBA 504 loans within the state of Illinois.

The City of Chicago allows tax dollars collected within the TIF district to accrue in the TIF fund and then allocates them to the SBIF program. Each participating TIF decides upon a set-aside funding amount tied to it, typically ranging between \$500,000 and \$1 million per year. The total annual SBIF spending is approximately \$80 million.

Each SBIF project must be competitively bid, and the SBIF staff checks contractors' quotes against previous projects to ensure they are reasonable. Contractors must also be licensed by the City of Chicago and carry liability insurance. Projects must be approved by the City before installation begins. After the project is completed, the business must provide proof of payment in order to receive the rebate. The SBIF staff also conducts pre- and post-installation site inspections in order to document the work, and continues

to follow up with the business annually for three years. Businesses are required to remain within the TIF for this time period.

Performance

As of early 2011 there had been nearly 715 grants paid in the ten years the program was active, and a total reimbursement of approximately \$24.7 million. SomerCor had only been actively tracking “green projects” for the most recent two years of the program and it is likely there have been a number of other funded projects over the years that included energy efficiency components. Over the past two years, twenty funded projects have had efficiency-related components. \$800,000 in SBIF funds were used to leverage an equal amount of private investment in these projects. About two-thirds of the projects were undertaken by industrial firms and the other one-third by retail commercial enterprises. In 2010 by far the most popular green investments funded under the program were lighting retrofits.

Lessons Learned

At least two aspects of the SBIF model has made it an appropriate channel for funding energy efficiency investments. First, it makes building energy improvements an eligible and encouraged use of existing community development funds. Instead of creating an additional layer of complexity, property owners and commercial tenants that are considering building improvements through the program are informed about opportunities to integrate energy efficiency and are directed toward additional utility incentives. Secondly, because TIF is used to fund the SBIF program, the funds that are spent have also been raised in the same geographic district. The amount of grants available to local businesses is directly tied to the amount raised through TIF tax rates in the district. At the same time, TIF is specifically designed to raise funds based on the increased tax value of properties in the district. To the extent that energy efficiency investments increase property values, they are helping to increase the TIF funds available for future building improvements in the district.

John Paulun of SomerCor describes how he sees the program working to encourage energy efficiency:

I have learned that in order to get applicants to consider green projects, you must show them how it will directly benefit their bottom line. All of the people we work with are small business owners, and for the most part are doing their best to grow their business and provide a stable income for their employees. It is less a priority for the majority of them to make their buildings more environmentally friendly then it is to make payroll each week. We have been most successful in marketing the SBIF as a green building tool by speaking about energy cost savings/investment payback periods. We are lucky that with the help of SBIF rebates we can reduce (generally speaking) the higher upfront costs of a green renovation project so that it is more in line with a conventional building rehab plan. This concept becomes even more powerful when talking about investment payback periods. A lighting retrofit might take 5 years to pay for itself in energy cost savings without the SBIF program. If someone gets a 50% grant rebate through SBIF, the payback period is cut in half. This seems to resonate quite well with most business owners. In these respects, the SBIF grant quantifies the benefits of a green renovation to a small business owner who may be looking for new ways to cut costs.

Resources

SBIF information on the City of Chicago's Web site:
http://www.cityofchicago.org/city/en/depts/dcd/supp_info/small_business_improvementfundsbf.html

SBIF program information maintained and administered by SomerCor 504, Inc.:
<http://www.somercor.com/sbif/>

Cook County, IL's "TIFs 101: A taxpayer's primer for understanding TIFs":

<http://www.cookcountyclerk.com/tsd/tifs/Pages/TIFs101.aspx>

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