Growing Your Region’s Economy
with Small Businesses and Entrepreneurs

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NADDO
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**Small Businesses Drive the Economy**

Encompassing half of all private sector employment, small businesses are a vital part of the United States economy.\(^1\) Encouraging their continued growth and increasing their ability to survive is especially crucial during an economic downturn. Many regional development organizations (RDOs) manage publicly funded programs that provide small businesses and entrepreneurs with access to capital, offer business counseling services, and other critical support they need to expand.

An increased presence of small businesses and entrepreneurs is especially important in small metropolitan and rural communities. Nearly two-thirds of the jobs in rural America are based in small businesses.\(^2\) Researchers at Pennsylvania State University found that communities with more small businesses produced an overall increase in per capita incomes.\(^3\) Local businesses tend to buy locally and use local service providers. Larger corporations generally buy from large distributors and outsource or use in-house services outside of the community.

Small businesses generally rely on their own equity or financing from a commercial bank to start a new business, purchase inventory, expand an existing business, and strengthen their financials.\(^4\) As a result of the recent economic downturn, commercial banks have tightened their credit conditions making it more difficult for small businesses to qualify for a loan. In an environment when small business owners need access to credit more than ever, public-sector business development loan funds become an important source for financing.

Publicly funded business development loan funds are sometimes the only alternative to commercial banks in rural areas. The funds are initially capitalized, along with local matching funds, by a federally funded program such as the U.S. Department of Agriculture’s (USDA) Intermediary Relending Program (IRP), the U.S. Economic Development Administration’s (EDA) revolving loan funds (RLFs), the U.S. Department of Housing and Urban Development’s (HUD) Community Development Block Grant Program for Economic Development (CDBG-ED), or the U.S. Small Business Administration’s (SBA) 504 or 7(a) lending programs. An intermediary, including many regional development organizations, manages the funds to provide small businesses and entrepreneurs with financing.
Many RDOs manage multiple loan funds, each with their own purpose, funding source, and regulatory requirements. For example, the Mid-Columbia Economic Development District (MCEDD), an EDA economic development district (EDD) serving five counties in Oregon and parts of Washington, manages ten different loan funds with funding sources from USDA, EDA, Oregon Regional Investment Funds, CDBG, and a local match.

Regional development organizations (RDOs) are multi-jurisdictional planning and development organizations that are governed primarily by local government-elected officials who are focused on strengthening local governments, communities, and economies through regional solutions, partnerships, and strategies. These public entities are often known locally as: councils of governments, area development districts, economic development districts, local development districts, planning and development districts, planning and development commissions, regional development commissions, regional planning commissions, or regional councils.

Small business development loan fund clients are traditionally considered high risk by commercial banks—they have poor or nonexistent credit history, insufficient collateral, or are an early start-up with limited proof of success. Business development loan funds are developed to benefit and support the community. As a result, loan fund managers evaluate borrowers on their ability to create new jobs, attract wealth, and remain anchored in the community.

Loan fund managers work closely with local banks—often providing businesses with gap financing to supplement a commercial loan. In addition, RDOs make an impact by partnering with local economic development organizations, nonprofits, or small business development centers to provide technical assistance to borrowers. Eric Nerdin, loan fund manager with MCEDD, says, “Some entrepreneurs have great ideas, but they don’t know a balance sheet.” MCEDD collaborates with local small business development centers, financial institutions, chambers of commerce, and state and local governments to provide training and resources for small business owners.

While federal agencies such as USDA and EDA are pushing to get loan funds into the hands of local businesses, there is evidence that they are sometimes underutilized. Erik Pages, President of EntreWorks Consulting, says, “There is a lot of money sitting around that is not being put to work.” In most cases, business owners are just not aware of the funds or loan managers lack the capacity to effectively manage the funds. It is important for loan fund managers to build capacity and effectively market their programs.

More than 500 RDOs around the nation are working to strengthen local governments, economies, and communities through regional collaboration, strategies, and partnerships. As public-based entities governed by policy boards of local elected officials, along with private sector and community representatives, RDOs typically focus on developing and implementing economic development strategies. For many RDOs, this includes the administration and management of various publicly funded business development finance programs and loan funds.
In 2010, the NADO Research Foundation convened 30 leading RDO-based loan fund professionals in Cooperstown, New York, to discuss the critical role their loan programs have in their regions, and to identify recommendations for strengthening the field. The convening affirmed the importance of publicly funded small business lending programs as a means to boost entrepreneurial growth and sustainability. The group identified eight recommendations for strengthening publicly funded loan funds administered and managed by RDOs:

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 networks 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 regions to explore trends, noteworthy practices, and program innovations.
8. Pursue opportunities to diversify business lending and technical assistance tool portfolios and services, including potential partnerships and opportunities with nontraditional lending and investment resources.

This report highlights four RDOs that manage successful loan funds that are making a difference throughout their regions. All participate in one or more of the federal small business lending programs, and each of them have "pushed the envelope” in order to meet the increasing need for financial and technical assistance in their regions.
seven counties, consolidated 31 of its region’s 32 RLFs in May 2007, acquiring $11 million in loan receivables and $5 million in cash. The fund is operated through an independent entity called the Regional Business Fund, Inc. (RBF).

Before the consolidation, many of the local RLFs in the two EDDs’ service areas were not operating to scale. Myron Schuster, Executive Director of NWRPDC, said, “We had all these local CDBG funded RLFs and many had money sitting idle.” Statewide, approximately $35 million in RLF funds was underutilized. Only 30 percent of the available RLF dollars were actively working in Wisconsin communities.5 RLFs were underperforming for three main reasons: (1) a lack of capacity to manage the loan fund, (2) a state-mandated cap on lending restricted the size of the fund, and (3) federal restrictions that prohibited flexibility.

**Increasing Management Capacity.** Many of the smaller RLFs were managing funds without an experienced or dedicated staff member. Managing a successful RLF requires staff to market the program, complete the application process, perform a credit evaluation, get approvals to close the deal, and also to service the loan through its lifetime. Char Gurney, WCWRPC’s Economic Development Fund Manager, said, “Staff managing programs did not necessarily have a background in lending or it was a small part of their role.” As a result, funds were left underutilized, and when loans were closed there was little capacity to track the payments and report them to the state.

Consolidating funds at the regional level improved capacity to manage the RLFs. NWRPDC and WCWRPC each have dedicated staff and use loan software to manage their funds. NWRPDC manages eight loan funds and an equity venture fund in addition to the consolidated RLF. When they acquired the new RLF, the required management structure was already in place including an experienced staff, a software system, set application process, and relationships with local banks and organizations. In the first three months of its regionalization, Northwest Wisconsin awarded $1.1 million in loans to 10 northern Wisconsin businesses.6

**Increasing Lending Capacity.** Prior to the consolidation, each RLF had a cap on the amount they could retain based on the population of their community. For example, communities with less than 1,000 people could not retain more than $100,000 in their fund–repayments beyond this amount would have to be returned to the state. Therefore, RLFs in smaller communities were limited in the impact they could have on economic development. The cap led some communities to be more judicious with their funds. Beth Waldhart, Economic Development Lending Specialist with WCWRPC, recalls that one community had their entire fund of $800,000 sitting idle because they hoped to lend it to one big project.

The state agreed to remove the cap as funds revolve when the RLFs were consolidated, increasing the amount a business can borrow and resulting in a greater economic impact. As a result, WCWRPC and NWRPDC can grow their RLF over time by collecting principal and interest from borrowers. An increased pot of funds for the RLF will lead to an increase in the money circulating to businesses in the region.

**Allowing De-federalization.** At the federal level, HUD requirements are attached to CDBG-ED funds, including limits on matching private dollar, job creation limitations, and limitations on how the proceeds are used within a business start-up or expansion project. While these restrictions are well intentioned, they impact how program funds can assist in business expansion and job growth.

An advantage of consolidating state funded CDBG revolving loan funds into a non-for-profit organization is the elimination of federal requirements. Once WCWRPC had enough funds revolved after consolidation, de-federalization enabled them to use the funds to meet other economic development and business financing needs such as downtown revitalization through a newly created downtown façade program, a micro loan program to promote business start-ups, and a technology enterprise fund to encourage innovative products development. De-federalization is allowing NWRPDC to use a small portion of funds to create a community based venture capital fund to invest equity into small businesses and entrepreneurs.
Char Gurney says, “De-federalization was a huge priority and advantage for RLFs. We are now able to use the dollars on a more widespread basis.”

Many local communities with active RLFs agreed to the consolidation because of the de-federalization. They understood that the RLF could have a much greater impact without the federal restrictions.

Making it Happen

Consolidation at the regional level was voluntary for local RLFs. Local organizations with under-performing programs were glad to pass the torch to the regional organization, whereas others with more active programs were more reluctant. The process required open channels of communication with local RLFs to help them understand the benefits. Only a handful of RLFs in the two regions chose not to consolidate.

With the community in mind, active RLFs immediately understood that de-federalization of the funds would increase their impact. However, they feared losing local decision-making power would hurt their communities. Smaller communities were afraid larger communities would receive more funds. To make the consolidation successful, regions had to build trust with local communities and address their concerns.

Both NWRPDC and WCWRPC worked with local RLFs to develop a consolidation structure that continued to involve the community. Initially, each former RLF retained their board. Now, WCWRPC works with over 40 loan committees throughout their region corresponding with the Microloan program, Downtown Façade Program, and traditional RLF.

Using Revolving Loan Funds to Attract New Business

NCCM Company purchased 3M Company’s Mill Roll Division and relocated it to River Falls in the West Central region of Wisconsin. Brent Niccum, CEO of NCCM Company, is a 23-year veteran of 3M. He ran 3M’s Mill Roll business for three and a half years before purchasing the division.

NCCM manufactures mill rolls, cylindrical pieces that are used in factories to shape metal. Rolling describes a manufacturing process whereby a piece of metal is rolled between two cylindrical mill rolls giving it shape—usually under high temperatures. NCCM’s mill rolls are made of non-woven synthetic fiber discs bonded together with flexible adhesive. The mill rolls are primarily used in the metal and automotive industry. Because of their unique construction, NCCM mill rolls can last longer with less maintenance, reducing the customer’s long term cost.

The Regional Business Fund, Inc, an independent entity created by the WCWRPC to manage its RLF, awarded NCCM a $250,000 loan in February 2009. The funds were used to assist the company in moving their business assets to the River Falls location while continuing production. The funds helped leverage over $956,000 in private funds and assisted in the creation of over 15 jobs.

Since the business started in 2009, the company has far exceeded its sales and employment projections, and was named a “2011 Wisconsin Companies to Watch” by the Edward Lowe Foundation. NCCM Company continues to thrive as an international business and integral employer in west central Wisconsin.

Logo Source: NCCM (www.nccmco.com)
Once the loan application is received and prepared at the regional level, it is forwarded to the local level for a final decision. NWRPDC implemented a similar process involving local loan committees and boards. But, over time, local communities saw that NWRPDC was still able to maintain the community connection and all but one loan committee has disbanded and relinquished the responsibility to the region.

In some counties, NWRPDC contracts with community economic development groups to conduct the groundwork for their lending. In a large rural region, distance makes it difficult to maintain the community touch an RLF program requires. Community economic development groups will visit the local business for NWRPDC giving them input and helping with the ongoing administration. Two staff members from WCWRPC previously provided technical assistance to local communities who operated RLFs. As a result, they already had a working relationship prior to the consolidation.

In fact, a success of the consolidation process is that it fosters better ties between regional and local organizations. Char Gurney, with WCWRPC, says, “Maintaining good relationships with the community is a very important component to the continuing success of the program.” WCWRPC continues to maintain ties with local economic development corporations and uses them as their marketing arm. Many of their potential borrowers are referred from the local level.

Both NWRPDC and WCWRPC also maintain close relationships with local banks to market the RLF. NWRPDC gets many of its referrals through banks and they work closely to put together a joint lending package for businesses. WCWRPC prepares and sends monthly and annual activity reports to its partners and frequently gives presentations.

**Encouraging Entrepreneurs**

While less than half of all new firms survive their first few years of operation, it only takes a handful of successful and high-growth entrepreneurial businesses to have a huge impact on a small community’s economy.
The presence of a successful entrepreneur can result in new jobs, increased incomes, and add to local wealth. Successful entrepreneurs have the ability to connect small communities to a larger global economy.

Fostering entrepreneurship in rural regions is not an easy task. Remote rural areas are less connected to larger markets—local demand for products is limited and it is difficult to acquire resources. Compared to urban entrepreneurs, rural entrepreneurs tend to be smaller in size, less educated, and earn less. Eighty-five percent of rural entrepreneurs operate firms with less than ten employees. Less than a third of rural entrepreneurs have earned an associate, bachelor, or graduate degree, compared to half of urban entrepreneurs.

However, many entrepreneurs are attracted to rural areas because of the lifestyle and natural amenities. Often, they become entrepreneurs because of their desire to remain in a specific place. Without an entrepreneurial venture, they may be unable to find a job that matches their skill set in a rural area. Referred to as “lifestyle entrepreneurs,” these individuals are often willing to sacrifice growth for their lifestyle choice. A 2005 USDA survey found over 70 percent of rural high-knowledge producer-service firms cited natural amenities as an important factor in their location decision.

The biggest challenge a rural entrepreneur faces is access to capital. Like many small businesses, entrepreneurs have little collateral to secure a loan from traditional lending institutions. Larger financial institutions, if present in the region, are unable to take the risks of lending to a small entrepreneur. Venture capital or seed funding is often more appropriate, but difficult to find.

RDOs across the United States play an important role in fostering entrepreneurship. Some RDO’s, such as the

Region 9 Economic Development District of Southwest Colorado (Region 9 EDD), are identifying high growth companies and offering equity investments. The Southern Oregon Regional Economic Development Inc. (SOREDI) provides technical assistance to entrepreneurs including networking opportunities with angel investors.

Connecting Entrepreneurs to Angels in Southern Oregon

Many of Southern Oregon’s largest employers were once entrepreneurial small businesses, including organic food manufacturer Amy’s Kitchen (now 680 employees), jewelry supply and distribution center Fire Mountain Gems and Beads (500 employees), and specialty gift store Harry & David (2,000 employees). SOREDI, one of Oregon’s eleven EDA-designated EDDs, recognizes that entrepreneurial businesses grow the economy. For this reason, SOREDI is reaching out to entrepreneurs and providing them with the tools they need to succeed through their innovative network, Jefferson Grapevine, and the Southern Oregon Angel Investment Network.

SOREDI is a non profit organization with members representing over 100 private businesses, public utilities, and local governments. They provide resources for new and existing businesses in Jackson and Josephine counties. With a population of 291,000, the region is primarily rural, spanning 4,442 square miles, and is a five- to six-hour drive from major urban markets in Portland and San Francisco. Like many parts of the United States, unemployment in the region is on the rise and small business owners feel the impacts of a global recession.

SOREDI operates a classic small business development loan fund and has funded 192 loans totaling $14.3 million, retaining 736 jobs and creating 945 jobs since 1996. In addition, SOREDI provides access to business counselors, educational and professional development opportunities, policy support, and networking events. SOREDI also operates a robust business retention program where they reach out to over 150 businesses...
each year to provide technical assistance. SOREDI’s LEAN training provides peer-to-peer training to help local businesses run with greater profitability and less waste—both physically and logistically.

But to meet their job creation goals outlined in their Comprehensive Economic Development Strategy (CEDS), SOREDI needs more than their loan fund and technical assistance—they need entrepreneurs with big ideas. Ron Fox, Executive Director of SOREDI, says, “Southern Oregon needs growth in entrepreneurial businesses that will sell goods and services, bringing wealth back to the community.”

The Jefferson Grapevine
Partnering with the Small Business Development Center, the local chapter of SCORE, Southern Oregon University, and Rogue Community College, SOREDI developed the Jefferson Grapevine in 2007, a program that provides technical assistance and resources while helping entrepreneurs connect with investment opportunities. Jefferson Grapevine began as a “pub talk” at a local brew pub where partners presented the basics of early stage equity investing to aspiring entrepreneurs. Now, with private sector sponsorship, the Grapevine holds bi-monthly events for 50 to 60 entrepreneurs, potential investors, and related professionals such as accountants, lawyers, marketing experts, or financial advisors.

Entrepreneurs need to build a network of social, business, and strategic resources to grow. Ron Fox says, “It takes a whole circle of players to grow a business.” Being a part of a network like Jefferson Grapevine can help entrepreneurs identify new sources of capital, skilled employees, partnerships, and business services. Through networking at the bi-monthly Jefferson Grapevine event, attendees participate in peer-to-peer training as they pitch their business ideas to each other. Source: SOREDI

Jefferson Grapevine, aspiring entrepreneurs exchange ideas and information while making valuable connections with local professionals or potential investors.

The bi-monthly Jefferson Grapevine events stretch two and a half hours at a local vineyard. The first hour of the event is dedicated to serious networking allowing entrepreneurs and business professionals to make connections. The second part of the event includes a learning module where successful entrepreneurs are invited to present their experience—how they developed their idea, how they obtained funding, or what they would do differently. The training during this event is intended to build managerial and technical skills necessary to succeed as an entrepreneur. Presenters may also include financial specialists or lawyers to instruct entrepreneurs on the steps they need to take to form a successful business venture.

In addition, aspiring entrepreneurs are selected to pitch their business ideas to the group. During the session, aspiring entrepreneurs receive advice on how to turn their idea into a viable business and what they need to make it happen. To be selected to give a business idea pitch, an entrepreneur’s business plan is reviewed and selected by
the Jefferson Grapevine Vetting Committee—a group of successful entrepreneurs and investors.

In conjunction with the bi-monthly Jefferson Grapevine events, SOREDI provides one-on-one assistance to entrepreneurs through their Business Recruitment and Retention Committee (BRR). SOREDI has recruited a cadre of professionals including financial experts, marketing experts, CPAs, and lawyers to provide pro-bono counseling to entrepreneurs and small business owners. The BRR team helps entrepreneurs identify needs and flesh out a viable business plan.

SOREDI developed strong partnerships with local economic development organizations including the Sustainable Valley Business Accelerator, the Small Business Development Center, Business Oregon, Southern Oregon University, and Rogue Community College. Members of these organizations attend Jefferson Grapevine events, but also provide valuable resources to aspiring entrepreneurs. For example, the first five participants in the Sustainable Valley Business Accelerator were members of Jefferson Grapevine and finalists of SOREDI’s Angel Competition. The Accelerator provides start-up businesses with business advice and access to a 1,600 square foot office space.

In addition to a $20 registration fee for events, the Grapevine is funded mostly through private sector sponsorships including the Bank of the Cascades, US Bank, Pacific Power, Rogue Regency Inn, and Project A. SOREDI has a small staff of four full-time and one part-time employee, therefore the organization relies heavily on volunteers to support events. SOREDI does have a part-time marketing expert on staff, but Jefferson Grapevine has expanded by word of mouth.

Angel Conference and Competition

Jefferson Grapevine is a valuable resource for aspiring entrepreneurs but it stops short of connecting them to investors. Encouraged by SOREDI, a group of 26 high net-worth individuals formed the Southern Oregon Angel Network 2011, LLC. With the Angel

Folium Partners won a $300,000 equity investment at the 2011 Southern Oregon Angel Conference. Source: SOREDI

Folium Partners is Recognized by Angels

Folium Partners, selected by the audience as the wildcard participant in the Southern Oregon Angel Conference, was selected among eight aspiring entrepreneurs to win a $155,000 equity investment. Recognizing their potential for success, members of the Southern Oregon Angel Network 2011, LLC increased their investment commitment to a total of $300,000. Ron Fox, Executive Director of SOREDI, says, “It was the largest first round angel investment commitment made in Oregon.”

Folium Partners, founded in Ashland, Oregon, is making waves in the software industry by creating interactive media applications for electronic devices such as the iphone and ipad. Started with four partners developing a few applications a week, Folium Partners now develops over 600 new applications a month. In October 2010, Folium Partners launched Modern Book Factory, an application that allows users to record their own audiobook. Using their enhanced Audio Framework, the audiobook can be set to images, visuals, or an interactive game in its own iPhone or iPad application. Modern Book Factory is designed to help new and aspiring authors publicize their work by allowing them to sell their audiobook in the Apple iTunes App Store.

One of the biggest challenges Folium Partners has faced is increasing capacity to keep pace with their rapid growth. The investment won in the Southern Oregon Angel Conference will help them do just that—Folium Partners plans to increase their staff from nine to seventeen employees over the next year. Using networks developed in the community, Folium Partners hopes to recruit new staff from the local Southern Oregon University’s computer science program.
Network, SOREDI developed the Southern Oregon Angel Conference featuring a competition for entrepreneurs to obtain an equity investment.

The first Southern Oregon Angel Conference was held in March 2011 as a vehicle to connect angel investors to entrepreneurs. Thirty-one aspiring entrepreneurs from the region submitted their applications to compete for an estimated $155,000 equity investment. Prior to the event, the Southern Oregon Angel Investment Network reviewed the applications and selected four finalists and four wildcards. The eight aspiring entrepreneurs competed for the prize by presenting their business idea and plan at the conference.

The conference is designed as a half-day event. The event is kicked off with 10-minute presentations from each of the four finalists and two-minute presentations from each of the four wildcards. The audience votes one of the wildcards to become the fifth finalist, giving that entrepreneur the opportunity to make a 10-minute presentation. In addition to a full program of speakers, successful entrepreneurs and investors lead roundtable critiques of the five finalists.

Angel investors, who remain anonymous, meet privately to select the winning entrepreneur. At the March 2011 event, the prize was awarded to Folium Partners, a start-up company that creates interactive applications for smart phones. During their negotiations, members of the Angel Network agreed to increase their investment by purchasing additional shares in the LLC. The final award made to the company was a $300,000 equity investment—the largest prize offered compared to similar events in Oregon.

The Angel Conference is primarily funded by sponsorships. Each entrepreneur pays an application fee and investors pay a fee to join the LLC—which pays for their tickets. Plus the public pays $99 a seat to attend the conference. SOREDI found sponsors for specific aspects of the event, such as for the audio-visual audience voting system or for the keynote speaker.

**Identifying Angels**

SOREDI recruited a group of high net-worth individuals with a passion for economic development to form the Southern Oregon Angel Investment Network. Mostly first time angel investors, network members are required to make a minimum investment of $5,000 and an additional $250 for legal fees to form the limited liability corporation (LLC). The investors essentially purchase shares of an LLC, which are then invested in the winning enterprise. If the investors are interested to contribute more, they purchase additional shares in the LLC.

**SOUTHERN OREGON Angel Investment Network**

The Oregon Department of Treasury agreed to invest $25,000 of capital as a non-voting member in the 2011 LLC, and contribute the same amount to the state’s other angel investment networks as well. While angel networks are not their typical venture, the State Treasurer understands it will impact the Oregon economy.

There are a number of angel investment networks across the United States, but few use the format developed by SOREDI. Some angel investment groups focus primarily on profit returns and not local economic development. When the Southern Oregon Angel Investment Network reviews applications for the competition, they consider the number of jobs the enterprise will create and how it will benefit the community. In addition to the investment, the team agrees to remain involved with the entrepreneur to provide advice and support.

Steve Vincent, Founder of the Southern Oregon Angel Investment Network, says, “Most of our angel investors were once very successful entrepreneurs in the community who now want to help the next entrepreneur grow, succeed and profit.”

In the best cases, an investment into an early start-up company will last five to ten years concluding with a liquidity event. The company could be bought by a larger company, go public, or attract a second round of investments. If a liquidity event occurs, the investment plus a return will be distributed to the LLC members and the LLC will be dissolved. For this reason, a separate LLC will be created every year for each investment event.

SOREDI is currently recruiting for their next Angel Conference in April 2012. Steve Vincent, a SOREDI board member who manages the administrative functions of the Angel Network, expects 20 of last year’s 26 investors will return for the 2012 event. The 2011 Angel Conference gave the network a lot of visibility, increasing awareness among investors. Plus, it is attractive to potential investors because the investments are small compared to other angel investment networks and they will have an impact on their community.
SOREDI partnered with the Portland-based Oregon Entrepreneurs Network (OEN), an organization that provides workshops and training for entrepreneurs seeking capital and to potential angel investors. Before the 2012 Conference, the investors will be invited to attend three to four events with OEN. The events will cover topics such as conducting due diligence of a company, how to structure a deal, and how to do a valuation of a company. The training will also provide angel investors with some background in economic development principles.

**Next Steps**
In addition to continuing the success of Jefferson Grapevine and the Angel Conference, SOREDI plans to reach out to smaller family businesses that are going through a liquidity event or ownership transition. By developing a better understanding for the challenges a business faces during a transition, SOREDI hopes to provide counseling and support to keep their local businesses strong.

Ron Fox points out that SOREDI’s success with Jefferson Grapevine and the Angel Competition is a result of their partnerships. Entrepreneurs do not only need equity, they also need counseling and support. SOREDI’s partnerships with OEN and volunteer consultants are helping them provide entrepreneurs with the services they need to survive. Fox says, “Rather than creating turf battles, we need to work together.”

**Southwest Colorado Growth Company Initiative**
Region 9 EDD, an EDA EDD, embarked on an innovative initiative to foster entrepreneurial growth in their region. Nestled in Colorado’s scenic mountainsides, Region 9 EDD promotes and coordinates economic development efforts in Archuleta, Dolores, La Plata, San Juan, and Montezuma counties. The Growth Company Initiative (GCI) was formed through a partnership with Fort Lewis College School of Business, the Southwest Colorado Small Business Development Center, and county economic development organizations to support both emerging and second stage local growth companies (GC’s). The GCI includes the CEO Peer Network, the Business Advisor Network (BAN), as well as access to equity financing.

Twenty-four GCs currently participate in the Growth Company Initiative. While the identity of GCs remains
Growing Spaces Achieves Growth

Udgar and Puja Parsons founded Growing Spaces, LLC, a growth company located in Pagosa Springs, Colorado. The company has produced and sold more than 1,200 of their signature product—the Growing Dome. Available in a variety of sizes, the Growing Dome is a natural solar-sufficient greenhouse designed to keep an eco-system alive all climates. Growing Domes can be found at farms, in backyards, behind schools, and in community gardens in more than 48 states and 11 countries.

Growing Spaces is one of 24 growth companies identified by Region 9 EDD’s GCI in Southern Colorado. Started as a family operated business in 1995 in their two-car garage, Growing Spaces now employs 22 people with a 5,000 square foot facility. Owners Udgar and Puja Parsons are active in GCI’s CEO Network where they share experiences and ideas with other GC CEOs. Additionally, Growing Spaces uses the services provided by BAN. With 30 percent growth rate in the last three years, Growing Spaces was named a Colorado Company to Watch in February 2011.

As Growing Spaces continues to grow, they plan to continue to enhance their product and broaden their reach to new farms/growers, educational facilities, and communities. The company will remain a leading promoter of sustainable and healthy living by encouraging communities to grow organic food year-round using renewable energy.

confidential, the 24 firms employ a total of 887 full-time equivalents in the region, 56 percent of which are paid above their respective county’s average wage. Six of the 24 GCs were recognized by the Edward Lowe Foundation’s Colorado Companies to Watch.

GCs are invited to participate in the CEO Network, a peer-to-peer networking group developed by the GCI that has grown to be self-driven by its three-member executive committee; all members are CEOs of GCs. The Network provides a platform for GC CEOs to share challenges, successes, and resources. At their meetings, the CEOs listen to guest presentations or discuss relevant topics such as health benefits, company valuation, human resources, or accessing financing. The relationships fostered through the network are a successful resource for GCs both inside and outside their meetings. This group has also been used by the community for business input on programs and the reorganization of the local economic development group.

The Business Advisor Network (BAN), a program developed by the Small Business Development Center and Fort Lewis College, provides GCs with one-on-one counseling and training; access to the BAN is available to companies at all stages of growth. BAN is a group of 30 retired or active business professionals with expertise in accounting, finance, marketing, management, or other areas helpful to an entrepreneur. In 2010, BAN provided 923.2 hours of client interaction to its clients. Access to market research is also available to GCs through the databases that have been added as part of the GCI’s/SBDC economic gardening services.
Desert Sun roasts organically grown, fair trade beans bought directly from small scale farms from 12 to 14 different countries. Launched in 2004 and based in Durango, CO, the company has less than 10 employees and sells its products on a wholesale basis. Desert Sun is a Region 9 EDD loan fund program recipient, has utilized the Small Business Development Center Business Advisor Network (BAN), and participates in the CEO Network.

StoneAge is recognized as a world leader in providing tools and equipment for water blast cleaning, and specializes in mechanized equipment and rotary nozzles. StoneAge is 100% employee owned and retains over 60 people on its payroll. StoneAge CEO Kerry Petranek is a leader in GCI’s CEO Network.
According to the GCI, growth companies have about 15 percent growth per year, offer innovative products or services, demonstrate a sustainable competitive advantage, possess a significant number of above average wage jobs, and compete outside of the region–usually nationally or globally.

Using these criteria, Region 9 EDD and the GCI partners developed a 25-question survey to identify and reach out to potential GCs for inclusion in the program.

The GCI is continuing to grow to meet the unique needs of GCs, which includes connecting them to equity capital. Region 9 EDD has made a few equity investments and is open to pursuing future deals with GCs. The Animas Venture Group, a component of the GCI, consists of angel investors interested in supporting the region’s small businesses and entrepreneurs; however, to date they have not made an investment.

Region 9 EDD Business Development Specialist Cassie Alexander explained the importance of GCs from an economic development standpoint, stating, “Supporting these companies is not only about the jobs but these companies serve markets outside the local economy, bringing new wealth to the region.”

Public Loan Funds in West Texas

The South Plains Association of Governments (SPAG) in West Texas, an EDA-approved EDD, is making a big impact on their 15-county region by lending to small businesses. Starting in 1987 with a grant from EDA, SPAG now operates an $8.09 million RLF and is certified to administer SBA 504 and SBA 7(a) loans through the Caprock Business Finance Corporation. In a region of 440,000 people, SPAG has helped create and retain almost 6,000 jobs since its inception.

SPAG’s region stretches over 13,000 square miles with 60 percent of its population in Lubbock County. With the closure of the Reese Air Force Base in 1997 and the continued mechanization of the region’s primary industry–agriculture, West Texas is shedding jobs and population. SPAGs loan officer Lance Bowman says, “To be able to create or save jobs in our region is a big deal.”
SPAG’s RLF began with $1 million from the EDA RLF Program and a $500,000 EDA Defense Adjustment Grant for the closure of the air force base. SPAG matched the funds, increasing the RLF to almost $2 million. As borrowers repay their loans, their principal plus interest is returned to SPAG to fund future loans. Since 1996, SPAG has made 61 loans and the fund is now four times its original size.

The EDA RLF Program provides intermediaries such as EDA-approved EDDs like SPAG with funds to start lending. As of March 2009, EDA administered $852 million to more than 450 recipient organizations to operate RLFs across the United States.\(^\text{15}\) The recipient organizations make loans to small business and entrepreneurs at a competitive or below market interest rate. As loans are repaid, the interest and principal are used to make new loans. Funds can continue to revolve in the market in perpetuity.

The borrowers of SPAG’s RLF are small and new businesses in the 15-county region. The funds can be used by the borrower for a variety of needs to grow or start a business including the purchase of fixed assets, financing working capital, consolidation of accounts payable, and machinery or equipment. In the past, SPAG has made loans to hotels, a fitness center, car wash, dairy farms, a cement plant, and funeral homes. The only internal policy SPAG created is that they will not lend for rolling stock such as trucks or cars.

The RLF does have to adhere to federal restrictions set by EDA no matter how many times the funds revolve. For every $10,000 loan made, one job must be created or saved. SPAG has not had difficulty achieving this goal with their borrowers, as evidenced by a single borrower who added 35 jobs to their local economy by expanding and renovating a school for orphans.

There is also a restriction on the amount businesses can borrow from the RLF. SPAG can finance up to one-third of the project’s cost, not exceeding $200,000. In other words, two of every three dollars must be provided by the borrower’s equity or a private lender. On average, SPAG’s borrowers provide 10 percent of the project cost in private equity, the remaining 65 percent is provided by a commercial lender. SPAG maintains a close relationship with the region’s private banks for referrals and partnerships.

SPAG expanded its efforts to impact the community by creating the Caprock Business Finance Corporation, a separate non profit entity certified to underwrite, originate, and service SBA 504 and 7(a) programs. Creating the Caprock Business Finance Corporation also allowed SPAG to expand its reach into five additional counties south of their region. To date, Caprock has made 220 loans at $87 million, creating 5,100 jobs—an enormous impact for their region. Once SBA 504 loans are closed, Caprock services the loan for a fee collected from the borrower with their monthly payment.

SBA 504 Development Companies may provide up to $1 million ($1.3 million if the borrower qualifies as a minority or female owned business) to finance a company’s fixed assets such as the purchase of land, a building, machinery, or equipment. The $1 to $1.3 million only includes the SBA portion of the loan; the business can borrow up to $2.25 million to $2.92 million combining the private sector portion and SBA portions. A private lender, usually a commercial bank, will provide up to 50 percent of the financing combined with 40 percent from SBA and 10 percent from the borrower. SBA requires SPAG to calculate the borrower’s equity to make sure they are contributing the maximum available. If the borrower’s project is a new business, more than 10 percent equity is required.

Loan terms are generally between 10 and 20 years at a fixed interest rate. When a loan is closed, it is bundled into a bond with other SBA 504 loans issued that month. Because it is federally backed, the bonds have a perceived lower risk making it desirable to private investors. The interest rates for the loans are determined by the price the bond can achieve plus a yield spread to cover the SBA’s overhead requirements and Caprock’s servicing fees. However, the rates are still generally below the market rate to reach underserved or disadvantaged borrowers.

Partnering with SBA 504 loans is attractive to commercial banks in the recent economic climate. Commercial banks are typically more risk averse and have tightened their credit requirements. In many cases, coupling a SBA 504 loan with a private sector loan enables a commercial bank to lend to a small business that otherwise would not qualify. In addition, commercial banks qualify for Community Reinvestment Act (CRA) credit by joining with the SBA 504 program.
For the SBA 504 loan program to be successful, SPAG maintains a strong partnership with commercial banks in the region. SPAG reaches out to banks on a regular basis to inform them about the SBA program and their RLF. Lance Bowman says, “Marketing the products is extremely important because a lot of bankers are not familiar with them.” SPAG’s two dedicated lending staff schedule regular meetings with the region’s bankers.

SPAG attends and presents at events held by the SBA to train commercial lenders at least twice a year. In addition, SPAG hosts events in their offices to meet lenders. SPAG partnered with an environmental engineering firm to provide information on environmental reports to lenders. While the event was not centered on SBA lending, it allowed SPAG an opportunity to meet and maintain relationships with commercial lenders.

The Caprock Business Finance Corporation also packages applications for commercial banks to the SBA 7(a) program. SBA 7(a) provides commercial lenders with a direct guarantee of up to 75 percent of a loan. To qualify for the SBA 7(a) program, the borrower must be for-profit and meet SBA’s use and size standards to qualify as a small business. The SBA 7(a) application process can be tedious and Caprock’s services offer an incentive for commercial banks to use the program. Bowman says, “Doing the SBA lending packaging helps free up banks to do other business.”

Rather than provide direct technical assistance to borrowers, SPAG partners with organizations to provide this service. SPAG often refers borrowers to local Small Business Development Centers (SBDCs) that help potential borrowers to develop a business plan and provide counseling. Likewise, the SBDCs refer small business owners to SPAG when they are seeking a loan. SPAG also joins with the SBA to provide technical assistance in the most rural parts of the region twice a year. The programs are geared towards business owners or aspiring business owners.

For a large rural region with a dwindling population, SPAG has made an impact. SPAG has made loans to businesses that are valued at $225 million. As a result of their programs, small businesses are able to open their doors, bring new employment opportunities, and create wealth in West Texas. As a secondary benefit, new and expanding businesses are increasing the local tax base.
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Endnotes

1. United States Small Business Administration Website: SBA.gov. GDP refers to private, non-farm gross domestic product.
11. SOREDI Website: www.SOREDI.org
12. SOREDI Website: www.SOREDI.org
15. Economic Development Administration vs Economic Development Agency Website: About the RLF Program. (Website: http://www.eda.gov/PDF/RLFWorks.pdf)
About the NADO Research Foundation

Founded in 1988, the NADO Research Foundation is the nonprofit research affiliate of the National Association of Development Organizations (NADO). The NADO Research Foundation identifies, studies and promotes regional solutions and approaches to improving local prosperity and services through the nationwide network of regional development organizations. The Research Foundation shares best practices and offers professional development training, analyzes the impact of federal policies and programs on regional development organizations, and examines the latest developments and trends in small metropolitan and rural America. Most importantly, the Research Foundation is helping bridge the communications gap among practitioners, researchers and policy makers.

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