



SHAKER HEIGHTS

Memorandum

To: Council

CC: Mayor David Weiss
Chief Administrative Officer Jeri Chaikin
Director of Finance John Potts
Director of Economic Development Laura Englehart

From: Katharyne Starinsky, Senior Economic Development Specialist

Date: May 17, 2022

Re: \$80,000 SBA Shaker Partnership Loan to Midnight Owl Brewing Company, LLC (20312 Chagrin Blvd)

The Economic Development Department requests that Council approve a SBA Shaker Partnership Loan to Midnight Owl Brewing Company, LLC, which proposes to open in District South within the Greater Van Aken District at 20312 Chagrin Boulevard, in a not to exceed amount of \$80,000. Of this amount, \$40,000 is funded by the City of Shaker Heights and \$40,000 is funded by Cuyahoga County.

SBA Shaker Partnership Loan Overview

The SBA Partnership Loan is a supplemental equity program for small businesses funded jointly by Cuyahoga County and participating municipalities. Cleveland and Shaker Heights were initial pilot programs started in 2014. Over the years, the program expanded to include Cleveland Heights, Fairview Park, Lakewood and Maple Heights. Each community has adapted the program to meet its needs.

The SBA Shaker Partnership Loan is available only to Shaker Heights businesses that qualify for an SBA loan. The incentive helps both start-up and established businesses improve their loan-to-value ratio, leverage limited capital, decrease risk, and facilitate business expansion in the community. The funds can be used to improve a commercial space and buy equipment (it cannot be used for inventory or payroll).

- Businesses are required to contribute a minimum 10 percent equity for the loan.
- The City of Shaker Heights and the County collectively contribute up to 15 percent of equity as a performance grant toward each project. The percentage of City contribution is determined by the amount of estimated income tax production.
- The City and County contribution is interest free and converts to a grant at the end of the term if the business is good standing on the loan and the business is open throughout the contract term.
- The SBA loan will encompass approximately 75 percent of the total project cost.
- Technical assistance is required for all program participants before a forgivable loan will be awarded and is required annually during the contract term. There are four Small Business Development Centers (SBDC) in greater Cleveland that provide this service free of charge to applicants.
- The business must obtain an SBA-backed loan from an approved financial institution before receiving SBA Shaker Partnership Loan funds.

To illustrate how the program works, the table below presents a \$100,000 project example:

Source	Amount	Notes
Business Owner Contribution (10%)	\$ 10,000	
County Contribution (7.5%)	\$ 7,500	0% interest forgivable loan converts to a grant at contract term
City Contribution (7.5%)	\$ 7,500	
Bank Loan (75%)	\$ 75,000	Interest rate and terms set by the bank
Total Project Cost	\$ 100,000	

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Estimated Required Income Tax Produced During Contract Term*	No less than \$ 7,500	City contribution amount is based on the estimated tax production amount.
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*Contract terms are typically in alignment with the business' lease term, which is generally 3-5 years.

The City appropriated \$250,000 for the first round of the SBA Shaker Partnership in 2015, and the County contributed an equal amount. Since then, twelve projects totaling \$2,425,009 of private investment have been financed in Shaker Heights, leveraged by \$356,346 in forgivable loans provided by the City and County split 50/50 (\$178,173 each). To date, \$143,654 remains to be loaned. The table below outlines the twelve projects to date.

The Economic Development Department also secured an additional \$150,000 (75%) in Round 3 County funds and \$50,000 (25%) of City funds, for a total of \$200,000 for future SBA Shaker Partnership Loan use. Once Round 1 funds are depleted, Round 3 funds will be used.

SBA Shaker Partnership Loans to Date (as of 5/5/2022)				
Business	Purpose for Loan	Total Loan Financed	Total Forgivable Loan Amount	Year Funded
Juma Gallery	Buildout	\$ 267,000	\$ 40,000	2015
J. Pistone's	Buildout, equipment	\$ 200,000	\$ 19,012	2015
Protém Healthcare	Buildout	\$ 415,000	\$ 78,465	2015
Marc Anthony Spa	Buildout	\$ 235,000	\$ 37,500	2015
Sparks Beauty Supply	Buildout, equipment, signage	\$ 35,000	\$ 10,347	2015
Core Life Chiropractic	Buildout, inventory, equipment	\$ 159,587	\$ 23,938	2017
Luster, A Gift Boutique	Buildout, equipment	\$ 199,153	\$ 19,915	2018
Spice for Life	Equipment, buildout, signage	\$ 75,050	\$ 11,250	2018
Banter	Build out, equipment	\$ 94,174	\$ 14,612	2018
Nature's Oasis	Build out, equipment	\$ 498,000	\$ 71,250	2019
Master Marr's	Build out	\$ 147,045	\$ 22,057	2019
Around the Table Yarns	Build out, equipment	\$ 100,000	\$ 8,000	2019
TOTALS		\$ 2,425,009	\$ 356,346	

Of the twelve funded projects, the majority are doing well and still in progress. However, four of the businesses closed for a variety of reasons. Of those four, two met their income tax repayment requirements, while two did not. It is important to note that this program, in partnership with the County, is intended to give the City the ability to take risks to support small business development with the full understanding that not every project will be successful. Further, improvements constructed via this program can be and have been used by subsequent business tenants that did not require additional incentives. The program is a critical part of growing the City's business ecosystem.

Midnight Owl Brewing Company, LLC SBA Shaker Partnership Loan Request

Midnight Owl Brewing Company, LLC is conceived as a craft brewery including a 10-barrel brew house and 84-seat restaurant is proposed to open at 20312 Chagrin Boulevard. Their tenant space will undergo extensive interior renovations. Exterior building renovations will include a new storefront system, signage and the addition of an outdoor patio.

With an aim to open in an industry that continues to evolve from impacts from the current pandemic, resiliency and adaptability are a key focus of the business model. Initially, food and beer will be available for

dine in and to-go options. Midnight Owl’s model is flexible enough to pivot quickly to more to-go sales or production should continuing effects of the pandemic require it. Midnight Owl will produce mostly draft beer with more than 80% of beer expected to be sold on-site. Business hours will be Tuesday through Sunday, serving lunch and dinner, closing on Friday and Saturday nights by 11:00pm.

The Business Owner and partner, the Master Brewer, bring a wide range of experience and skills to the project. The Master Brewer brings over 20 years of brewing and production experience to brewery operations. He has worked in both large-scale production and small pub craft brewing. The Master Brewer has experience launching another Cleveland brewery from the beginning in designing the layout of brewery, selecting brewing equipment, and developing pricing models. The Business Owner brings experience in small business development and non-profit management to the operation with an education in real estate development and urban planning, including an Economic Development Finance Professional certificate from the National Development Council. In her current professional role, the Business Owner serves as Executive Director of a local community development corporation and is responsible for all budgeting, finances, and business operations for the non-profits as well as managing all staff and overseeing marketing and programming.

A restaurant consultant with more than a decade of experience has been hired. The consultant will stay involved in the project through opening, assisting with hiring of kitchen roles and possibly beyond to assist with seasonal menu development and provide kitchen operations audits.

The Midnight Owl Brewing Company, LLC project cost is projected to be \$1,416,565. The estimated financing breakdown for the project is as follows, which is subject to change based on bank financing.

Source	Amount	Percentage of Total
Business Owner Equity	\$223,000	15.74
City Equity Contribution	\$40,000	2.82
County Equity Contribution	\$40,000	2.82
Bank Loan	\$1,113,565	78.61
Total Project Cost	\$1,416,565	100.00

Midnight Owl Brewing Company, LLC is expected to have 5-7 full-time and 4-7 part-time employees, which will produce an estimated \$54,894.30 in payroll taxes over the course of a five-year contract term. The estimated payroll taxes exceed the required amount of \$40,000 by \$14,894. Additionally, this project is woman-owned, which supports the City’s Diversity, Equity and Inclusion goals.

When Midnight Owl Brewing Company is awarded the \$80,000 forgivable loan, there will be \$63,654 remaining in Round One funds, leaving a total of \$263,654 to be loaned.

The Neighborhood and Economic Development (NED) Committee discussed that there is minimal risk to the City, and staff confirmed that the contract will also include claw back language that requires loan repayment in the event the business closes before the end of the term. In response to questions, staff also confirmed that the length of the loan term aligns with the business lease term and also that the business is required to get technical assistance from a Small Business Development Center.

The Finance Committee shared that the precinct where this business will locate had been voted “dry” from a liquor perspective a number of years ago. Staff confirmed that Midnight Owl’s liquor license was approved on May 3, 2022. A variety of program-specific questions were discussed, staff confirmed that there are other

cities in the program and that we have received three additional applications received since 2019 that have not yet been funded. Per Council request, staff confirmed that the withholding receipts (\$525,747 YTD 2022) from the SBA Shaker Partnership Loan recipients since the inception of the program are greater than those required for contractual repayment (\$216,136).

The NED and Finance Committees unanimously recommended approval of this forgivable loan on May 11, 2022 and May 16, 2022 respectively.

The Economic Development Department requests that Council approve a forgivable loan at 5.64% of the total project cost (\$1,416,565) not to exceed \$80,000 with a five-year term (of which \$40,000 is provided 50/50 by the City and County). This action is requested to be approved on first reading and as an emergency in order to allow Midnight Owl Brewing Company, LLC to secure their project financing so that they can place equipment orders, which have a six month lead time, in order to open in early 2023.

ORDINANCE NO.

BY:

Authorizing an SBA-County partnership forgivable loan to Midnight Owl Brewing Company, LLC in the amount of \$40,000 from the City, and a matching amount from the County-contributed funds, for a total loan of \$80,000, to open a craft brewery and restaurant at 20312 Chagrin Boulevard, and declaring an emergency.

WHEREAS, this Council adopted the City's Economic Development Plan in Ordinance No. 10-121, enacted November 8, 2010, to serve as an update to the City's Strategic Investment Plan and to nurture the development of new businesses and attract professionals to the City; and

WHEREAS, the Economic Development Plan calls for the City to provide economic incentives to make it financially feasible for businesses to expand or locate in the City, and forgivable loans, within specific parameters related to targeting certain areas of the City and focusing on certain types of businesses, have been determined to be one such incentive that can be used to achieve the Plan's goals; and

WHEREAS, in 2014 the federal Small Business Administration ("SBA") invited the City to participate in a pilot program to increase SBA lending in the area, in which Cuyahoga County would contribute \$250,000 to match the City's investment of the same amount, allowing the City to make forgivable loans, with 50% of the loan being contributed by the City and 50% coming from County-contributed funds, in order to help the business grow or establish itself in the City, and requiring the business to contribute 10% equity or demonstrate a similar investment through payroll or working capital and qualify for an SBA loan for 75% of its project; and

WHEREAS, on August 1, 2014, the City entered into an agreement with Cuyahoga County to establish and jointly fund the Shaker Heights-SBA Small Business Performance Grant Program ("Program"), pursuant to the authorization of Ordinance No. 14-32, enacted June 23, 2014, by which the City committed \$250,000 to the program and agreed on target industries, job creation goals, business performance criteria and reporting with grants from a Shaker Heights-Cuyahoga County Credit Enhancement Fund ("Fund"); and

WHEREAS, on November 17, 2020, the City entered into a First Amendment to the Grant Agreement with the County, pursuant to the authority granted by Council in Ordinance 19-108, enacted on December 16, 2019, which increased the County funding by \$150,000, and through which the City contributed an additional \$50,000 toward the Fund; and

WHEREAS, Council has determined that the City should provide a forgivable loan through the City-County SBA Program to Midnight Owl Brewing Company, LLC in the amount of \$40,000 from the City, and a matching amount from the County-contributed funds, for a total loan of \$80,000, to allow the company to open a craft brewery and restaurant at 20312 Chagrin Boulevard.

NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Shaker Heights, State of Ohio:

Section 1. The Mayor is hereby authorized and directed to enter into an agreement to provide a forgivable loan through the City-County SBA Program to Midnight Owl Brewing Company, LLC in the amount of Forty-Thousand Dollars (\$40,000) from the City, and a matching amount from the County-contributed funds, for a total loan of Eighty Thousand Dollars (\$80,000). Said loan agreement shall be in a form as approved by the Director of Law.

Section 2. This ordinance is hereby declared to be an emergency measure necessary for the immediate preservation of the public peace, health, safety and welfare for the reason that it is necessary in the current operation of the City, and further, so that Midnight Owl can secure their project financing and therefore, this ordinance shall take effect immediately upon its enactment and approval by the Mayor.

Enacted

Approved this ____ day of _____, 2022.

DAVID E. WEISS, Mayor

Attest:

WILLIAM M. ONDREY GRUBER
Clerk of Council Pro Tem

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