



Building Community and Wealth in Underserved Commercial Corridors

Chicago's Neighborhood Opportunity Fund

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At the heart of many neighborhoods are their commercial corridors, where small businesses play a critical role. These corridors are the epicenter of local entrepreneurship, employment, and wealth creation, and they provide intangible benefits through services, amenities, cultural identity, and social capital. However, not all commercial corridors in the United States have the same resources and opportunities to thrive.

To start, business ownership is not equally shared across groups and communities. Nationally, while Hispanics make up 16 percent of the US adult population, they constitute just 6 percent of business owners, and those firms have just 1 percent of receipts. And while African Americans represent 12 percent of the US adult population, just 2 percent of business owners are African American, and those firms have 0.3 percent of receipts.¹

Nonwhite-owned businesses are also more likely to have no employees and less likely to generate significant revenues (Algernon 2016). Many small businesses are challenged to pay competitive salaries and offer fringe benefits, training, and stability (Litwin and Phan 2012). Small business owners can be challenged in their ability to access the financing they need to start and expand their firms, thereby limiting wealth creation and local employment—and this is especially true in communities historically cut off from capital. With the higher costs of borrowing they often experience, nonwhite-owned firms face lower chances of survival (Vlad 2009).

The conditions described above mean that communities with larger nonwhite populations are often challenged to develop the thriving commercial corridors that are key to vibrant and desirable neighborhoods. Further, developers and planners across the country have long neglected commercial

corridors away from city downtowns (Gulley 2011). This is true for Chicago, where the downtown has benefited from a recent boom in real estate investment while communities in the South, Southwest, and West Sides still face difficulties in receiving the investment and access to capital they need to prosper like their peers in other parts of the city (Theodos et al. 2019).

In light of these conditions, we review Chicago's Neighborhood Opportunity Fund, an important new program linking the wealth generated by the development of the city's downtown with small businesses in underserved commercial corridors. For this brief, we interviewed officials involved in the program, grantees, and other stakeholders and partners to gather a diverse group of insights and perspectives on the effectiveness and functioning of the program. We also detail the lessons learned to date now that the city has completed four rounds of applications. We hope these findings will prove beneficial to Chicago as it operates the Neighborhood Opportunity Fund, as well as to other cities considering a similar model.

Program Description

The Neighborhood Opportunity Fund was created in July 2016 by Mayor Emanuel with city council approval. Since its creation, the program has conducted four rounds, receiving 1,426 applications, and has approved grants representing \$23.3 million to 174 small business and cultural grantees in neighborhoods along Chicago's South, Southwest, and West Sides. It should be noted that over 74 percent of approvals went to entrepreneurs of color. (Ten applicants, representing \$1.5 million in grant awards, withdrew their grants, so the totals in table 2 on page 5 are slightly below these figures.)

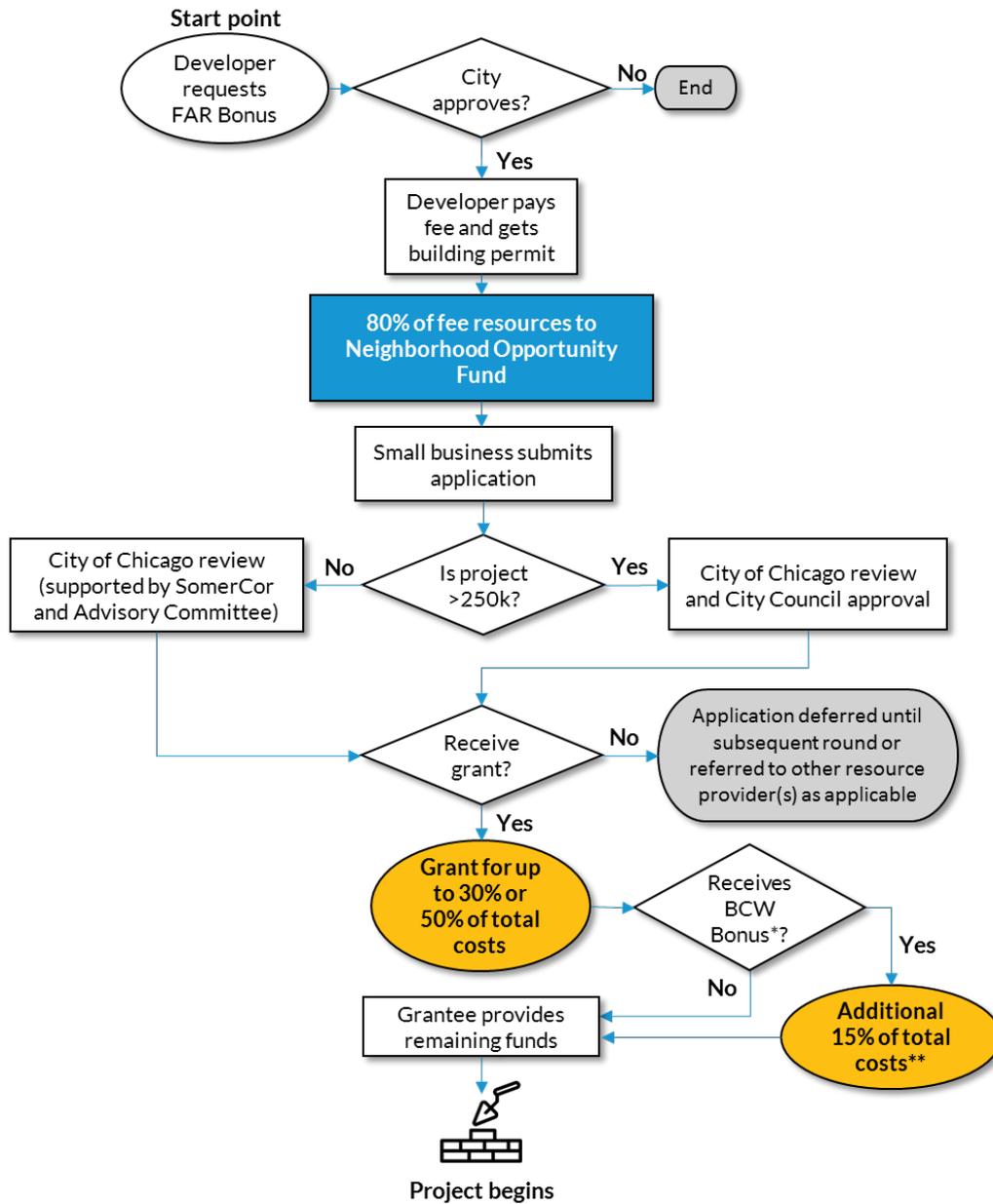
The fund is made up of financial contributions by developers who request and receive floor-area bonuses in the city's downtown and the "downtown expansion area" (i.e., the West Loop), as defined under Section 17-1-1500 of the Municipal Code. These contributions are made according to the formula in Section 17-4-1003-C of the code:

Cost of 1 square foot of floor area = 80 percent × median cost of land per buildable square foot of land

For every dollar received, 80 cents are contributed to the Neighborhood Opportunity Fund. The remaining resources go to two funds supporting landmark restoration citywide and infrastructure immediately around the subject building.

Once these contributions are received, the city awards funding competitively. Under the program, small business owners, property owners, landlords, and nonprofits can apply for a grant to cover 30 percent (for new construction) or 50 percent (for rehab) of total costs for a business development project. In practice, almost all awardees are rehabilitation projects. Applicants must be able to pair the funds provided by the city with their own funds, whether raised from debt or equity, and fulfill three conditions:

FIGURE 1
Neighborhood Opportunity Fund: Process Flowchart



Sources: Prepared by the authors based on § 16-14 of the Municipal Code of Chicago and information provided during key informant interviews.

Notes: *Receives if the grantee lives in an eligible area or hires two residents of an eligible area. **If the grantee receives the bonus through hiring, the additional 15 percent is restricted to use on wages. BCW = Build Community Wealth; FAR = floor area ratio.

1. the project is a building improvement or development,
2. the project enhances retail or cultural offerings in the community, and
3. the business is on an eligible commercial corridor, priority investment corridor, or contributing thereto, as defined by the Municipal Code (all in the West, Southwest, and South Sides of the city).

The City's Department of Planning and Development leads the fund in coordination with the mayor's office. Administration of and compliance to the program has been contracted with SomerCor,² a small business technical assistance provider and lender based in Chicago. SomerCor conducts initial vetting of the applications for financial and project feasibility, manages all required program documentation, and works directly with grantees to move their projects ahead. Projects with total costs below \$250,000 are reviewed by the City of Chicago with the support of SomerCor and an advisory committee (table 1), after city council authorization of the funds. Projects above that amount are reviewed by the city (without support of SomerCor or an advisory committee) and require individual approval from the city council.

TABLE 1
Grant Application Review Process for Projects below \$250,000

1. Project readiness (SomerCor)	2. Catalytic impact (City of Chicago)	3. Final selection (City of Chicago and advisory committee)
<p>Applications are scored and submitted for City review, considering four factors:</p> <ul style="list-style-type: none"> ▪ <i>Site control:</i> ownership, lease, letter of intent, or purchase-sale agreement ▪ <i>Property readiness:</i> encumbrances, significant back taxes or code violations ▪ <i>Project budget and financing:</i> sources and uses of funds ▪ <i>Construction implementation:</i> timelines, bids, renders, etc. 	<p>Recommendations submitted to Neighborhood Opportunity Fund advisory committee, considering two factors:</p> <ul style="list-style-type: none"> ▪ <i>Community input:</i> uses considered in the community's plan and/or supported by local aldermen ▪ <i>DPD and MO review:</i> targeted commercial and cultural uses that fill a gap in neighborhoods and/or draw people to the community 	<p>Advisory committee composed of community economic development leaders representing a cross-section of city neighborhoods.</p> <p>Committee reviews recommendations submitted by the City.</p> <p>Committee provides a funding recommendation to the City for final selection.</p>

Sources: "About the Neighborhood Opportunity Fund," <https://neighborhoodopportunityfund.com/about/> and information provided by the City of Chicago.

Note: DPD: Department of Planning and Development; MO: Mayor's Office.

The program design focuses on neighborhoods most in need; therefore, all eligible corridors are within qualified investment areas, selected by the department based on indicators of poverty and unemployment. To further support these communities, the program includes a Build Community Wealth bonus. If the entrepreneur lives in a qualified investment area, he or she receives an additional 15 percent of total project costs in grant funding during the development phase. Alternatively, if the

entrepreneur hires at least two people from a qualified investment area, this same funding is provided after the project for reimbursement of wages.³

Once grants are awarded, the city works with the entrepreneurs in three main areas: drawing resources from the grant, securing the outstanding resources, and obtaining building permits and licenses. For the first, the city has established an escrow program to allow grantees to draw down city resources as they contribute their own funding (based on the percentage of costs covered by the grant) to cover expenses related to construction and professional services. The city pays for the escrow setup charges (\$500) as well as the first three construction escrow draw fees (each also \$500).

To help grantees secure the outstanding resources for their project, the city has encouraged lenders and community development financial institutions (CDFIs) to work with Neighborhood Opportunity Fund grantees and simplify their loan terms. It also facilitates introductions between these two groups for easier access. During project development, the city helps grantees access the necessary building permits and licenses in an expedited way with Neighborhood Opportunity Fund concierge staff, specifically focused on walking grantees through regulation issues managed by the City of Chicago.

TABLE 2
Program Grants

	Round 1	Round 2	Round 3	Round 4	Total
Grantees	27	24	29	84	164
Total amount granted	\$2,964,938	\$3,132,683	\$4,597,807	\$11,067,971	\$21,763,399
Average grant amount	\$109,812	\$130,528	\$158,545	\$131,761.56	\$132,703
New construction projects	1 (4%)	0	2 (7%)	2 (4%)	5 (3%)
Average grant % of total project	59.8%	59.4%	57.4%	60.2%	59.5%
Startups	15 (56%)	14 (58%)	11 (38%)	34 (40%)	74 (45%)
Grantee lives in QIA	17 (63%)	11 (46%)	17 (59%)	29 (35%)	74 (54%)
Grantee intends to hire residents of QIA	2 (7%)	4 (17%)	4 (14%)	31 (37%)	41 (25%)

Source: City of Chicago.

Notes: QIA = qualified investment area. Totals exclude rescinded grants.

Program Highlights

In this section, we detail the highlights of the Neighborhood Opportunity Fund—not the basic structural elements described above, but what we heard from the interviews as the key ingredients that make the program what it is.

Financing Mechanism

Local programs to support small businesses are not unique—the difference with the Neighborhood Opportunity Fund is that it has created an entirely new source of funding that did not exist. Its funding

does not require the city to participate in a win-lose proposition in which it moves money from one neighborhood to another, or from one critical priority to another.

The financing mechanism, which requires contributions from developers for additional density in areas where growth is occurring, links the growth of Chicago's downtown with less invested neighborhoods through financial equity. City officials interviewed by the Urban Institute reported not having encountered opposition from developers in relation to the required contributions. On the contrary, they claim that developers see the model as a win-win.

Geographic Approach

The corridors eligible for grant requests of up to \$250,000 are all located in the South, Southwest, and West Sides of Chicago. These areas have been historically underserved and cut off from investment, and they have larger nonwhite resident populations than the rest of the city. At the same time, the program constrains the investment within these areas to eligible commercial corridors (corridors that are zoned for commercial use), prioritizing those where some density of businesses already exists. This allocates support where it's needed, but also where the chances of success are higher.

Catalytic Approach

Apart from targeting underserved communities, the Neighborhood Opportunity Fund focuses its grants on commercial and cultural projects with a catalytic impact. According to city officials, these are understood as projects that involve meaningful amenities for the neighborhood and can be "places that are conducive of social gathering, exploration, or creativity." The Department of Planning and Development has operationalized this definition as either food or shopping destinations (cafes, restaurants, grocery stores, retail, etc.) or cultural establishments (performing arts venues, galleries, etc.).

The city looks to engage projects that have a catalytic potential for their surrounding communities and that need support. This means providing grants to projects at earlier stages of development, and projects that otherwise would not be able to access the needed equity. In view of this, the Neighborhood Opportunity Fund supports a significant number of startups (close to half of grantees). By working with less experienced entrepreneurs, the city is focusing resources where they may have the largest impact and implicitly accepting higher failure rates.

Skin in the Game

The program requires grantees cover between 35 to 70 percent of the project total costs, thus keeping participants invested in the success of their projects and improving the chances of selecting more-viable projects. Requiring entrepreneurs to contribute financially to their project helps target public-sector resources to those who are better prepared. Additionally, increasing the subsidy to 100 percent would decrease the number of grantees that could be supported; considering the average grant covers almost 60 percent of project costs, fully subsidizing projects would reduce the number of participants by roughly 40 percent.

Program Entry

The city actively publicizes the program and recruits interested and viable candidates. The department advertises the program on its website (www.neighborhoodopportunityfund.com), mailing list, and digital billboard network across the city. It has also conducted 10 “rollout” information sessions, reaching more than 1,200 people. In this endeavor, the city has partnered with local organizations—such as chambers of commerce—that may have connections with resident entrepreneurs and property owners and may be able to engage constituents. Program officers have also conducted two “train the trainer” sessions so partner organizations can speak more expertly about the Neighborhood Opportunity Fund.

Some partners have proved especially valuable in spreading the word about the program and improving the self-selection of applicants. The Little Village Chamber of Commerce discourages applications to the Neighborhood Opportunity Fund if entrepreneurs lack confidence in their ability to match the grant funds. However, the chamber fully supports applicants willing and able to take on this opportunity; it even has designated staff people to help prepare applications.

The city understands that aldermen are instrumental to wide-reaching recruitment processes, and it issues a one-page flier for them to distribute through their offices and communications channels. The majority of the grantees interviewed by the Urban Institute reported being informed of this opportunity by their aldermen.

The Neighborhood Opportunity Fund also has low barriers to entry. Interested entrepreneurs can submit their application as long as they have a real-estate project in an eligible corridor. Though applicants are encouraged to submit evidence of their plan and efforts, the city does not require documents such as a formal business plan or loan application for fear of intimidating applicants who may have good ideas but lack formal training or networks. In the case of site control, for example, applicants are not required to own the property or have a lease in place, but they are encouraged to provide a letter of intent or show evidence of a discussion with a potential landlord to confirm a property is available. Applicants are also not obliged to have official quotes attached to their estimated budget, but they are encouraged to show some work that demonstrates their budget is realistic. Most grantees interviewed agreed that the application was straightforward and simple enough for them to complete. They were also generally satisfied with the time investment it required and the speed with which the city reviewed and notified them of their decision.

City Support

The Neighborhood Opportunity Fund provides more than grant money to small businesses. Through different tools, the city and SomerCor provide high-touch, open-ended support to grantees along their business journey. One major component is the connections they facilitate among grantees and city agencies involved in topics relevant to the project, such as building regulations and operation licenses. Program officers also facilitate working groups, meetings, and other events where grantees can talk

with and assist one another. Many grantees have started business relationships with each other and have tapped each other to find contractors and lenders.

We treat the program as “family equity.” We want these entrepreneurs to succeed, and if things don't go as expected, we give the benefit of the doubt, as a family member would.
—City of Chicago

SomerCor also supports grantees who require a loan for their project. Working case by case, it recommends and arranges introductions. It is also involved during project development, as it works with entrepreneurs to navigate the construction escrow process the city set up to manage the grant funds allocated to the entrepreneur. By requesting the entrepreneur to provide evidence of the expenses covered with each money draw, the city and SomerCor can stay informed of the project as it develops, mitigate the risk of potential misuse of the funds, and provide additional support in case something doesn't go as planned.

Finally, the city makes a deliberate effort to celebrate and elevate grantees. Successful applicants receive a phone call directly from the mayor, and they participate in a large awards ceremony attended by the mayor, elected officials, past grantees, banks, community partners, and media. The city also hosts an orientation for grantees to explain program rules, connect them with lenders and city agencies, and build community and business-to-business relationships across grantee classes.

We've received support from many different places. We heard about the program from city officials. Our alderman, and the community development corporation we're part of, worked on the application with us. Now that we are working on our property, the city and SomerCor have been very accessible. They do regular meetings, and we haven't had any problem drawing funds from the grant.—Grantee

Challenges

The challenges faced by the Neighborhood Opportunity Fund are intrinsic to its foundational mission: supporting enterprises with catalytic impact, in early stages of development, and in historically disenfranchised communities.

Trust Building

In some cases, the program has encountered resistance from potential participants who are not eager or ready to embark on a business journey with the government or financial institutions. This is the case with some members of immigrant communities who may be undocumented and thus have additional concerns about working closely with public officials.

Some people may feel like the treatment is too personal, but it's understandable since these are communities that have been historically discriminated against. It's important to build that trust through a more personal approach.—CDFI

The Chicago immigrant community is largely Hispanic, and a central point for this community is the Little Village neighborhood on the Southwest Side. Very few Little Village entrepreneurs applied for the first round of Neighborhood Opportunity Fund grants, despite the neighborhood having the second-highest-grossing shopping district in the city after the Magnificent Mile downtown.⁴ For subsequent rounds, the city reinforced its outreach efforts by working with local trusted community and banking partners, providing materials and giving orientations in Spanish, doing Saturday door-to-door outreach, and holding one-on-one meetings with local entrepreneurs. These efforts proved successful: the city received 17 applications during the second round for West 26th Street alone.

Project Readiness

Even with a vetting process dedicated to examining the feasibility of applicant projects, the program still encounters challenges. According to CDFI interviewees, during the first round of applications, the city awarded grants to too many entrepreneurs with projects CDFIs considered aspirational. This translated into obstacles in the loan authorization process and during project development. Estimates from SomerCor suggest that, in the long run, around 35 percent of the projects from the first round will not materialize and will refuse their grant offers. However, if all projects came to fruition, that would likely indicate that the fund was not attracting risky-enough projects and thus not fulfilling its mission.

Disagreements in Risk Assessment

The fact that the City of Chicago is taking higher risks with these enterprises doesn't mean that lenders are willing to. CDFIs claimed that they find it difficult to authorize loans to startups even when they have secured equity for 30 or 50 percent of the project's total costs. That said, some CDFIs reported that grantees who are able to access the Build Community Wealth bonus to cover 65 percent of their costs have considerably better chances of receiving a loan, even if they are a startup. Some startup

businesses were run by entrepreneurs experienced in budgeting and financial management—and these firms also had better chances of getting a loan.

For city officials, in addition to preparing grantees, a key goal is finding ways to push financial institutions to “think more creatively and realistically” about lending money to enterprises with large fractions of their projected costs already covered by equity, thus representing less risk. Despite the city’s efforts to encourage CDFIs to simplify their loan terms and authorization processes, none of the interviewed lenders reported having differentiated terms or processes for Neighborhood Opportunity Fund grantees or planning for this to happen in the short term.

Expectation Management

Officials, CDFI representatives, local partners, and even some grantees agreed that there is a lack of understanding that “getting the grant is the easy part.” It appears that the low barriers of entry into the program are partly responsible for this, and frustrations can develop when participants encounter the loan application process, which in some cases can take up to six months. Extended timelines during lending can translate into setbacks in project development, adding to the entrepreneur’s frustration. Some interviewees added that CDFIs should manage expectations, as they sometimes come across as more willing to authorize a loan than they eventually prove to be.

Needed Supports

Even with high-touch, open-ended support, the Neighborhood Opportunity Fund experience reveals that applying for a loan or developing a new business facility is a challenge that can require even more assistance. According to CDFI representatives, grantees need greater support in budgeting, developing a proof of concept, and business planning when requesting authorization for a loan.

Entrepreneurs are very knowledgeable about their products or services, but not as much about the business aspect of it, which ends up being the most important.—CDFI

Some grantees are also challenged by insufficient planning or financial reserves, which become an issue when facing unexpected costs or any other contingency during project development. For example, some grantees have had contractors not deliver services they had already paid for. According to CDFIs, this issue could be tackled by helping grantees with business planning and by allocating some grant capital to reserves. As one CDFI respondent said, “A very common mistake is not to allocate some operating capital to unexpected costs.” And one grantee put the challenge starkly: “The money we were able to collect ended up not being enough because of so many unexpected costs. We are very indebted right now.”

Some grantees reported having problems with their projects because of decades-old fees and taxes owed to the city in connection to the property they were seeking to redevelop. They felt particularly frustrated with the city's record keeping because—according to them—these debts had already been covered or contested. Some local partners have even started to take steps in this regard by advising interested entrepreneurs to make sure they don't owe anything to the city before applying for a Neighborhood Opportunity Fund grant.

Response

To deal with these challenges, the city has identified and started working on the following solutions:

- Create a vetted list of lending coaches so grantees can hire them during their loan application process, with the majority of the coach's fees being paid with grant money.
- Create a vetted list of construction project managers so grantees can hire them to guide their interactions with contractors, as well as budget and timeline preparation and monitoring.
- Refine an existing collection of support materials to distribute at orientation and make accessible through the program website. For example, do's and don'ts of contracting, mock templates for contracts, additional lists of small business support organizations, and a cheat sheet on all aspects of Neighborhood Opportunity Fund policies and processes.

Conclusion

Traditionally, policies to support the financial needs of small businesses have focused on subsidizing or de-risking lending to firms just outside the credit box. As meritorious as these approaches are, they struggle to reach businesses in their earlier stages, especially relevant for entrepreneurs of color and those operating in underserved neighborhoods. Guarantees, loan loss reserves, and small subsidies are important, but limited in how wide a gap they can close—and the gaps that personify the small business landscape of the United States are still quite large. Further, recent evidence shows that Black and Latinx entrepreneurs in Chicago have a greater need and demand for grant or equity-like products that support their startup activity (Next Street and Community Reinvestment Fund 2019).

As a grant, the Neighborhood Opportunity Fund provides the equity that disadvantaged entrepreneurs need and can't access through other means. Unlike traditional equity, such as that delivered via Opportunity Zones (Theodos and Meixell 2019), the grant funds do not dilute the owner's stake in the business. As a program, the Neighborhood Opportunity Fund provides participants with assistance in planning their projects, connecting with sources of debt capital, and the development of support networks that their more advantaged peers are more likely to have.

The Neighborhood Opportunity Fund's targeted, comprehensive approach makes it a valuable model for other local areas to consider. In this spirit, we conclude with eight lessons that we believe will prove beneficial for other cities, counties, or states considering implementing a program like the fund.

1. **Find the right balance between the catalytic impact of the funded enterprises and their project readiness.** The most feasible business projects or those having the most experienced entrepreneurs behind them may not involve relevant amenities or help build wealth in the target communities. They also may be able to develop without the support of the grant. Design a program that leverages all its efforts and each of its steps toward maximum impact and equity. But also require skin in the game so businesses are financially invested and so they can learn from the loan application process while supports are available.
2. **Align the program and other financing sources.** Despite a shared mission of supporting entrepreneurs, lenders and public or philanthropic supporters may have different visions about borrower readiness. Program administrators and lenders will need to align visions, reconsider underwriting processes and criteria, and provide accommodations to help lenders overcome obstacles to providing credit—such as loss reserves and guarantees. It may be fruitful to provide an approach for grantees differentiated from the typical process. Effectively communicating the rules and mechanisms of the program can help lenders more appropriately assess requests from entrepreneurs.
3. **Find ways to resource the program.** Chicago's special-purpose fee directly connected to the growth of downtown is a creative design, but this programmatic model could be also supported through conventional spending or the development of a philanthropic model.
4. **Assess public-sector capacity and expertise to administer the program.** It may help to bring on an outside organization, similar to SomerCor in Chicago, to administer parts of the program while public-sector leadership continues to iterate and coordinate impact with agencies and outside organizations. Find efficiencies where possible with other small-business-development assistance, but allow for this program to reach entrepreneurs not served, or not well served, by current efforts.
5. **Set low, but effective, barriers to entry.** Chicago's application form requires a parsimonious set of information from applicants in an attempt to widely source ideas and applications. However, as Chicago learned, a thin application had its downsides. The city now increasingly emphasizes site control and requires additional information around financing. This information improves the quality and fit of applications and is useful to grantees as they take subsequent steps in their project.
6. **Create differentiated program marketing approaches for different communities, and involve local partners to build trust and get the word out.** Local chamber and partner organizations are key to getting the word out about a program, and they are crucial in offering technical assistance to those applying. Immigrant entrepreneurs in particular may require materials and communications in their own languages, as well as more involvement from other trusted partners and banks in their community.
7. **Recognize that funding alone is not enough.** Small-business entrepreneurs in neighborhoods in need do not have access to networks that exist more readily in circles and neighborhoods of

affluence. These entrepreneurs likely require wraparound services to succeed—construction managers, lending coaches, business coaches, and so on.

8. **Elevate the participants.** Involving grantees in city events and ceremonies is a good way to celebrate them and show that their value is paramount as they embark on their projects.

Notes

- ¹ “Statistics for US Employer Firms by Sector, Gender, Ethnicity, Race, and Veteran Status for the US, States, and Top 50 MSAs: 2016,” 2016 Annual Survey of Entrepreneurs, Table SE1600CSA01, Census Bureau, released August 10, 2018, https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ASE_2016_00CSA01&prodType=table.
- ² SomerCor was contracted in 2017 for five years to administer the Neighborhood Opportunity Fund. Its main responsibilities are designing the grant application process and form, vetting applications for readiness, and administering the funds granted to entrepreneurs.
- ³ Even if entrepreneurs fulfill both conditions of the Building Community Wealth bonus, they only receive it once.
- ⁴ Manuel Martinez and Brigid Sweeney, “Little Village, Big Business,” Crain’s Chicago Business, September 25, 2015, <https://www.chicagobusiness.com/static/section/little-village.html>.

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