Supporting Economic Growth and Entrepreneurship

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Aspen Community Strategies Group

Innovative Strategies for Community Foundations
Who are we?

- **Aspen Community Strategies Group (CSG)**
  - A national think-tank that structures and contributes to focused learning supporting the innovation of organizations and funders working to achieve more widely shared and lasting prosperity in communities.

- **West Central Initiative (WCI)**
  - A rural community foundation that brings people and resources together to maintain and enhance the economic and social viability of nine rural counties in Minnesota.
Our primary focus:

- **Aspen CSG**
  - Rural development philanthropy
  - Economic success of rural families
  - Rural public and private policy

- **WCI**
  - Economic Development
  - Community Development
  - Regional Planning
  - Workforce Development
  - Family Economic Success
Innovative Strategies
From the Simple to the Complex

- **sticking Close to Familiar Territory**
  - Grantmaking Strategies
- **venturing Farther from Home**
  - Lending Strategies
- **exploring the Outer Reaches**
  - Equity Investments
Grantmaking Strategies

Building on what you know best
Five Grantmaking Strategies to Support Economic Growth

- Entrepreneurial Education
- Workforce Training
- Business Technical Assistance
- Community Economic Development
- Research and Feasibility Studies
Entrepreneurial Education
Feeding the pipeline with new businesses

- Most common place to begin
- Focused on teaching entrepreneurial skills
- Many curricula available – (see ruralship.org)
- Common partners – Extension & colleges
- Scholarships vs. program support
- 501(c)(3) Purpose = Educational
  - No limits on whom you serve
  - No limits on what you teach
Examples: Entrepreneurial Education Programs

- **NxLevel Entrepreneurial Training**
  - Pre-start-up basics
  - Business planning and feasibility analysis

  Support: program underwriting

  Outcome: Go/No Go decision

- **Small Business Management Program**
  - Post-start-up management basics
  - Three-year self-directed curriculum

  Support: Scholarships

  Outcome: improved odds of survival
Workforce Training Grants
Building Productivity to Boost Economic Outcomes

- Powerful way to build business profitability
- Improves stability of jobs
- Increases worker pay
- Best when business driven
- 501(c)(3) purposes – educational and charitable
- Made through an intermediary or via expenditure authority
Example: Workforce Training Grants

- **Workforce 2020**
  - Industry specific incumbent worker training
  - Technology or productivity systems (e.g. lean manufacturing)

  **Support:** Grant through intermediary with required employer match

  **Outcomes:** Improved wages ($4:$1 invested), better profits, job stability, global competitiveness.
Business Technical Assistance
Removing roadblocks to success

- One-on-one consultation with an expert
- Common topics:
  - Finance -- Marketing -- Management -- Sales -- Technology -- Loan Packaging
- 501(c)(3) purpose = educational -- just at a more personal and in-depth level
Example: Business Technical Assistance

- Small Business Development Center – Business Consulting Services
  - Financial analysis, marketing, business planning
  - Loan packaging

  Support: Program support to expand capacity & match federal funds

Outcomes: Improved access to capital, improved profitability, increased sales, better Go/No Go decisions.
Community Economic Development
Anything from infrastructure to direct subsidies

- Grantees = Units of Government
- “Normal Purposes” rule:
  - Grants for any activity commonly undertaken by a unit of government qualify as being for 501(c)(3) purposes – even if it isn’t otherwise charitable, educational, scientific or religious – so long as it is legal for the specific jurisdiction.
- Must be focused on a “class” of businesses not an individual endeavor or considered a pass-through
- Examples: blight reduction, site preparation, main-street marketing, tax abatement, free utilities…
Examples: Community Economic Development

- **Storefront Renovation**
  - Grants to city for “blight removal”
  - Re-granted to mainstreet businesses to spruce up storefronts

Support: Grant to City
Outcomes: Capture of tourist dollars and more local shopping

- **Demolition/Site Preparation**
  - Grants to tear down dilapidated structure and prepare site for redevelopment
  - $1.00 sale to business

Support: Grant to City EDA
Outcome: Business start-up or expansion.
Research and Feasibility Studies
Useful but with limiting rules

- Research, especially feasibility studies are a common request.
- Falls under “Scientific” 501(c)(3) purposes
- Special rules on dissemination require equal access to the results/findings
- Not useful to provide a competitive advantage
- Most useful for site-specific issues
Example: Research and Feasibility Studies

- **Minnesota Wheat and Barley Growers Study**
  - Feasibility study: value-added manufacturing opportunities.
  - Frozen bread dough identified.
  Support: Grant - repayment provision if built elsewhere.

- **Kaddatz Hotel**
  - Feasibility study of converting decrepit historic hotel for artist lofts and commercial space.
  Support: Grant to arts organization
  Outcome: Successful redevelopment – lofts completely full, commercial space still vacant but project cash-flows.
Loan Programs

Yes, they are legal!
(if done right)
Community Foundation Lending Basics

...or how to stay legal

- Loans must have a charitable purpose:
  - Creating jobs in economically distressed areas
  - Creating/retaining/improving jobs for low-moderate income workers
  - Diversifying the local economy to promote economic stability
  - Critical community services (e.g. healthcare, groceries)
Community Foundation Lending Basics
...more on staying legal

- Rates and terms must reflect charitable intent
  - Below market rates for the risk incurred
  - Must fill a “financing gap”
- Reasonable expectation of repayment
  - Due diligence
  - Collateral (not up to bank standards)
- Appropriate servicing and collection
  - Firm but appropriate to your charitable purpose
Three types of loans
Different tools for different situations

- Revolving Loan Funds
- Micro Loans
- Forgivable Loans
Revolving Loan Funds
A sustainable and effective tool for economic growth

- Usually $5,000 and up
- “Gap” loans (e.g. 60/30/10)
- Subordinate collateral
- Interest and fees can cover admin costs and loan losses
- May be capitalized by government grants
- Banks and utilities like to give to support these funds
Example Revolving Loan Fund Loan

● BTD Manufacturing
  - Two equipment loans 1987 & 1991: $40k & $50k
  - Approximately 30% of each project
  - Allowed company to expand much more quickly than if they had saved up the full downpayment.

Outcome: Opened new markets and facilitated rapid growth of company from 20 workers in 1987 to 350 today. Company is now a significant donor to WCI and has set up an endowed corporate foundation in WCI’s structure.
Micro-Loans
A great tool for new business formation

- Small loans – usually up to $5,000
- May not have a participating bank
- Often riskier than larger loans - but with less to lose
- More costly to administer than larger loans
- Technical assistance is a must!
- Some grant programs exist to help capitalize micro-loan programs
Example: Micro Loan

- Embroidery shop
  - Small loan to buy embroidery machine
  - Bank unwilling to participate without 100% iron-clad collateral
  Outcome: Initially employed three people, now more than 20 plus very nice income for entrepreneur,

- Welding Service
  - Small loan to buy mobile welding rig to mount on pickup truck.
  - Pickup truck as collateral
  Outcome: Good income for entrepreneur and a service needed by area farmers.
Forgivable loans
When charitable and business purposes collide

- Loans structured to convince a business to undertake a charitable purpose
- The use of the loan funds directly enables the charitable benefit
- The value of the charitable benefit is estimated and is forgiven over time as long as the business continues to meet the charitable purpose
Example Forgivable Loan

- Childcare Forgivable Loan Program
  - Loans up to $2,000 forgiven over 24 months for families starting childcare businesses that pledged to accept TANF subsidized families
  - Monthly loan coupon certifying service to TANF families or accompanying loan payment

Charitable purpose: supporting workforce participation of low-income families

Outcome: Created 500 childcare openings - 20% filled by TANF recipients
Equity Investments

Big benefits –
but not for the faint-hearted!
What are Equity Investments?

- Purchase of an ownership (stock or partnership) interest in a company.
- You ret repaid if the company prospers.
- Exit strategy and timetable.
- No guarantees!
What are the benefits and drawbacks?

● Benefits
  – Company gets “patient capital”.
  – Equity investment leverages more loan dollars.
  – If successful, your returns can be much greater than with a loan.
  – Especially useful for high-tech start-ups.

● Drawbacks
  – Exit strategy may not work.
  – Far more “due diligence” than with loans & more complex paperwork.
  – Small deal flow – therefore hard to diversify portfolio.
  – Must keep on top of deals on an ongoing basis.
Examples
Two models for equity investment

- **Angel investor networks**
  - You buy into a network of experienced equity investors.
  - Pool of funds from many sources reduces risk for all.
  - Allows more diversified portfolio.
  - Volume allows you to support more expertise at lower cost.

- **Direct investment**
  - You select the deals yourself and do your own due diligence.
  - May hire outside experts to help.
  - Higher risk but more control.
  - Diversification and “deal flow” are hard to attain in rural areas.

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And finally…

...questions?