

# Creative Financing to Support Businesses & Build Back Better

*Howard Pierpont*





# Small Business Financing – “No small Job”



# Small Business Financial Challenge

- Small business owners will do anything to remain independent
- They'd prefer to deplete their personal savings, borrow from family and friends, take out second mortgages on their homes or max out credit cards to stay afloat
- They'd love a grant

## THE FACTS:

- What's most available are loans
- If they don't get some financial help they may fail.



# Grants & Loans

- Government usually can't give money to existing businesses, but can create "forgivable loan"
- A good option is a "gift" from a foundation, but most foundations don't give money to businesses
- You can set up a local foundation specifically for disaster recovery



# Example: Communities creating their own financial vehicle

- **Bastrop County, Texas** – pop. 75,000
- Thousands of acres burned in wildfires in 2001, 2015, then floods and a tornado
- Worked with United Way, then set up local 501(c)3 to raise money that could be used to help residents and small businesses
- Opened a recovery center in October 2015
- Created a website where people could donate, volunteer or get information  
<http://www.bastropcountylongtermrecovery.org>



# Example of the burden of disasters - Small Business

- In the 2008 floods in Cedar Rapids, local businesses experienced \$120 M of new debt, while suffering revenue losses of more than 40%!



# Small Business Financing

## Bridge Loan Program

- A bridge loan provides no-fee financing with flexible terms so that businesses can have quick access to working capital
- Should be made available within the first few weeks



# Small Business Financing

## Forgivable Loan

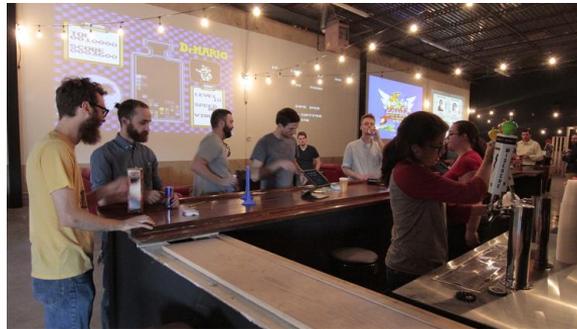
- Loans are forgiven if a business reopens within 12 months of receiving the loan
- Businesses must have already obtained a disaster loan from the SBA, or another federal- or state-chartered financial institution



# Example: Small Business Financing- Tennessee

## Forgivable Loan Program

- Officials at the Greater Memphis Chamber and the Finance Committee for the Economic Development Growth Engine (EDGE) partnered with Inner City Economic Development (ICED) to provide loans to Memphis.
- ICED financed multiple businesses in Memphis with up to \$25,000 for improvements inside and outside of their buildings.



*Memphis business that received a forgivable loan.*

<http://www.bizjournals.com/memphis/news/2015/09/02/edge-finance-committee-approves-inner-city-loans.html>



# Small Business Financing

## Revolving Loan Fund (RLF)

- Funds often established to provide alternative financing to businesses that wouldn't qualify for loans by private financial sources
  - RLFs can be established using federal funds or by local and state funds

Do any of you have an RLF?  
Can you explain how it is used?



# Federal Sources for Community Assistance

## Community Development Block Grants for Disaster Recovery (HUD CDBG-DR)

- Presidentially-declared disaster areas and low-income communities
- The grants can be used for a variety of functions, including housing, economic development, infrastructure, and prevention of further damage



# Example: Use of CDBG funds used with other sources

## Two 100-year flood events – 1993 & 1995

Same 100+ homes damaged

114 properties purchased since 1995

Creative cost-share

- FEMA
- CDBG
- State General Revenue
- City of Cape Girardeau
- The Salvation Army, Midland
- Interfaith Disaster Response
- Program income

Open space became public park

### Post-acquisition benefits

- 2002 flood – only 8 homes affected
- 2008 flood – no homes affected



*-Andrea Booher/ FEMA*  
Cape Girardeau, Mo., March 27, 2008  
Four year old Alison Schaefer and her doll,  
Delana, stand in a park near their home in  
Cape Girardeau.



Example:  
Use of  
CDBG funds  
used with  
other  
sources

A.O. Smith Water Products Company, Ashland City, TN



Residential water heater  
manufacturing plant

1.5 million sq ft facility

1, 335 direct employees

\$830,000 property tax / water  
revenue

\$66 million estimated flood  
damages

Relocation → Revenue Loss >  
\$105 million

(municipalities, state, region)



# Example: Use of CDBG funds used with other sources

## **A.O. Smith Water Products Company, Ashland City, TN**

- State-led A.O. Smith Task Force of 16 local, state and federal partners created
- Five weeks later A.O. Smith accepted a retention package totaling more than \$66 million, including tax credits
- \$32 million interruption insurance
- \$34 million pre-tax loss - \$.68 per share write-off
- Continued technical assistance, including mitigation and sustainability, from members of the Task Force
- Reconstruction continues today – Regulations
- Army Corps Engineers – designing and overseeing berm



Example:  
Use of CDBG  
funds used  
with other  
sources –  
Waterbury VT



Example:  
Use of CDBG  
funds used  
with other  
sources –  
Waterbury VT

- Whole Community Participation
  - Residents
  - Town Select Board
  - Village Trustees
  - State – FEMA – CBDG – Insurance
  - Municipal employees
  - Business owners
  - Local developers
  - School officials
  - Not for profits
  - Historical preservation & Environmental groups



# Example: Use of CDBG funds to transform damaged Gulf Coast Communities

- **City of Gulfport** used post-storm money to inject new life into the downtown with facades, landscaping, public park and infrastructure improvements





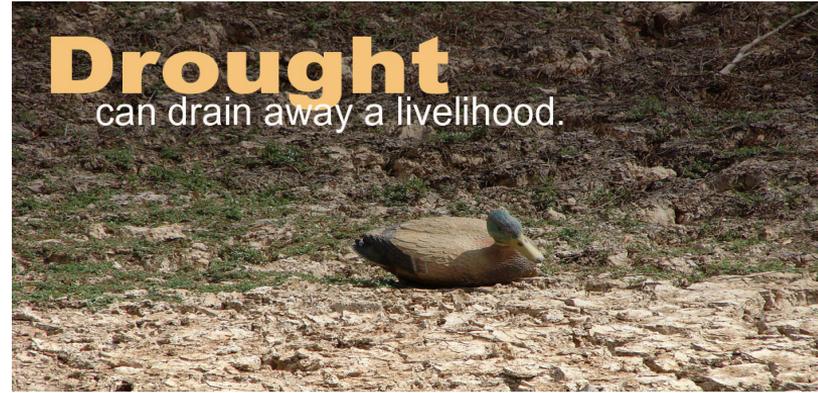
# Federal Sources for Small Business Financing

## USDA's Rural Development Disaster Assistance

- For post-disaster community economic recovery purposes that fall within three categories of business programs:
  - revolving loan funds
  - technical assistance
  - commercial lending
  - energy programs



# Federal Sources for Small Business Financing



USDA Rural Development also provides guaranteed loans to enhance the “economic climate” of rural communities by generating or maintaining employment





# Federal Sources for Small Business Financing

## U.S. Small Business Administration (SBA)

- Low interest loans to homeowners, renters, businesses of all sizes, and private, nonprofits
- Loans for repair or replacement of property, machinery, equipment, inventory -- business assets damaged or destroyed in a declared disaster



# Federal Sources for Business Financing

## U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund

- 2 funding options : Technical Assistance awards and Financial Assistance awards.
- Used to promote economic development, job creation, and development of businesses and commercial real estate





National  
Emergency  
Grant

## Federal Sources

# Department of Labor's Employment and Training Administration's National Emergency Grants (NEGs) for Disaster

- Funding for workforce support:
  - Single company layoff of 50 or more
  - Multiple company layoffs, where 50 or more workers from each company are dislocated
  - Industry-wide layoffs
  - Layoffs affecting an entire community where there are multiple small dislocations (50 workers or less)



# Use of National Emergency Grants (NEGs) after Hurricane Isaac

- In 2014, Louisiana received \$1.1 million in grant funding to continue Hurricane Isaac recovery efforts in Louisiana. This was in addition to \$2.2M received in 2012.
- Out of work citizens were paid to help with the cleanup, easing employment pressures when businesses were shut down
- 55 of the state's 64 parishes were eligible for Public Assistance





## Federal Sources to help the community

# Economic diversification resources

- Office of Economic Adjustment planning assistance
  - Economic impact of defense reduction must be significant
  - Must be a direct and significant economic effect
    - 2,500 jobs for a Metropolitan Statistical Area (MSA)
    - 1,000 jobs for a non-MSA area
    - 1% of the area labor force



When the  
issue is  
Major  
Industry  
Losses

Support is often available  
from these federal  
agencies:



# Federal Sources for Small Business Financing

## IRS: Assistance and Emergency Relief for Individuals and Businesses

- Taxpayers affected by a presidentially-declared disaster can get tax relief
  - Postponement of tax filing
  - Claim losses on previous year taxes
  - Businesses in a federally declared disaster can get a faster refund by claiming losses related to the disaster on the tax return for the previous year, filing an amended return



# Small Business Financing

Questions?

