

Financing for Economic Development

In practice from the trenches



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Meet The Team

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Why Economic Development Finance?

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- Let's go back to the basics of economic development
 - Grow the tax base
 - Help businesses create and retain good jobs
 - Develop and expand certain industry
 - Improve quality of life or key community initiatives
- Financial capital is the lifeblood of business start-ups, business growth, and business attraction
- Financing is involved in many areas within economic development

Setting The Stage

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Projects From the Frontlines

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Business Expansion

Business Attraction

Small Business/Entrepreneur

Do I really need to learn this?

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- It is a core tool in our toolbox
- Start your journey in understanding finance
- Surround yourself with experts that can lend a hand



Do We Need to Finance? Private Sector

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- Equity financing
 - Capital investment that does not require repayment
 - In return, investors receive partial ownership
- Debt financing
 - Capital investment that must be repaid
 - In return, lenders receive fees and interest



EQUITY

There is no monthly payment

You are giving up a portion of your business



DEBT

An investor won't have a stake in your business.

You will pay interest no matter what.

Do We Need to Finance? Private Sector

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- Public, quasi-public, non-profit, etc.
- There to bridge the gap when private financing is insufficient
 - Not for clients that can access and qualify for conventional financing
- Sometimes access to capital is more important than the cost of the capital (fees and interest)

Business Financing

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- Uses of Funds
 - Working capital
 - Fixed assets
- Business Cycle
 - Start-up
 - Growth
 - Maturity
 - Reorganization
- Depending on the stage, businesses will need different financing tools.



Public Sector Financing

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- Lower the cost of borrowing
- Lower the risk
- Flexible structures
- Package loans
- Technical assistance



Steps in the Financing Process

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Understand the Business

Understand the Project

Understand the Private
Financing

Understand the Public
Financing

Identify the
Gap &
Structure the
Financing

Close
the
Deal

Project A: Business Retention & Expansion

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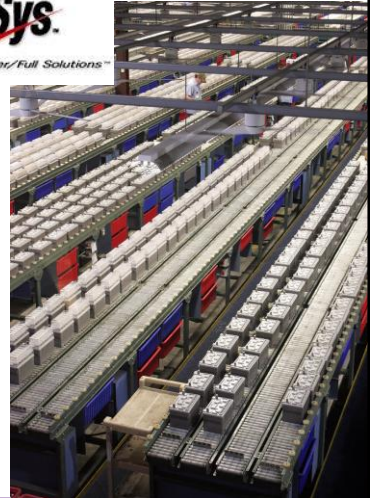
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Project A: Business Retention & Expansion

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- Drivers:
 - Ongoing relationships (BRE) is key
 - Understanding all the partners and what defines their success
 - Publicly traded global company
 - Competitive – global search for a location
 - Locally a long-time employer of choice
 - Make a compelling case for why to re-invest in the community



Structure of the Financing

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- Scope:
 - \$30 million in new production equipment
 - \$10 million in building and RE improvements
 - 150 new FTE's at 130% of county average wage
- Financing/Incentive Tools:
 - State – BUILD bonds, Workforce Training, Missouri Works
 - Local - Industrial Revenue Bond (IRB) (aka MO Chapter 100)

Say "Hello" to Carol!..
It's about people



Principles of ED Finance

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- Lending Process
 - Creating the programs – rules and guidance
 - Screening potential borrowers
 - Underwriting
 - Structuring the loan
 - Loan documentation
 - Loan servicing
- For EDOs with limited resources you may want to create partnerships to help

B2B
back to basics

Principles of ED Finance

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- Financing the right deals
 - Meet ED and community goals?
 - Will the assets stay in the community?
- Stretch the public funding that is available
 - Push for more private funding
 - Use only enough of your funding to get the project done

B2B
back to basics

Financing/Incentive Tools

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- Direct loans
- Loan guarantees
- Bonds
- Grants
- Seed capital / venture capital
- Stock purchase
- Revolving Loan Fund



Principles of ED Finance

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- Underwriting – credit analysis, client’s ability to repay
 - Business planning - purpose
 - Current/past financial statements
 - Due diligence – strength of the business
 - Is this a bad deal?

B2B
back to basics

Principles of ED Finance

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- 6 Cs of Credit
 - **Character** – borrowers reputation
 - **Capacity** – ability to repay the loan
 - **Capital** – enough financial resources to weather a storm
 - **Collateral** – pledged assets to secure the loan
 - **Conditions** – terms of the loan and general economic conditions
 - **Credit** – borrowers history of handling finances (640+)
- 6 Ds of Credit
 - Divorce – Death – Drugs – Disability – Disaster - Debt**

Project B: Business Attraction

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Project B: Business Attraction

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- Drivers:
 - Dollar Tree needed a 14th DC to serve retail stores in the Midwest
 - DC's are not profit centers
 - Extremely truncated timeline
 - J.M. Mullis Inc. site consultant
 - Regional employer interviews to verify available workforce

 **DOLLAR TREE** | **FAMILY DOLLAR**



Project B: Business Attraction

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- Drivers continued:
 - For the community of 19,000, first anchor tenant for a new business park
 - Single private land owner with a legacy mindset
 - Infrastructure (all utilities, roads, annexation)
 - Local, regional, and state team effort

 **DOLLAR TREE** | **FAMILY DOLLAR**



Structure of the Financing

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- Scope:
 - \$110 million in real estate and personal property improvements
 - 125-acre site
 - 375 new FTE's at above county average wage
 - \$3 million or more in utility, roads and other site improvements by many partners
 - Off-site Human Resources and Training center required during hiring phase
 - 150+ trucks per day requiring separate ingress/egress



Structure of the Financing

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- Financing/Incentive Tools:
 - State –
 - BUILD bonds (MDFB)
 - Workforce Training
 - Missouri Works
 - Local
 - Industrial Revenue Bond (IRB) (aka Mo Chapter 100)
 - EDC provides HR training center
 - Local & Partners - All site infrastructure costs

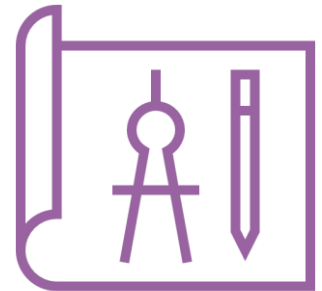


Say "Hello" to Eric! Formerly from Iowa - expressed great appreciation for a job. Current address was his car. The Power of Crew DC14!

More about the Missouri Chapter 100 (IRB)

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- Cost – Benefit Analysis is required
- Bond Counsel is necessary and fees are paid by Company
- Bonds are tax exempt and do not require voter approval
- Allows for an “operating lease” where a public entity (city or county) holds the title
- Allows for real estate and/or personal property tax to be abated
- Company pays an annual PILOT (payment in lieu of tax)

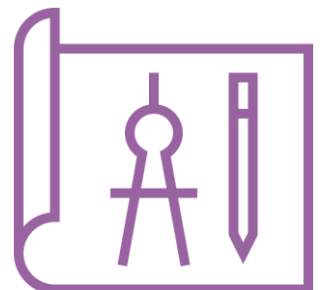


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Teaching Points from this Project

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- Annual Incentive monitoring and “clawbacks”
- Annual Payments in addition to PILOT
 - Annual wage and benefit thresholds
 - Annual jobs created and retained thresholds
 - Amount of investments
- Encourage the EDO to produce the GASB77 report



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Who has questions about finance?

What about financing keeps you up at night?



BREAK: 10 min.



Project C: Fixed Assets

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Will the deal work?

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Is cash flow greater than debt service?

$$CF > DS$$

Debt Service = Principal &/+ Interest

Three types of profit

- Gross Profit (Topline Revenue)
- Operating Profit (Before all the payments)
- Net Profit (What the owner cares about)

Will the deal work?

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How do you determine Cash Flow? Source: Profit & Loss (P&L)

	Sales
-	Cost of Goods Sold (COGS): Material, Parts
=	Gross Profit
-	Operational Expenses: Salary, Rent, Marketing
=	Operating Profit (EBITDA – Earnings before Interest, Tax, Depreciation, Amortization)
-	Interest
-	Tax
-	Depreciation
-	Amortization
=	Profit After Tax (PAT) – NET PROFIT ** CASH FLOW **

Project C: Fixed Assets

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Project C: Overview

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Workforce Housing

- Seasonal Workforce
- International Residents
- Private Employer Development
- 300 – 750 J1 student workers
- 30+ countries



Project C: Overview

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Scope of the Project

Numbers have been changed for the example

- \$20,000,000+/- total project
- 90% Loan to cost / 80% Loan to Value (Determined by appraisal)
- **WORKSHEET EXAMPLE**

Project C: Key Takeaways

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- Private Employer Land Lease saved the project: \$1,500,000
- Lowering the Loan Amount: \$1,350,000
- Debt Service was improved: \$114,615 annually
- Tax Abatement saved the project \$100,000 annually
- Improving total Cash Flow to \$2,300,000 annually
- Land Lease and Tax Abatement improved the project: \$214,615/yr
- Results = 17bps improvement to Debt Coverage Ratio
- **PROJECT WORKS!**

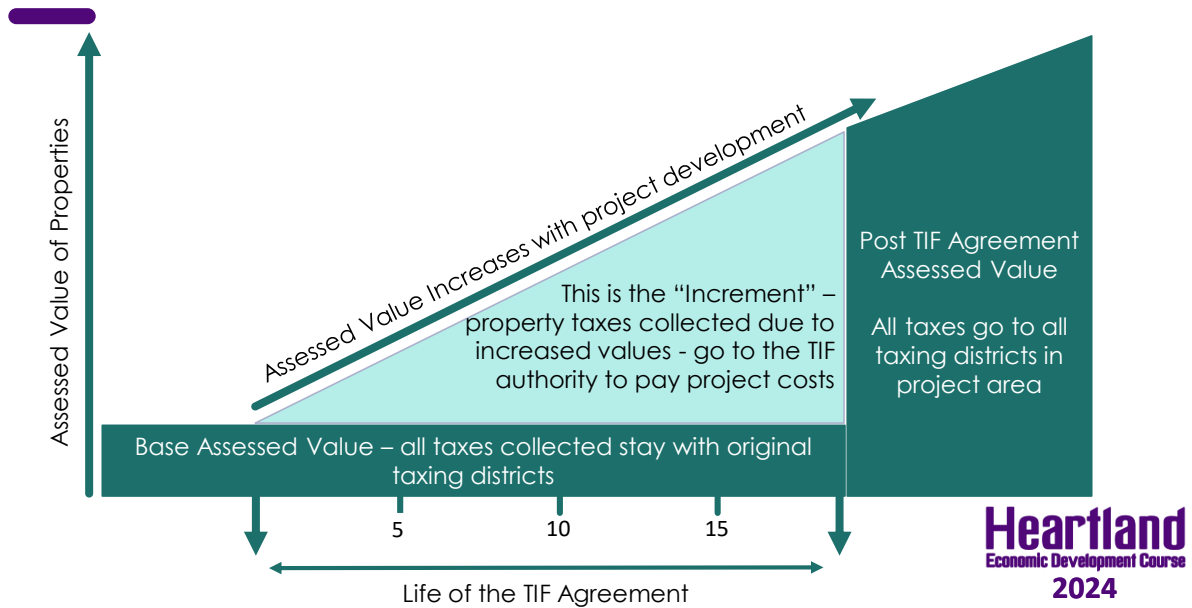
Financing/Incentive Tools

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- Reduced price of land
- Technical assistance
- Tax abatement
- Tax credits
- Tax exemption
- Tax incremental financing (TIF)



Tax Increment Financing – How it Works



Financing/Incentive Tools

- Why use incentives?
- Who is involved?
 - There are a ton of players in finance and incentives
 - Government (local, state, federal), EDOs, utilities, investors, banks, etc.
 - Don't worry about learning them all today!
 - Develop your network of experts
- Understanding each player has a different perspective

General Rules

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- Due diligence is a must
- Incentives and financing will never fix major project flaws
- Develop your network and create trust
- Confidentiality is a must
- It isn't about hitting a home run every time, singles & doubles win



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7(a) loans

- *SBA's most common loan program, which includes financial help for businesses with special requirements.*
- The 7(a) Loan Program, SBA's most common loan program, includes financial help for small businesses with special requirements. This is the best option when real estate is part of a business purchase, but it can also be used for:
 - Short- and long-term working capital
 - Refinance current business debt
 - Purchase furniture, fixtures, and supplies
 - The maximum loan amount for a 7(a) loan is \$5 million. Key eligibility factors are based on what the business does to receive its income, its credit history, and where the business operates.



U.S. Small Business
Administration

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A 504 loan **can** be used for a range of assets that promote business growth and job creation.

These include the purchase or construction of:

- Existing buildings or land
- New facilities
- Long-term machinery and equipment

Or the improvement or modernization of:

- Land, streets, utilities, parking lots and landscaping
- Existing facilities

A 504 loan cannot be used for:

- Working capital or inventory
- Consolidating, repaying or refinancing debt
- Speculation or investment in rental real estate



Project D: Small Business

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Project D: Small Business

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Business Goals

- Add a 2nd location
- Increase production & distribution 10x
- Add a larger “cheese tasting room”
- 50 Full time jobs
- \$3MM CapX



Project Assistance

- Site Selection
- Planning & Zoning support
- Facilitate the development process

Project D: Small Business

The “rest of the story”

- Limited guarantor capacity
- Debt wasn't structured for business benefit
- Construction and Equipment was \$2MM over budget
- Timeline was delayed 1.5 years
- Difficulty selling the “debenture” = 504 SBA
- Troubled debt
- Restructured multiple times to save the business



WORKSHEET EXAMPLE

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Project D: Small Business

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What I wish I would have asked

- Does your Contractor have experience in Commercial 'Ground-up Construction'?
- What type of Construction Contract do you have?
 - Guaranteed Maximum or Cost-Plus
- Was a detailed budget (construction & equipment) done to assess your funding needs?
- How is your debt structured?
- What is your ability to repay the note if the project is delayed?
- Who is responsible in the event of a mistake in ordering supplies / equipment?

Professionalism & Avoiding Landmines

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- Why do public/private deals fall apart?
- What can you do to ensure success?
 - Educate stakeholders on role of incentives
 - Be consistent and fair
 - Under promise and over deliver
 - Maintain good accountability and transparency in program administration.
 - Learn the art of saying "no"



