

EDA RLFs Make a Difference

How the Economic
Development Administration's
Revolving Loan Fund Program
Promotes Business
Development and Job Creation

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Strengthening loan funds
that build communities

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Credits

This report was researched and written by EDFS Program Manager William Amt. Special thanks to NADO and EDFS members who provided examples of how their RLFs are making a difference in their communities.

Executive Summary

Through a variety of complementary programs, the Economic Development Administration (EDA) is an innovative catalyst for business development and job growth in distressed communities across the United States. Millions of jobs have been created efficiently by the agency and its state and local partners through its public works, defense adjustment, disaster assistance, and other programs.

EDA's revolving loan fund (RLF) program is an essential item on the menu of the agency's programs. Public and private organizations that manage EDA RLFs have provided capital to thousands of new and growing businesses unable to obtain bank capital due to a poor or nonexistent credit history, insufficient collateral, or no track record because they are a start-up. A loan fund's decision to lend to a business often spurs banks to invest in the company. On average, \$1 of RLF financing leverages \$4.50 in private capital. As a result of EDA lending, over 280,000 jobs have been created and saved over the past three decades.

Several factors have adversely affected RLFs' performance and impact. These include agency paperwork and red tape, increased competition from banks, limited agency funds to grow and recapitalize loan funds, and limited funding for technical assistance and professional development training. If EDA were to make the following changes, RLFs could perform better and increase jobs and income opportunities in economically distressed parts of America:

- Continue recapitalizing existing high-performing loan funds to expand their lending capacity;
- Establish a technical assistance program to better serve the business development needs of borrowers;
- Allow this new technical assistance program to be used for professional development training of RLF staff; and
- Defederalize the RLF program once funds have been fully loaned out one time to make the program more competitive vis-à-vis banks.

NADO, NADO Research Foundation, and EDFs

The National Association of Development Organizations (NADO) is a public interest group founded in 1967 to promote community, economic, and rural development in America's small metropolitan and rural regions. The association is a leading advocate for a regional approach to development. NADO's members are regional development organizations (RDOs)¹ that work directly with local governments to develop comprehensive local-driven economic development strategies. Through this established network, NADO members directly serve over 1,800 counties and more than 15,000 cities, and towns. The NADO Research Foundation, established in 1988, provides research, education, and training to community and economic development practitioners and policymakers. The Foundation identifies issues and develops training strategies to help professionals and local elected officials.

The Economic Development Finance Service (EDFS), a program of the NADO Research Foundation, is the only national organization for business development loan funds with a rural perspective. EDFs provides information, training, technical assistance, a professional network, and representation through NADO primarily to rural and small metropolitan loan funds and other professionals and policymakers.

For more information about joining EDFs, contact EDFs Program Manager William Amt at (202) 624-8467 or bamt@nado.org.

¹ RDOs are known locally as Area Development Districts, Councils of Government, Planning and Development Districts, Economic Development Districts, Economic Development Commissions, Local Development Districts, Planning and Development Districts, Regional Planning Commissions, and Regional Development Councils.

EDA's Tradition of Effective Economic Development Programs

For over 35 years, the Economic Development Administration (EDA) has been fulfilling its mission as an innovative catalyst for business development and job growth in distressed communities across the United States. Established by Congress in the Public Works and Economic Development Act of 1965, EDA has developed a range of flexible programs that help small towns, cities, and regions identify and implement solutions to problems that hinder their economic wellbeing. For example:

- EDA planning grants support the formulation of a comprehensive economic development strategy (CEDS) that is based on regional cooperation;
- Public works investments help facilitate the construction of infrastructure needed by businesses;
- The defense conversion program helped communities prepare for and respond to the economic effects of closed military bases and contractor cutbacks as a result of the Base Closure and Realignment Act;
- EDA provides pre-disaster mitigation and post-disaster assistance to areas affected by natural and economic disasters; and
- The agency was among the first to support the revitalization and reuse of idle and abandoned industrial land and facilities (i.e., brownfields).

The agency's local partners (EDA-designated economic development districts, community development corporations, states, local governments, US territories, and Indian tribes) play a critical role in administering these programs, which have assisted distressed communities in reversing high unemployment rates and low per capita income levels. According to EDA, distressed areas have:

- Two-year unemployment rates that are at least one percentage point higher than the national average;
- Per capita incomes that are 80 percent or less than the national average; or
- Special needs due to short- or long-term changes in economic conditions, such as out-migration, underemployment, military base closures, natural disasters, large firm closures due to foreign trade, and natural resource depletion.

EDA is an innovative catalyst for business development and job growth in distressed communities across the US.

EDA programs have been responsible for creating and saving millions of jobs throughout America. According to EDA, the public works program has created more than 1.5 million jobs since 1965 (1999 Fact Sheet). A 1997 Rutgers University evaluation of the defense adjustment program found that over 44,000 jobs were created in the first two years of the program.

In addition to job creation and retention, efficiency has also been a trademark of EDA programs, and when compared to other federal agencies, EDA ranks among the best in terms of efficiency data. Evaluations of EDA's public works program have found that a \$1 million EDA investment creates 327 jobs (the cost per job created is \$3,058), and \$1 in EDA investment generates \$10.08 in private investment and \$10.13 in local tax base (Rutgers University, 1997).

In summary, evaluations of EDA programs have demonstrated their efficient use of funds, effectiveness at leveraging private capital, and strong impact on economic development and job creation.

EDA RLFs Carry on the Tradition

In 1975, EDA added the innovative revolving loan fund (RLF) program to its menu of economic development tools. One of the first federal programs of its kind, today there are over 600 EDA RLFs in 49 states, the District of Columbia, and US territories that provide capital to new and existing businesses unable to qualify for traditional bank financing. Approximately 45 percent of the organizations that manage RLFs are EDA-designated economic development districts.

RLFs are administered by a variety of public institutions and private nonprofits, including EDA-designated economic development districts, community development corporations, states, local governments, US territories, and Indian tribes. As with other EDA programs, entities interested in administering an RLF are required to demonstrate how the loan fund fits their economic development goals, as defined in a comprehensive economic development strategy (CEDS). The 2002 Rutgers RLF evaluation found that planning improves loan fund performance.

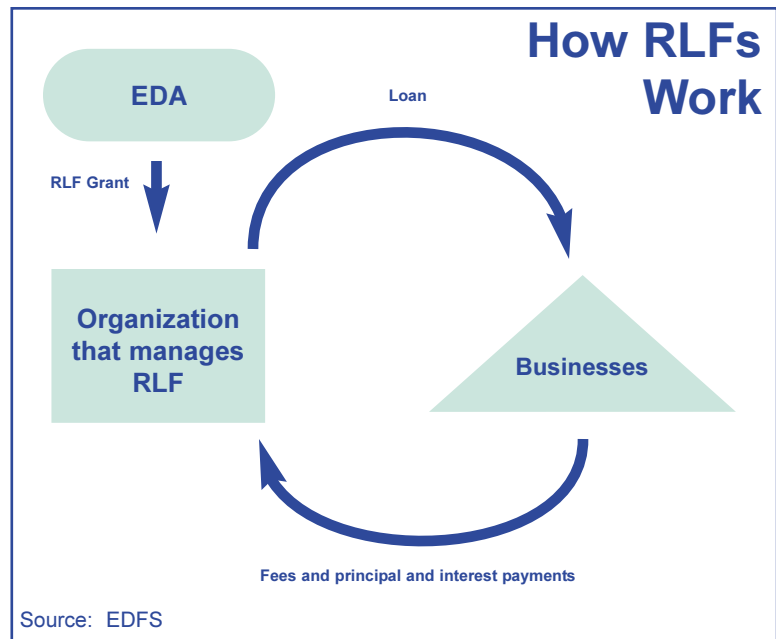
Once EDA approves the CEDS, it provides eligible entities with an RLF grant that is matched at 50 percent by the recipients. These monies form a loan fund that is considered "revolving" because once all the funds of the original pool are loaned and replenished with

EDA RLF Success Story

California

An EDA RLF loan helped Sierra Nevada Brewing Company with its first expansion, eventually resulting in the company becoming a top-10 microbrewer. According to Marc Nemenic, Executive Director of Tri-County Economic Development Corporation in Chico, California, in 1988 Tri-County made Sierra Nevada a loan of \$25,000, which was needed to leverage an additional \$678,350 in private financing. The growth of the company has been steady since this expansion, growing from 25 to 270 employees. Tri-County's EDA RLF has continued to help businesses in its three-county service area, making 107 loans totaling \$4.2 million and creating and saving 508 jobs.

For more information contact Patty Hess, Tri-County's Business Development Officer, at 530-893-8732 or patty@tricityedc.org.



principal repayments, interest income, and fees, they are available to be reloaned to qualified businesses.

RLF Creates and Saves Needed Jobs

Kentucky

Cumberland Valley Area Development District in London, Kentucky, has been making RLF loans since 1986. The region is dependent on coal mining, which has suffered employment downsizing. Fifty-six loans, mostly to manufacturing companies, have helped diversify the regional economy and have led to the creation of 2,589 jobs and retention of 259.

For more information, contact Cumberland Valley's Development Specialist Bertha Partin at 606-864-7391 or bpartin@cvadd.org.

RLFs are an integral part of EDA's menu of economic development programs.

Entities that want to address their service areas' long-term business finance needs as detailed in their CEDS can apply for an RLF grant. The Defense Conversion Grants program made RLF capital and other forms of assistance available to communities to support businesses that provided jobs for workers laid off because of a reduction of defense spending. States

and communities designated by the president as disaster sites are also eligible for RLFs to support affected businesses.

RLFs target borrowers labeled as "high-risk," meaning those who are unable to obtain bank financing because they have a poor or nonexistent credit history, insufficient collateral, or are a start-up with no track record.

Loan Fund Unlocks Private Capital

Ohio

The Ohio Mideastern Governments Association (OMEGA), located in Cambridge, has loaned out \$822,151 in EDA RLF funds since 1992. These loans have leveraged \$3,328,158 in private capital, for a loan-to-leverage ratio of \$1:\$4.05. OMEGA leveraged the most private capital on a loan to a tool manufacturer: OMEGA's \$75,000 was critical for bringing an additional \$912,500 to the table, for a loan-to-leverage ratio of \$1:\$12.17. Twenty new jobs were created by the deal.

For more information, contact Lolly Ravak, OMEGA's RLF Administrator, at 740-439-4471 or rlf@moega-idd.org.

In fact, EDA requires evidence that borrowers are unable to obtain conventional financing on their own. Loan review committees, which review loan requests, are comprised of community representatives from the private and public sectors, including bankers, businesspeople, accountants, and elected officials. The participation of RLF funds in a business finance deal usually encourages once-reluctant banks to also lend, since loan funds normally agree to let banks recoup their losses first from

the business' collateral in the event of default. By providing such gap financing, loan funds have been instrumental in the growth of companies that otherwise would not have received funding.

RLFs play a critical role in the economic development of distressed rural and urban areas, where alternatives to conventional financing are limited. In inner cities, community devel-

opment corporations (CDCs) and municipal agencies often manage loan funds. In rural areas, where there are few CDCs and limited municipal capacity, RLFs managed by regional development organizations are often the only source of alternative financing for start-ups and existing businesses. A January 2002 NADO survey of regional development organizations with loan funds found that half are the sole lender in all or part of their multi-county service area, underscoring the important role played by public entities and RLFs in creating private sector jobs in rural America.

Another indication of the significance of loan funds was revealed in a 1987 study by Mt. Auburn Associates. Mt. Auburn surveyed borrowers about what they would have done if they had not obtained RLF financing. Of the 729 respondents, 51 percent said they would have cancelled, delayed, or scaled back their investments in their companies, and 25 percent replied they would have either gone out of business or not started their companies. **EDA investments have been essential for the birth and growth of thousands of companies.**

By extension, without RLF loans, thousands of jobs would not have been created in distressed parts of the country. Data included in the 2002 Rutgers evaluation reveal that between 1976 and 1998, 422 loan funds created and retained over 280,000 jobs.

Revolving loan funds are not only instrumental in growing jobs in distressed areas, they also diversify and strengthen local economies. The 2002 Rutgers report concludes that RLFs often make loans to industries not previously represented in the local economy. EDFs, Rutgers, and Mt. Auburn have shown that about half of all loans are targeted to manufacturing firms, which tend to pay higher wages than other economic sectors. The other half of loans are made to commercial, service, and other business types that are integral to a diverse and healthy economy.

As with other EDA programs, RLFs are effective at keeping their costs low and leveraging private investment. The 1990 EDA report shows that loan funds create and retain 313 jobs for every \$1 million invested (cost-per-job of \$3,198), and that they leverage 4.5 times more private funds (the program's minimum leverage ratio is 2:1). The 2002 Rutgers University report found that loans made in 1,032 counties leveraged \$4.59 in private and equity funds for every dollar loaned.

RLFs have created and retained over 280,000 jobs in distressed parts of the country. One RLF dollar leverages about \$4.50 in private capital.

RLFs Complement Other Federal Loan Fund Programs

In 1975, EDA was one of the first federal agencies to establish a business development loan fund program. Since then, other agencies have developed their own programs that complement EDA's and expand the capacity of local organizations to meet the diverse needs and populations in their service areas.

Overall, EDA's program is one of the most flexible available to business assistance organizations and their borrowers, as illustrated by the following examples:

- Businesses that receive loans through the US Department of Agriculture's (USDA) Intermediary Relending Program (IRP) need to be located in rural America; EDA loans are made to businesses located in both rural and urban distressed areas.
- EDA serves distressed populations nationwide. The Appalachian Regional Commission's revolving loan fund is limited to administering organizations and borrowers located in ARC counties in 13 states.
- The Small Business Administration's (SBA) Microloan Program targets loans up to \$35,000 to microenterprises with five or fewer employees; EDA has no such restrictions.
- Public entities, such as local governments and regional development organizations, are not eligible to administer the Treasury Department's Community Development Financial Institutions (CDFI) Fund; both public and private nonprofit entities manage EDA RLFs.

Given the parameters of other programs, RLFs are sometimes the only source of alternative financing available to businesses.

When organizations manage multiple loan funds, they have a deeper impact on local business development. Benefits include:

- reaching a broader range of borrowers (microentrepreneurs to medium-sized companies, rural and urban);
- assisting businesses throughout their growth until they qualify for a bank loan;
- continuing to meet loan demand if one fund is temporarily loaned out; and
- having sufficient income from fees and interest payments to cover staff and other management costs.

Factors Adversely Affecting RLFs' Performance and Impact

Paperwork and red tape due to the federal nature of RLFs - Unlike other federal programs that capitalize loan funds, EDA RLF monies are considered federal in perpetuity. This affects grantees by requiring they comply with time-consuming federal statutory, regulatory, and reporting requirements in perpetuity; and borrowers are required to comply with a set of requirements that adds to project costs and loan processing time. A report of the House Transportation and Infrastructure Committee (H.Rpt. 105-684 Part I) comments that "one issue that has been brought to the Committee's attention is excess red tape and regulatory requirements imposed on RLFs, even after initial loans have been recycled through the RLFs. Many of the loans made from these funds are for relatively small amounts and the additional paperwork burden hampers the program's effectiveness."

Increased competition from banks - New technologies such as credit scoring and automated underwriting have made it more economical for banks to make smaller and riskier loans traditionally the domain of loan funds. A growing number of loan funds feel they are competing with banks that now want to provide all of a business' capital needs. As a result, demand for RLF loans has decreased in some markets, making it difficult for grantees in these areas to keep at least 75 percent of their capital loaned out at all times, as required by EDA. Evaluations of loan fund performance and deal flow need to take this into account.

Limited recapitalization funds - As RLFs lend all their funds, they have to turn away potential borrowers until

Loan Fund Supports Innovative Economic Development

Pennsylvania

A new industry is taking shape in north central Pennsylvania, and one of its key sources of finance has been the RLF at the North Central Pennsylvania Regional Planning and Development Commission in Ridgway. The region is home to a burgeoning powdered metallurgy sector of metal parts producers and related industries. This method of producing metal products - from ball bearings to automobile parts - is replacing traditional welded or forged parts.

Patricia Brennen, the region's loan program director, notes that of the 110 loans made by their RLF since 1984, 32 have been to businesses in this sector. Over 60 percent of the 704 jobs created by the fund have been by powdered metallurgy businesses, even though 30 percent of the fund's loans have been to these businesses. Not only do they create more jobs than other businesses in North Central's portfolio, but they have a greater profit margin, with an average increase in sales and net income of 15-23 percent.

Gasbarre Products is testimony to the impact of the loan fund. Gasbarre, which manufactures ceramic and metal powder compaction presses and sintering furnaces, has received financing from North Central five times for expansion in the past 12 years. According to Thomas Gasbarre, the company's chief executive, "At the time of our first expansion, we had 55 employees; we now have 293, and couldn't have achieved this without the help from North Central Pennsylvania's investments."

For more information, contact Patricia Brennen at 814-773-3162 or pbrennen@ncentral.com.

their coffers are replenished through loan repayments. Loan funds that are effective at lending their funds often turn to EDA for additional - or recapitalization - funds to expand their lending capacity. Over time, such funds have become limited as shrinking agency funds have been used to establish new loan funds, thus restricting the number of businesses that can be assisted by existing RLFs. Based on data from the 2002 Rutgers study, 44 percent of loan funds have a capital base of under \$1 million. In addition to restricting their ability to meet demand, such low capital levels limit funds' ability to cover administrative expenses.

RLF Creates Needed Jobs

Oregon

The decline of southwest Oregon's wood products and fishing sectors has contributed to the region's unemployment rate of over 8 percent. To combat this trend, CCD Business Development Corporation has used its loan fund to create and retain over 3,200 jobs in a wide array of sectors.

One of its borrowers is FCC Commercial Furniture in Roseburg, now one of the nation's leading manufacturers of restaurant furniture. The company relocated from Oakland, CA in 1993 and occupied a vacant building formerly owned by a defunct log loader manufacturing company. CCD coordinated a loan deal that included a \$115,000 RLF loan to finance equipment and \$395,000 from the organization's other loan programs and a bank to finance other relocation costs. They hired all local employees and currently employ about 110 workers.

For more information, contact Wayne Luzier, CCD executive director, at 541-672-6728 or wluzier@ccdbusiness.com.

Instead of growing funds through recapitalization, EDA is encouraging RLFs to securitize their loans by selling them on the secondary market. An innovation among federal programs that support loan funds, this technique decreases the time it takes lenders to access loan repayments and speeds up their ability to make new loans. However, securitization can be risky because it does not grow loan funds appreciably and can even erode their capital base through sale discounts.

Lack of funding to provide technical assistance - Both new and existing small businesses often require technical assistance to guide them through various management challenges. EDA allows RLF income from interest payments and fees (principal repayments are excluded) to be used to provide business development and management assistance, but new and small loan funds lack sufficient income to cover needs.

Need for training in loan fund management - New RLF grantees and staff often have little or no experience managing federal economic development loan programs. Since EDA describes its loan fund grantees as trustees, new and experienced staff needs professional development training in how to carry out this responsibility so that the maximum number of businesses is helped and jobs is created. In addition, grantees need training on how to comply with the program's requirements. EDA allows RLF income (excluding principal repayments) to be used to attend training, but this is difficult for new and small loan funds with insufficient income.

Impact of RLFs

RLFs Create and Save Needed Jobs

Organizations that manage RLFs build local distressed economies by making loans to new and existing businesses that will provide much-needed employment opportunities. Loan funds report jobs retained, as well as jobs created attributable to the loan, to underscore the fact that without their financing the company would not have qualified for a bank loan and existing jobs could have been lost.

Pennsylvania: Home Grown Company Prints EDA Directory

Northwest Pennsylvania Regional Planning and Development Commission in Oil City has managed an EDA loan fund since 1982. Over the past 20 years, funds have been used to make more than 200 loans that have created 2,865 jobs and saved 5,732 jobs in an area with 7.4 percent unemployment.

Northwest Pennsylvania prepared the *2002 Economic Development Directory* for EDA. It was printed by Seneca Printing and Label, Inc., which received a \$100,000 EDA RLF loan in 1992 to purchase printing equipment. These funds leveraged \$100,000 in private financing and helped the company grow from 33 employees to over 400. Dennis Pascarella, CEO of Seneca Printing, says, "This loan has enabled us to become a thriving tenant in two of our county's industrial parks, where we operate world-class modern facilities. We offer our employees a quality wage and fringe benefits, and in 2001, we were awarded a Best Workplace in America title from Printing Industries of America."

For more information, contact Daryl Coyne, Northwest Pennsylvania's finance specialist, at 814-677-4800 or darylc@nwplan.org.

Minnesota: Local Company Makes Containers Used Globally

The economy of rural northern Minnesota has long been rooted in the wood products and mining sectors, both of which have suffered an employment downturn over the past few

"This loan has enabled us to become a thriving tenant in two of our county's industrial parks, where we operate world-class modern facilities."

--Dennis Pascarella, CEO,
Seneca Printing

decades. As unemployment rose, the Arrowhead Regional Development Commission (ARDC) in Duluth established a private corporation, The Northspan Group, in 1985 to manage its RLF and provide an array of other professional services to support new and growing businesses. Since then, Northspan and Arrowhead have made over 70 loans totaling \$3.3 million to businesses that have hired more than 700 new employees and saved around 400 jobs that would otherwise have been lost without the regional commission's financing.

One of their borrowers manufactures custom containers and shipping crates. After many years as a profitable company, new - and poor - management during the late-1990s result-

ed in loss of sales and high overhead. The former chief executive returned to lead the company back to profitability, but its major bank lender declined to renew its financing, adding another threat to the company's survival. A \$100,000 EDA RLF loan from Northspan leveraged \$1.4 million in additional capital that was used for working capital and to pay off a bank loan. According to Bob Palmquist, Northspan's Senior Business Developer, "This company has been a major employer in an economically distressed county. The financing was essential to keep the business operating and retain 148 full-time jobs paying good hourly wages, plus full health and retirement benefits."

For more information, contact Bob Palmquist at 218-722-5545 or bpalmquist@northspan.org.

Oklahoma: RLF Helps Build Emergency Vehicles

In 1996, South Western Oklahoma Development Authority (SWODA) in Burns Flat made an EDA loan for expansion to a manufacturer of emergency specialty vehicles. When the \$150,000 loan was made, the company had 20 employees. It subsequently added

about 220 more jobs, a significant number since the region only has a population density of 15 people per square mile.

For more information contact Dominick D'Achille, SWODA's Deputy Director, at 580-562-4882 or dominick@swoda.org.

RLF Creates Needed Jobs

Missouri

Scot Young Research, a janitorial supply developer, used to import cotton fiber and other materials for the mops, buckets, and other items it manufactures. Now, the company obtains its inputs locally (such as cotton waste that it recycles) and exports its products to the United Kingdom. As a growing company, Scot Young needed a working capital loan to improve its cash flow as it relocated to a larger site. According to Connie Weitlich, Commercial Loan Officer for Mo-Kan Regional Council in St. Joseph, Missouri, the \$150,000 working capital loan they made reduced the amount of capital the company needed to purchase and renovate its new building. "Without the RLF loan, the company could not have afforded to expand," she says. Mo-Kan's loan leveraged \$1.75 million in private capital (loan-to-leverage ratio of \$1:\$11.67) which has been used to rejuvenate an old vacant building in downtown St. Joseph. The expansion will grow the 55-person company to 135. Since 1990, Mo-Kan has made 23 loans that have created and retained 530 jobs.

For more information, contact Connie Weitlich at 816-233-3144 or mkdi1@ponyexpress.net.

RLFs Finance Higher Wage and Skill Jobs

EDA has placed a stronger emphasis on the need for RLFs to lend to businesses that will produce higher wage and higher skill jobs, which is particularly challenging in areas lacking suitable infrastructure and/or skilled workers. The following examples illustrate how EDA-funded economic development districts are meeting the challenge.

Virginia: Partnership Promotes Rural High Tech Jobs

Once dependent on the low-wage textile and apparel industries, the eight-county region in southwest Virginia served by Mount Rogers Planning District Commission (PDC) is promoting itself as a center of high-tech business development. Mount Rogers PDC is a member of the Regional Economic Development Competitiveness Partnership whose goals are to create a technology-friendly business environment, develop a qualified workforce through training at local technical schools, and construct state-of-the-art infrastructure. Mount Rogers' loan programs are viewed by the Partnership as a catalyst for attracting risk-oriented cutting edge technology entrepreneurs. Their RLF program is particularly useful for working capital and equipment needs. Since 1986, the 20 loans made by Mount Rogers have assisted in the creation of 236 jobs and has helped retain 819. Twenty-five percent of these jobs are in the high-wage high-tech computer/electronics sector.

One of Mount Rogers' borrowers is Jack Galyean, president and founder of Printed Circuit Solutions Manufacturing (PCSM). Mount Rogers loaned him \$150,000, which in turn leveraged \$1.3 million in other financing, for working capital and equipment. Galyean was then able to establish one of the region's most technically advanced manufacturing facilities, specializing in the printed circuit board industry. A seasoned veteran in industry and technology while at Rockwell and Honeywell, he brought his expertise and business experience back to his hometown of Galax, Virginia. Since its creation, PCSM has grown to over 20 employees, half of whom have two years of college or more. The company also offers a progressive wage program, with wages 20-30 percent above the industry average in the area.

“Printed Circuit Solutions Manufacturing also offers a progressive wage program, with wages 20-30 percent above the industry average in the area.”

Mount Rogers is currently working with a software development company to assemble a loan that will help the company hire 10 new people.

For more information, contact Brian Martin, Mount Rogers PDC Loan Funds Administrator, 276-783-5103 or bmartin@mrpdc.org.

Skilled Printing Jobs Pay Well

New York

"Printing companies are a source of high-wage, high-skill jobs in our part of upstate New York," says Paul Howard, Executive Director of Genesee/Finger Lakes Regional Planning Commission in Rochester. "They employ specialists in such areas as graphic arts and computer graphics, which pay about \$12-15 per hour, compared to the regional average wage of about \$10 per hour." The Genesee/Finger Lakes RLF has financed the purchase of software and high-end computers for high-quality printing, and working capital. Since 1988, the fund has made a total of 44 loans to 42 businesses and has created and saved 920 jobs in the region.

For more information, contact Paul Howard at 716-454-0190 or phoward@gflrpc.org.

Missouri: International Scientific Company Lifts Local Economy

According to Stan Frisbee, Business Loan Specialist of the Meramec Regional Planning Commission in St. James, Brewer Science in Rolla, Missouri has grown to become a worldwide supplier of specialty chemicals, materials, and equipment to micro-electronics and opto-electronics manufacturers. In 1995, Meramec supported Brewer Science's expansion by making a working capital loan of \$150,000, which in turn leveraged \$1.343 million in private sector funds, for a loan-to-leverage ratio of \$1:\$8.95. The 16 jobs created in this town of 16,000 pay an average of \$23 per hour, much higher than the regional average of \$14. Since 1992, Meramec has made 37 loans that have created and saved 758 jobs.

For more information, contact Stan Frisbee at 573-265-2993 or sfrisbee@meramecregion.org.

Defense Adjustment RLF Saves Jobs and Local Economy

Between 1988 and 1995, Congress authorized four rounds of military base realignment and closure (BRAC), which resulted in hundreds of closures and alignments. Thousands of civilian base workers were laid off as a result, as were workers at defense-related companies. In conjunction with the Department of Defense's Office of Economic Adjustment, EDA has helped affected communities convert the bases to other uses and created opportunities for new and existing businesses to grow and employ displaced workers.

Maine: Loan Keeps Factory in Operation

Anticipating a significant downsizing of its defense sector in 1993, Maine prepared a plan that outlined a comprehensive strategy for dealing with a broad range of impacts, such as base closures, defense contractor layoffs, and ancillary firm downsizings. Among the strategies is an RLF administered by the regional development organizations that serve Maine communities.

Since Loring Air Force Base was closed in 1994, Northern Maine Development Commission (NMDC) in Caribou has made 17 loans to 15 companies and created 398 jobs and helped save 261 jobs through the EDA-funded Defense Diversification Loan Program. The loan program has made more than \$2 million worth of loans that have leveraged over \$26 million in additional funds. These investments have assisted existing businesses affected by the closure to modify their business models, stay in business, and retain and add jobs. It also has financed new businesses that have hired dislocated defense workers.

For instance, Northern Maine made a loan in 1997 to Kent, Inc., which manufactures children's sleepwear in Fort Kent. Kent, which had originally built and operated the facility before selling it to Gerber, bought back the plant when Gerber moved its operations. Through a public-private partnership, NMDC made a loan that leveraged private and other public funds worth six times the RLF investment, which allowed the plant to reopen under Kent management. "More importantly," says Duane Walton, Northern Maine's Director of Business Finance, "it saved 150 jobs, and a recent expansion will create 50 new jobs and possibly add 100 more in the near future. This is significant in a very rural part of the state. The company is doing so well that its products are sold by Wal-Mart and Target." The company's owners were awarded the Small Business Administration's Business Person of the Year Award for 2001.

"The company is doing so well that its products are sold by Wal-Mart and Target."

--Duane Walton, Director of Business Finance, NMDC

For more information, contact Duane Walton at 207-498-8736 or dwalton@nmdc.org.

Disaster RLF Provides Relief

Communities declared by the president as a federal disaster site are eligible for funding to finance recovery efforts. These include RLF grants to assist businesses that have been affected by the disaster.

Minnesota: Jobs Saved at Eyecare Center

When a tornado hit southern Minnesota in 1998, a number of businesses were partly or wholly destroyed. To help with the clean-up and redevelopment of the area, Region Nine Development Commission in Mankato received an EDA Disaster RLF grant. Since then, 11 loans for inventory and machinery replacement have been made to a variety of manufacturing, commercial, and service companies. While the goal of the program is to retain jobs that would have been lost (50 have been saved), Region Nine's borrowers have created seven additional jobs.

“Public funding was necessary to bring the business back to pre-tornado conditions.”

--Gayle Jones, Loan Officer, Region Nine Development Commission

One of the companies that benefited from the program is Saint Peter Eyecare Center, Inc. The optometrist and eyewear retailer suffered over \$100,000 in lost gross sales due to the destruction of the premises. Gayle Jones, Region Nine's Loan Officer, says, "Public funding was necessary to bring the business back to pre-tornado conditions." Total project costs for construction and the purchase of equipment and inventory came to \$566,000. Region Nine's Tornado RLF loaned \$100,000, which was instrumental in attracting a bank loan of \$116,000 and saving all eight jobs at the company.

For more information, contact Gayle Jones at 507-389-8897 or gjones@rndc.mankato.mn.us.

RLFs Unlock Private Capital

Banks often become willing to lend to a high-risk borrower when an organization that manages an RLF participates in the loan and agrees to take a second position on the collateral in the event of default. Thus, loan funds have made available private capital to needy businesses that are unable to access it on their own.

Kentucky: High Leverage by Food Distributor

The RLF managed by Barren River Area Development District in Bowling Green has made 14 loans since 1992 totaling \$1,086,500. These have leveraged \$10.4 million in private sector money for a loan-to-leverage ratio of \$1:\$9.57. The loans have created 1,025 jobs and saved 528. Southern Foods, a wholesale food distributor in Bowling Green that serves restaurants and institutional cafeterias, is one of the companies that has benefited from a Barren River loan. In June of 2000, Barren River made a loan for \$100,000 to help the company expand into a building at the South Central Kentucky Industrial Park, which was developed using EDA public works funding in 1995. The loan leveraged \$5.6 million in private sector funding, for a loan-to-leverage ratio of \$1:\$56, and resulted in 25 new jobs.

For more information, contact Ashley Willoughby, Barren River's Community Development Specialist, at 270-781-2381 or ashley.willoughby@bradd.org.

Georgia: Loan Helps Housing Start-Up

Southwest Georgia Regional Development Center in Camilla has a loan-to-leverage ratio of \$1:\$6.98 for its RLF. The 19 loans it has made since 1991 total \$1.9 million and have been instrumental in leveraging \$13.5 million. They have also resulted in the creation and retention of 933 jobs. Southwest made a \$128,125 loan in 1992 to a housing manufacturing start-up company to purchase fixed assets. These funds were multiplied by leveraging \$690,000 in additional private funds for a loan-to-leverage ratio of \$1:\$5.39. Overall, the deal resulted in the creation of 100 jobs at the company.

For more information, contact Southwest Georgia's Economic Developer, Roderick Gilbert, at 229-522-3552 or rgilbert@swgrdc.org.

Barren River's
\$100,000
expansion loan
leveraged
\$5.6 million in
private sector
funding, for a
loan-to-leverage
ratio of \$1:\$56.

Conclusions and Recommendations

Business development revolving loan funds are an effective and integral part of EDA's menu of strategies for combating economic distress across the country. By using public funds to leverage private capital, locally managed RLFs have provided needed capital to thousands of:

- new businesses that would not have survived or even started and grown without an RLF equipment loan;
- existing businesses that would have reduced their workforce or shut down if they had not obtained an RLF working capital loan; and
- growing businesses that otherwise would not have added more employees and increased the local tax base.

Hundreds of thousands of jobs have been created by loan funds in areas of the country suffering from long-term economic downturns and sudden decline due to natural disasters, base closures, and other adversities. When coupled with other EDA programs that support economic development, RLFs are an effective engine for reducing unemployment and building community wealth.

Despite loan funds' effectiveness, several factors keep them from maximizing their performance. EDA should consider the following recommendations with the goal of increasing the number of businesses assisted and jobs created by RLFs.

Recommendation 1: Continue Recapitalizing Loan Funds

Recommendation 1: Continue Recapitalizing Loan Funds

EDA should recapitalize and expand the lending capacity of existing loan funds that have a successful track record and demonstrated demand. Although EDA's securitization program provides capital to loaned-out RLFs faster than the recapitalization application process, it should not replace recapitalization as a capital source.

Recommendation 2: Create Technical Assistance Program

A new technical assistance program should be added to complement the loan fund program to better safeguard the investments made by RLFs. Until then, the agency should allow RLF grant monies - and not only fund income - to be used for providing business development and management assistance to new and existing businesses.

Recommendation 2:
Create Technical
Assistance Program

Recommendation 3: Support Professional Development Training

In the short term, EDA should allow RLF grant funds, in addition to fund income, to be used for professional development training to ensure that staff manage their funds in the best possible way. In the longer term, the technical assistance program proposed in Recommendation 2 should also be used for building staff capacity to ensure quality oversight and management.

Recommendation 3:
Support Professional
Development Training

Recommendation 4: Defederalize RLFs

The EDA RLF program should emulate other federal loan fund programs and defederalize RLF monies once they have been loaned out one time. Defederalization will reduce borrowers' paperwork, and regulatory obligations will make the program more competitive, which is particularly important given the increased competition from banks. To free up their time for making loans and to continue tracking their performance and impact, RLF grantees should submit semi-annual reports until all funds have been expended, and annual reports thereafter.

Recommendation 4:
Defederalize RLFs

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