



MEMORANDUM

TO: Mayor and City Council

FROM: Sylnovia Holt-Rabb, Director, Economic Development Department

DATE: February 15, 2022

SUBJECT: Ordinance 20190910-001 – Budget Rider from Council Member Pool – Staff Response

The purpose of this memo is to respond to FY20 Budget Rider adopted in [Ordinance 20190910-001](#). The Economic Development Department (EDD) completed the deliverables requested through the FY20 Budget Rider by establishing a one-year pilot program to provide business development services to cooperatively-owned businesses with a contract with the University of Texas Rio Grande Valley (UTRGV) to (1) provide business training and coaching specific to the needs of cooperatively- owned businesses, and (2) assist EDD's Small Business Division (SBD) in the development of educational and "How To" materials targeted to cooperatives. The contract provides twelve classes on six topics related to starting and operating a cooperatively owned business, as well as up to 400 hours of individual business coaching. Transitioning an existing business into a worker cooperative will be addressed in a class and by UTRGV's coaches. UTRGV began offering coaching in February 2021 and classes started in March 2021. As a result of the success of the pilot, Council approved an additional 2-year contract with UTRGV on September 2, 2021.

Background

Please find attached a report created by SBD in response to [Council Resolution 20170323-053](#), which directed the City Manager to make certain recommendations and take certain actions to include cooperatively owned businesses in City initiatives.

Directive 1: The City Manager is directed to develop recommendations for using community development block grant funding and other appropriate sources of funding to support local worker cooperatives, considering: areas of Austin in need of services (such as food deserts); how to best solicit proposals from worker cooperatives to address the needs of low-income residents; and plans to provide funding for new worker cooperatives providing services to low-income customers or in underserved areas.

[See pages 2-3](#) of the report. Neighborhood Housing and Community Development subsequently adopted policy changes to include cooperatives in City affordable housing initiatives.

Directive 2: The City Manager is directed to ensure worker cooperatives can access SBD small business loans on the same basis as other comparable business entities by reviewing existing SBD loan program policies and making any necessary adjustments.

[See pages 4-5](#) of the report. Staff determined that cooperatives may access EDD-managed small business loans if all members of the cooperative meet eligibility requirements, the cooperative appoints a representative to execute binding loan documents, and the cooperative can meet all other program eligibility requirements.

Directive 3: The City Manager is directed to include worker, cooperative educational materials in SBD resources about how to start a business, and to incorporate into SBP online resources information about sources of funding that workers cooperatives can access.

[See pages 6-7](#) of the report. The consultant hired through the RFP mentioned above will provide coaching on starting a cooperative and accessing funding. SBP plans to work with the consultant to develop the cooperative-specific educational materials included in Directive 3.

Directive 4: The City Manager is directed to develop recommendations for conducting outreach to existing small businesses in Austin to educate them on options for transitioning an existing business into a worker cooperative model (e.g., by selling the business to their employees) as a means of succession.

[See page 8](#) of the report. The consultant will provide coaching on transitioning an existing business to a worker-owned cooperative, and work with SBP to develop an online “How To” guide.

Directive 5: The City Manager is directed to review City of Austin purchasing policies and identify any barriers for, worker cooperatives to receive City contracts; take necessary steps to remove those barriers; and advertise City of Austin procurement opportunities to worker cooperatives.

[See page 9](#) of the report. The City Purchasing Office determined that there are no barriers preventing worker-owned cooperatives from receiving City contracts. SBP will work with the consultant to promote City procurement opportunities to cooperatives.

Directive 6: The City Manager is directed to provide the City Council with a progress report within 120 calendar days.

[See page 10](#) of the report. The report was delayed due to finalization of the FY18 Proposed Budget and was delivered to Council on October 27, 2017.

Directive 7: The Council directs the Economic Prosperity Commission to provide input to the City Manager concerning implementation of this resolution, and further, directs the City Manager to take cognizance of [Recommendation Number 20170315-0036](#) while developing recommendations for Council, and to provide that the Commission a draft of the recommendations developed for Council no later than the Commission's last regularly scheduled meeting before the progress report is submitted to Council.

A draft of the report was presented to the Economic Prosperity Commission at its regularly scheduled meeting on September 20th, 2017. The Economic Prosperity Commission subsequently approved [Commission Recommendation 20171018-4.d.](#) at its meeting on October 18th, 2017.

Please contact Xavier Zarate, Small Business Division Manager, at xavier.zarate@austintexas.gov or at 512-978-2502 if you need additional information.

Enclosure: Economic Development Department, Small Business Division Report dated_October 24th, 2017, in response to [Council Resolution 20170323-053](#).

Recommendations in Response to City Council Resolution 20170323-053

**Presented by the Economic Development Department
October 24th, 2017**

Directive 1: The City Manager is directed to develop recommendations for using community development block grant funding and other appropriate sources of funding to support local worker cooperatives, considering: areas of Austin in need of services (such as food deserts); how to best solicit proposals from worker cooperatives to address the needs of low-income residents; and plans to provide funding for new worker cooperatives providing services to low-income customers or in underserved areas.

The City's Neighborhood Housing and Community Development Department (NHCD) reviewed the federal regulations governing use of Community Development Block Grant (CDBG) funds and determined that cooperatives are eligible to receive CDBG funds as a City sub-recipient if they meet the eligibility and usage criteria defined in [24 CFR 570.204](#). However, on April 13, 2017, Council amended the Imagine Austin Comprehensive Plan to incorporate the Austin Strategic Housing Blueprint, which states that Federal funding should be focused and leveraged to achieve the goals in the Austin Strategic Housing Blueprint.

Currently there are efforts under way to include housing cooperatives in City housing initiatives:

- The Strategic Housing Blueprint also states that “collaborative living arrangements where residents actively participate in the design and operation of everyday living provide another affordable housing option in Austin”.
- NHCD is currently updating its Down Payment Assistance Program to include cooperative housing developers as eligible candidates, which was affirmed in City Council resolution 20170817-051.
- City Council resolution 20170817-051 also directed the City Manager to take the following actions:
 - Incorporate scoring criteria for limited and common equity cooperatives within the Rental Housing and Development Assistance Program and the Acquisitions and Development Homeownership Program based on the levels of affordability that the cooperative can achieve.
 - Allow cooperatives to be eligible candidates for any City resources and funding sources available to affordable housing developments.
 - Identify additional hurdles to cooperative housing development in the City, to provide recommendations to reduce identified hurdles, and to create incentives for these types of developments. Recommendations may include, but are not limited to, code amendments, education and training, or new funding opportunities.
 - Explore if the City can implement a "right of first refusal" policy for tenants who live in properties on the Repeat Offender Program to form a cooperative.
 - Review national best practices regarding the formation of cooperatives through "right of first refusal" policies, or similar policies, and to identify potential financing opportunities available to tenants who may want to pursue the establishment of a cooperative, should such a purchase occur.

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Resolution 20170817-051 directed the City Manager to present a memo to Council with the findings by October 16, 2017.

Recommendations: Policy changes are under way to include cooperatives in City affordable housing initiatives.

Additional resources required: None have been identified at this time.

Directive 2: The City Manager is directed to ensure worker cooperatives can access SBP small business loans on the same basis as other comparable business entities by reviewing existing SBP loan program policies and making any necessary adjustments.

Response: The Economic Development Department's Small Business Program, the "SBP" referred to in the directive above, manages a single loan program for small businesses called the Family Business Loan Program (FBLP). FBLP is funded by a Section 108 allocation from the U.S. Department of Housing and Urban Development (HUD), and its eligibility and underwriting guidelines follow standards set by HUD and the U.S. Small Business Administration (SBA).

FBLP's eligibility criteria do not address cooperatives so staff referred to SBA's lending standards, which state that producer and worker cooperatives are eligible for loans if they meet the following criteria:

1. Must be a for-profit business
2. Must meet SBA size standards – for cooperatives each member of the cooperative must meet the SBA size standards
3. Show good character, credit management and ability to repay
4. Must be an eligible type of business

The second criteria regarding the SBA size standard would require FBLP staff to verify the personal financials of all cooperative members to confirm that no individual member exceeds the size standard. This means that all members of the cooperative must be willing and prepared to share their personal financial information, including tax returns, with FBLP staff.

A worker cooperative applying for an FBLP loan must also meet the program's other requirements, which apply to all applicants, as follows:

- The project must be located within the municipal boundaries of the City of Austin or its Extra-Territorial Jurisdiction (ETJ).
- The applicant must have been engaged in industrial, retail or distribution activities for at least two (2) years and can demonstrate sufficient profitability.
- The applicant must be a legally organized business registered with the State of Texas.
- The business must meet the size standards of the U.S. Small Business Administration and be a closely held entity.
- The applicant must commit a minimum of ten percent (10%) of the total project cost.
- Loan proceeds may only be used for "Eligible Uses" that are defined in the FBLP guidelines.
- Applicants must meet all financial and collateral requirements.
- Applicants must commit to creating one new job for every \$35,000 borrowed and make a best faith effort to hire 51% of the new jobs from the low- and moderate-income labor pool. (Note: As defined in FBLP's criteria, owners who work in the business do not count as a new job created, so a worker cooperative would need to create jobs in addition to the coop members/owners).

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In addition, all loan-related documents must be signed by a legally authorized representative of the borrowing entity. Therefore, cooperatives applying for an FBLP loan must have designated a representative, consistent with their governing documents, to speak, act and execute binding documents on behalf of the cooperative.

Recommendations: No Council action is required. Staff will evaluate any issues pertaining to applications for FBLP loans by cooperatives on a case-by-case basis.

Additional resources required: None.

Directive 3: The City Manager is directed to include worker, cooperative educational materials in SBP resources about how to start a business, and to incorporate into SBP online resources information about sources of funding that workers cooperatives can access.

Response: In 2016 the City published *Supporting Cooperatively Owned Businesses*, a needs assessment study for cooperatively-owned businesses that was conducted on the City's behalf by Morningside Research and Consulting. The study found that cooperative businesses require the same kind of assistance that all small businesses need, but with three exceptions that are discussed on the next page. For their general small business needs, cooperatives can utilize SBP's existing services and resources:

- One-on-one business coaching
- Training classes, including online classes
- Assistance navigating City permitting processes
- "How To" information on starting or expanding a business
- An online resource guide
- Informational expos
- Topic-specific panel discussions featuring successful business owners and topic experts

All these services can benefit cooperatives. For example, SBP offers the following training classes that would benefit cooperatives as well as traditional businesses:

- How To Write A Business Plan
- The 7 Most Important Secrets of Small Business Success
- Settings Goals for Small Business Excellence
- Marketing Your Small Business
- Social Media Practices for Small Businesses
- Google: Make Sure Your Customers Can Find You!
- High-Impact Marketing: 10 Low-Cost Strategies
- Exceptional Customer Service: Keep Your Best Customers
- Human Resources Basics
- Interviews And Hiring Employees
- Business Structure: Forming and Maintaining A Business Entity
- Copyright And IP Law
- Manage Your Cash Flow
- QuickBooks - Introduction
- QuickBooks - Intermediate
- QuickBooks – Advanced
- Small Business Accounting
- Small Business Recordkeeping
- Understanding Business Taxes

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- Strategic Pricing
- Small Business Insurance 101
- How To Get Investors for Your Business

As previously mentioned, *Supporting Cooperatively Owned Businesses* identified three training needs that are specific to cooperatives:

1. Democratic governance and management
2. Capital structure dealing with profit sharing and member equity
3. Legal structures under which cooperatives can incorporate

The report recommended that SBP incorporate information addressing these cooperative-specific needs into its existing training curriculum and collateral materials. The report also recommended that SBP provide startup cooperatives with information on the availability of knowledgeable technical assistance providers, alternate sources of funding and peer learning opportunities.

SBP can create a section on its website dedicated to information for cooperatives, and mention in its printed materials that support is available for cooperatives. *Supporting Cooperatively Owned Businesses* includes lists of organizations with education and training resources for cooperatives, as well as lists of potential public and private sources of funding, which can be posted on the website along with other informational resources. However, SBP will need the assistance of an individual or organization with knowledge and experience in working with cooperatives to provide the cooperative-specific training classes, technical assistance, and referrals.

Supporting Cooperatively Owned Businesses recommended that SBP partner with organizations that already provide training and resources to cooperatives and provided a list of potential partnering organizations. These organizations could provide training specific to cooperatives and provide technical assistance to startup cooperatives as well as referring them to lawyers, financial advisors and accountants who are knowledgeable about cooperatives. The partner organizations could also assist SBP with outreach and marketing to cooperatives to inform them about the availability of resources for cooperatives and SBP's other services.

Recommendations: A Request for Proposal (RFP) should be developed to hire a qualified individual or organization to provide training, technical assistance, referrals and outreach to local cooperatives and groups interested in forming a cooperative.

Additional resources required: \$50,000 to fund a pilot program to provide training, technical assistance, referrals, and outreach.

Directive 4: The City Manager is directed to develop recommendations for conducting outreach to existing small businesses in Austin to educate them on options for transitioning an existing business into a worker cooperative model (e.g., by selling the business to their employees) as a means of succession.

Response: A variety of options exist for conducting outreach to inform business owners about the benefits of transitioning ownership to a worker cooperative as a means of succession. The options range from periodically emailing information to SBP's customer database, which can be done with existing resources, to conducting an extended marketing and advertising campaign to reach a wider audience, which will require additional resources. SBP can also develop an online "How To" guide containing information on the steps required to transition a business to cooperative ownership, as well as lists of funding and resource providers.

The business owner and their workers will need hands-on assistance to make the transition successful, and SBP's in-house business coach can aid with basic business startup and management issues. However, they will also need assistance from an expert on cooperatives to develop the governing structures that are unique to cooperatives. SBP will need to hire an individual or organization with knowledge and experience in working with cooperatives to provide cooperative-specific technical assistance for these customers.

Recommendations:

1. SBP will send information to its customer database, and any other relevant lists provided.
2. An advertising campaign should be conducted to educate to a wider audience on transitioning to a worker cooperative as a means of succession.
3. A "How To" guide containing information on the steps required to transition a business to cooperative ownership will be developed.
4. The RFP recommended under Directive 3 should include technical assistance for owners and workers seeking to transition an existing business to a worker cooperative as a means of succession. The contractor can also conduct the advertising campaign and develop the "How To" guide.

Additional resources required:

1. \$5,000 for advertising costs to promote succession to a worker cooperative to a wider audience, and for assisting SBP with developing the online "How To" guide.
2. \$20,000 for providing technical assistance to owners and workers with the transition.
3. These amounts will be added to the RFP recommended under Directive 3 (\$75,000 total).

Directive 5: The City Manager is directed to review City of Austin purchasing policies and identify any barriers for, worker cooperatives to receive City contracts; take necessary steps to remove those barriers; and advertise City of Austin procurement opportunities to worker cooperatives.

Response: The City's Purchasing Officer has determined that City Purchasing policies contain no direct barriers that prevent worker cooperatives from competing for City contracts. Any company can respond to a City solicitation, and can be awarded a City contract if:

1. The company's response meets all specifications or qualification requirements stated in the solicitation, and
2. The company's response contains the lowest bid price submitted for an Invitation for Bid (IFB), or is the most highly rated response submitted for a Request For Proposals (RFP), and
3. The company can meet the insurance or bonding requirements attached to the solicitation.

Specifications and qualification requirements change from one solicitation to the next and are usually set by the Department in need of the good or service. The Purchasing Office will only review specifications and qualification requirements proposed by the user Department to make sure they are reasonable for the target market and for the target contract. Insurance and bonding generally follow standard City requirements and are set by the Department in consultation with the City's Risk Manager.

The City advertises solicitations and sends email notices to registered vendors. Cooperatives may register to receive notices of City solicitations on the Vendor Connection website:

www.ci.austin.tx.us/financeonline/vendor_connection/index.cfm.

Recommendation: SBP will conduct outreach to local cooperatives to educate them on how to receive notices about City solicitations.

Additional resources required: This can be included in the RFP recommended under Directive 3.

Directive 6: The City Manager is directed to provide the City Council with a progress report within 120 calendar days.

Response: The 120-calendar day timeline set by the resolution would have resulted in a July 21st release of this report. July 21st fell during the final preparation period of the FY18 Proposed Budget, a very busy time for both Council and staff. The Economic Development Department issued a memo in May requesting an extension to October to allow this report to be released after approval of the FY2018 budget when Council has more time available for consideration. This report will be delivered to Council on or about October 19th.

Directive 7: The Council directs the Economic Prosperity Commission to provide input to the City Manager concerning implementation of this resolution, and further, directs the City Manager to take cognizance of Recommendation Number 20170315-0036 while developing recommendations for Council, and to provide that the Commission a draft of the recommendations developed for Council no later than the Commission's last regularly scheduled meeting before the progress report is submitted to Council.

Response: The Economic Development Department presented a draft of this report to the Economic Prosperity Commission at its September 20, 2017. The Economic Prosperity Commission subsequently adopted Commission Recommendation No. 20171018-4.d. at its October 18th meeting. The recommendation is attached below.

Economic Prosperity Commission Recommendation

Recommendation No. 20171018-4.d. – Economic Prosperity Commission Update from working group on response to Council Resolution 20170323-053 local workers cooperative and recommendation to council

WHEREAS, The Economic Development Department authored and released a document entitled “Recommendations in Response to City Council Resolution 20170323-053” in which it outlined its responses to City Council directives to investigate ways in which the City can best support worker-owned cooperatives;

WHEREAS, Directive 3 on pages 6-7 of this document recommends that the Small Business Program recommends the issuance of a Request For Proposal (RFP) to hire a qualified organization or individual “to provide training, technical assistance, referrals and outreach to local cooperatives and groups interested in forming a cooperative,” with a recommended funding allocation of \$50,000 to fund a pilot program to provide these services;

WHEREAS, Directive 4 on page 8 of this document recommends that the aforementioned RFP also include technical assistance for owners and workers seeing to transition an existing business to a worker cooperative as a means of succession; with a recommended budget of \$5,000 for advertising costs and to contract the development of an online how-to guide; and \$20,000 for providing technical assistance to owners and workers with the transition, for a total RFP of \$75,000 to be funded in the 2018 fiscal year;

THEREFORE, THE ECONOMIC PROSPERITY COMMISSION HEREBY RECOMMENDS

That the City Council allocate \$75,000 in the next fiscal year for the funding of an RFP to contract technical assistance relating to worker cooperative development and support.

When considering selection of the organization or individual providing this technical assistance, the City should consider local knowledge specific to the Austin area cooperative economy as an important qualifying characteristic.

Yes: 6 (K. Haverlah, R. Rondero de Mosier, H. Frankel, A. Noel, K. Opp, H. Lackey)

No: 0

Abstain: 0

Not Present: O. Segura, M. Bhargava, A. Cavanaugh, M. Joyce

APPROVED:

A handwritten signature in black ink, appearing to read 'R. Mosier', written in a cursive style.

Roberto Rondero de Mosier, Chair