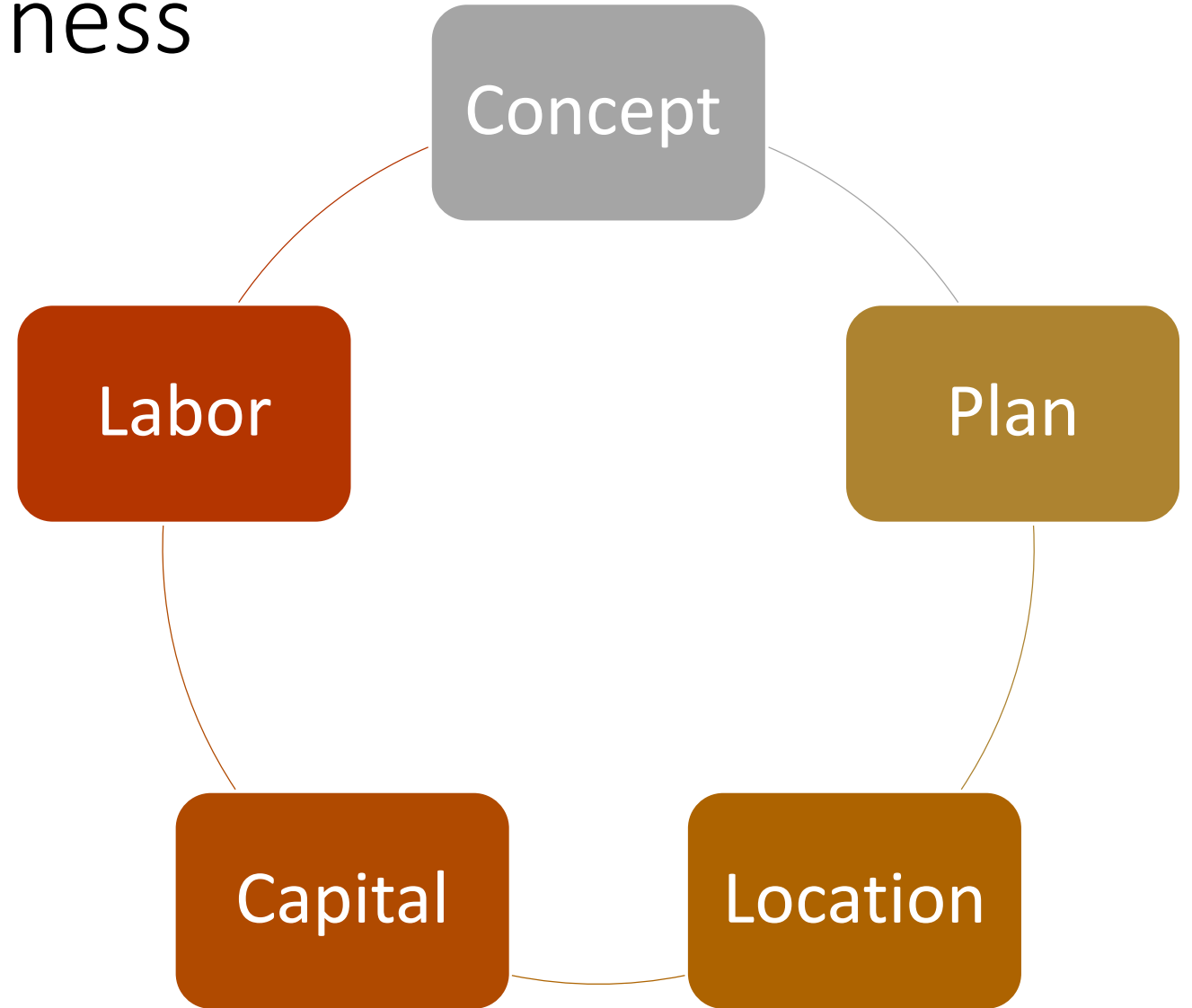


Managing Risk for Businesses

11.438 Economic Development Planning

Jeff Levine, AICP

Starting a Small Business



What Makes a Business?

Physical Needs

Items That Last and are Expensive (debt-financed)

- Land
- Buildings
- Durable Goods

Operational Needs

Items You Sell or Use to Make Money

- Inventory
- Rent
- Fuel

Staff

The Folks Who Get it Done

- Permanent Full Time
- Permanent Part Time
- Contract

How Can Government Help (if it wants to)?

Physical Needs

Items That Last and are Expensive (debt-financed)

- Site Preparation
- Long Term Financing

Operational Needs

Items You Sell or Use to Make Money

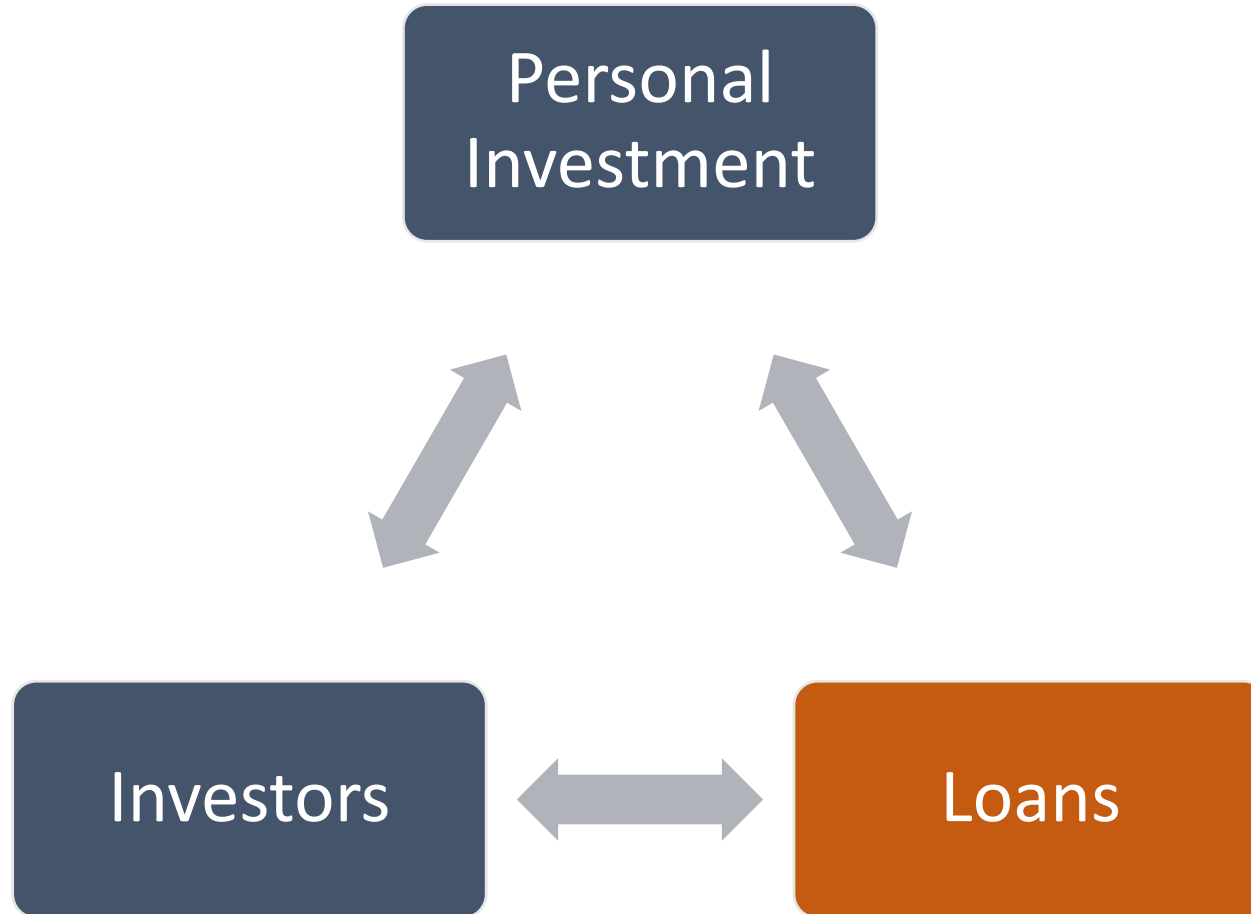
- Subsidy

Staff

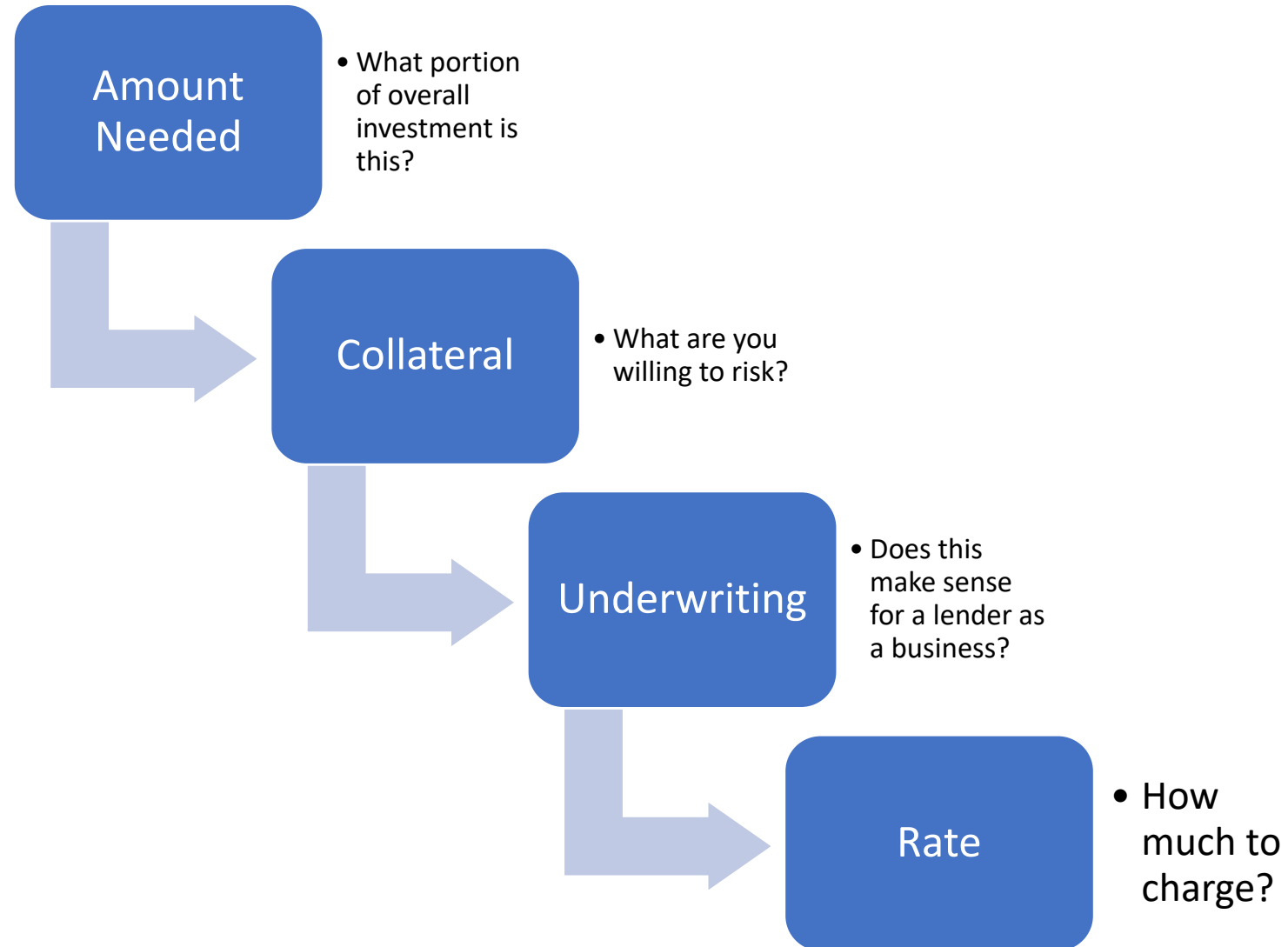
The Folks Who Get it Done

- Job Creation Programs
- Job Training Programs

Obtaining Capital as a Small Business



The Business of Lending



Smarting a Small Business: Finances



Type of Programs and Some Federal Funding Sources



Revolving Loan Funds



Brownfields Cleanup and Assessment



CDBG Development Activity & Section 108

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Revolving Loan Funds

- Lending to accomplish a public policy purpose
- Providing gap financing to applicants that meet that purpose
- Market-driven planning tool
- Federal sources in addition to the EDA include the Small Business Administration, the Department of Agriculture and HUD

Running a Revolving Loan Fund

- Balancing act of running like a business but also with a mission
- Need to act with transparency
- Separate politics from lending as much as possible

Source: “Public Sector Business Loan Funds: Views and Recommendations from Practitioners” National Association of Development Organizations Research Foundation and the Development District Association of Appalachia. © National Association of Development Organizations. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Recommendations and Advice from Public Business Loan Fund Practitioners

1. Create a **clearly stated mission and purpose** for the loan fund program, including methods for linking investments with regional and local economic development strategies and priorities.
2. Establish **professional relationships and partnerships** with regional and local banks and other lending institutions.
3. Set up and maintain a **knowledgeable and active business loan fund committee** to assist in marketing, business development, application review and due diligence, and program oversight and accountability. This includes tapping into network of retired and active bankers, economic developers and other business experts from the region.
4. Avoid relying on the organization’s policy board of local elected officials as the **business loan fund committee**.
5. Maintain a **professional loan fund staff** with the experience, background and skills required to operate a successful business loan fund; if necessary, establish partnerships with another organization to assist with back office, accounting, credit analysis, deal packaging, marketing or other operational support.
6. Require a **single purpose, independent audit** of loan funds by an outside auditor on an annual basis.
7. **Engage in peer reviews** with other public business loan fund operators and intermediaries across the nation or within multi-state region to explore trends, noteworthy practices and program innovations.
8. Pursue opportunities to **diversify your portfolio** of business lending and technical assistance tools and services, including potential partnerships and opportunities with nontraditional lending and investment resources.

Establish professional relationships and partnerships with regional and local banks and other lending institutions.

Revolving Loan Funds: Typical Missions & Evaluation Criteria

Job Creation	Investment per job
Business Development	Investment per business
Place Based	Impact on target place (vacancy rate, sales)



ELIGIBLE RECIPIENTS

- Start-up or existing business, including restaurants, retail shops, service businesses, manufacturers, home-based businesses, and many more
- For profit corporation, LLC, partnership or proprietorship
- Located in Worcester County, or parts of Franklin County or Middlesex County
- Tangible net worth may not exceed \$6 million
- Less than \$2 million average net profit after taxes during the previous two years

Create at least one new job for every \$20,000
Requires cash investment by owners of 10%

ELIGIBLE ACTIVITIES

- Purchase of new or used equipment
- Inventory
- Working capital
- Leasehold improvements
- Acquisition of land and buildings
- Refinancing of business debt
- Gap financing in partnership with a bank

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BROWNFIELDS CLEANUP AND ASSESSMENT

- **Brownfield (according to the U.S. EPA):** *“A brownfield is a property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. It is estimated that there are more than 450,000 brownfields in the U.S. Cleaning up and reinvesting in these properties increases local tax bases, facilitates job growth, utilizes existing infrastructure, takes development pressures off of undeveloped, open land, and both improves and protects the environment.”*
- **Note “potential presence”**

Brownfields Funding

- Assessment Grants
- Revolving Loan Fund Grants
- Cleanup Grants
- Area-wide Planning Grants
- Other grant programs



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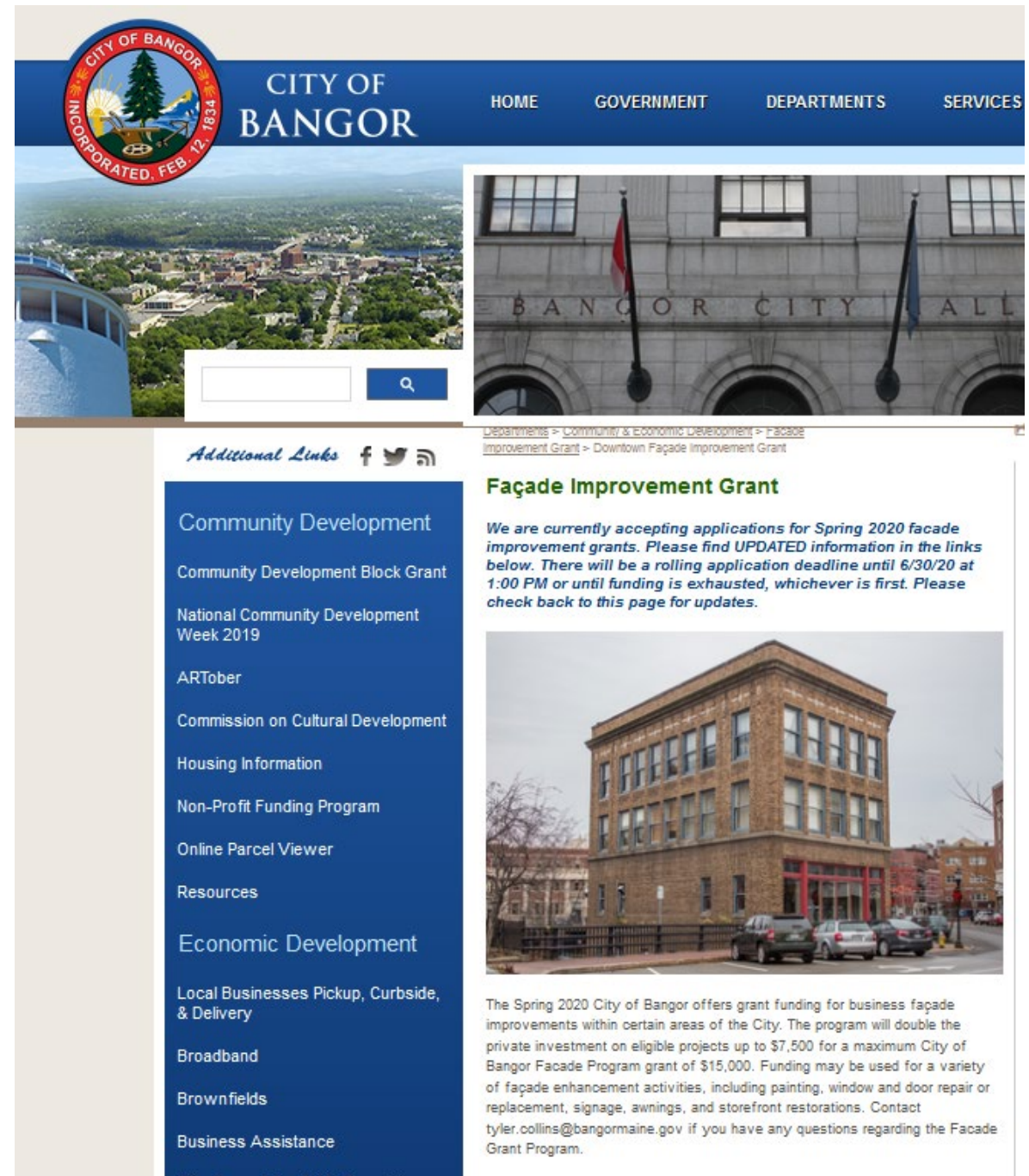
Community Development Block Grant

- Can contribute to local businesses as “development activity”
- May pay for physical improvements on a case-by-case basis or fund ongoing grant or loan programs
- Typical activities include:
 - Loans for Businesses and Commercial Real Estate Development Projects
 - Business Incubators
 - Façade Improvement Programs
 - Microenterprise Assistance Activities (<5 employees including owner)
 - Economic Development Infrastructure Projects
 - Job readiness, skills training, and job replacement programs

Façade Improvement Programs

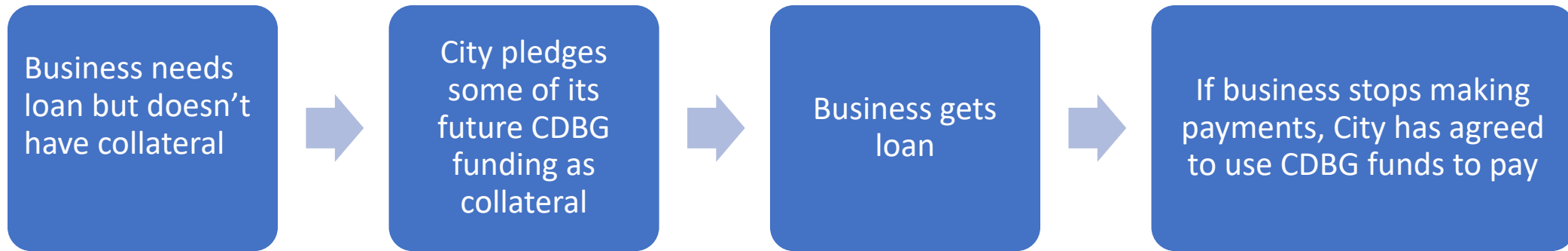
- Usually matching funds
- Need to meet program requirements
- Usually targeted areas
- Needs to sync with other city rules (more on this next class)

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The screenshot shows the City of Bangor website. At the top left is the City of Bangor seal, which includes the text "CITY OF BANGOR" and "INCORPORATED FEB. 12 1834". To the right of the seal is the text "CITY OF BANGOR". Further right are navigation links: "HOME", "GOVERNMENT", "DEPARTMENTS", and "SERVICES". Below the navigation is a search bar. The main content area features a large image of a building facade with the words "BANGOR CITY HALL" visible. Below this image is a breadcrumb trail: "Departments > Community & Economic Development > Façade Improvement Grant > Downtown Façade Improvement Grant". The main heading is "Façade Improvement Grant". Below the heading is a paragraph: "We are currently accepting applications for Spring 2020 facade improvement grants. Please find UPDATED information in the links below. There will be a rolling application deadline until 6/30/20 at 1:00 PM or until funding is exhausted, whichever is first. Please check back to this page for updates." Below this text is a photograph of a brick building. Below the photograph is another paragraph: "The Spring 2020 City of Bangor offers grant funding for business façade improvements within certain areas of the City. The program will double the private investment on eligible projects up to \$7,500 for a maximum City of Bangor Façade Program grant of \$15,000. Funding may be used for a variety of façade enhancement activities, including painting, window and door repair or replacement, signage, awnings, and storefront restorations. Contact tyler.collins@bangormaine.gov if you have any questions regarding the Façade Grant Program." On the left side of the page, there is a blue sidebar with the heading "Additional Links" and social media icons for Facebook, Twitter, and RSS. The sidebar contains a list of links: "Community Development", "Community Development Block Grant", "National Community Development Week 2019", "ARTober", "Commission on Cultural Development", "Housing Information", "Non-Profit Funding Program", "Online Parcel Viewer", "Resources", "Economic Development", "Local Businesses Pickup, Curbside, & Delivery", "Broadband", "Brownfields", and "Business Assistance".

Section 108 Loan Guarantees



- ✓ Usually used for large projects
- ✓ Still generally has to be ultimately underwritten by city
- ✓ May be paid off via other methods – such as future TIF revenue
- ✓ Should treat as a RLF investment

Paycheck Protection Program

- \$349 billion in first tranche/\$310 billion in second
- 2.5 times payroll costs, up to \$10 million
- Up to 500 employees, more under some situations
- Fully forgiven if the funds are used for payroll costs (75%), interest on mortgages, rent, and utilities.
- Loan payments deferred for six months.
- No collateral or personal guarantees are required.
- Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.
- Maturity of 2 years and interest rate of 1%

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11.438 Economic Development Planning

Spring 2020

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