

Wallace G. Austin

Capstone Project

The Revolving Loan Program

A Great Source of Capital

September 23, 2014

The Economic Challenge

This project will address the sustainable challenge businesses face trying to obtain capital to start or expand their business. This project will showcase one owner who his bank put him in business but would not loan him more money to expand. He was stuck in place and could not grow until he discovered another source of capital, the Revolving Loan Fund. During interviews with many individuals who had great ideas about starting a business but they could not procure the capital needed to get started. One lady was a retired business teacher that had moved into our area and wanted to start a tourism- related business. She had banked with a national bank for years (having home and car loans). She had purchased 9 acres of land directly across from a state recreation area and wanted to borrow \$250,000 to build a convenience store and two rental cabins for hunters and hikers. She went to her bank for the loan and was told they did not offer start-up loans. She then went to a locally owned bank and was told since her collateral was out of state, they could not provide her the loan. She ended up building a small 24 x 24 building and opened her Trading Post. This lady is an example, she had education, collateral, and a great business plan but could not get the capital she needed in order to start a business like she had planned.

After the recession in 2008 and the passage of the Dodd-Frank Act, additional regulations were put in place on national and local banks, credit requirements were increased and capital for expansions became increasingly hard to obtain. Capital for start-ups at banks dried up almost completely.

When the opportunity to work for the Cumberland Area Investment Corporation (CAIC) as Program Director, became available it was an opportunity to help address the challenge of capital for economic development. CAIC manages the revolving loan fund for The Upper Cumberland Development District. CAIC gets funds from two main sources: USDA and EDA. EDA provided a grant to CAIC for \$1.5 million dollars to help create jobs in the 14 upper Cumberland counties. USDA loans CAIC funding through their Intermediary Relending Program (IRP). USDA loans CAIC funds on a 30 year term for 1% interest. CAIC re-loans the funds and operate on the spread. CAIC has borrowed \$2.75 million from USDA and has an application pending for another \$1 million. CAIC's mission is to help create jobs in our region by providing capital to businesses who are expanding or just starting.

The Project

This project will take one company and show the challenges faced by the owner when he wanted to expand his business. It will also show how CAIC is using the revolving loan program to address these challenges, and how the lessons learned can assist the region's entrepreneurs in gaining start up and expansion loans.

The company is Triple C Machine & Fab. and is owned by Jason Cantrell. Jason is a native of Overton County. He went to the local TN Center of Applied Technology and studied tool & die.

In 2012 he borrowed \$150,000 from a local bank to purchase a building and equipment needed to start his tool & die business. In 2013 Jason needed to add more equipment in order to better serve his customers. He went back to the bank but the bank didn't feel comfortable loaning him more capital. Jason went to see Overton County Executive, Ron Cyrus and Livingston-Overton County Chamber of Commerce President, Greg McDonald. Jason told them he was trying to expand and add more jobs but couldn't get the capital. Ron Cyrus served on the CAIC Board and wanted to know if the program could help Triple C.

Triple C Machine & Fab's First Expansion

A meeting was held on March 22, 2013. Triple C Machine needed to purchase 2 more CNC machines and add 6,000 square feet of manufacturing space. He needed \$250,000 in capital to expand his business. At that time he had 8 employees, with the additional capital he would be adding another 12 employees. Jason asked if the community could do anything to help him with this expansion. There was a discussion about a Payment in Lieu of Taxes (PILOT) on his personal property. Overton County had never done a PILOT program before and asked for help with the PILOT program . Mr. Cyrus accepted our offer of assistance in this effort.

A follow up meeting was held to discuss the terms of the loan with us, \$250,000 for 15 years at 4.25% fixed rate. Jason could plan on what this payment would be for the next 15 years. His business and personal tax returns for the past 3 years, personal financial statement, credit report, and copy of the appraisal on property was obtained for the loan committee meeting.

Triple C Machine & Fab 's Payment in Lieu of Taxes

A meeting of the Overton County IDB was held on April 4, 2013. An explanation of how the PILOT Program worked and how it could help Triple C was presented. They offered to set his PILOT at what his current Personal Property Tax bill is, which allows him to add the additional equipment and employees without increasing his tax liability. Triple C agreed to title the equipment in the IDB's name for the period of the PILOT. The IDB agreed to lease the equipment to Triple C for the period of the Pilot with the equipment reverting back to Triple C at the end of the PILOT. The IDB agreed to recommend to Overton County a five year PILOT for Triple C, at the end of the 5th year if Triple C has 20 employees the PILOT will automatically be extended for another five years.

Overton County had never done a PILOT before so a sample resolution and lease agreement was provided for them to go by. Working with the County Executive on many questions he had on moving the PILOT forward. The Overton County Legislative Body approved the PILOT as recommended by the IDB for Triple C Machine & Fab at their May meeting. The PILOT went into effect with taxes due 2013 and will run through 2018.

CAIC's Loan Committee Meeting was held on April 16, 2013. The financial information on Triple C Machine & Fab; Tax Returns, balance sheet, list of equipment, and copy of appraisal on commercial property. Personal financial information was provided on Jason Cantrell including

personal financial statements and credit report. As collateral for the loan a UCC1 on all equipment, 2nd deed of trust on commercial property, personal guarantee from Jason Cantrell, and assignment of life insurance on Jason for the amount of the loan.

The Loan Committee conditioned the loan in that they wanted a bid from a licensed contractor on construction, copy of all invoices on the equipment, and a list of all Triple C's Customers. They didn't feel there was enough collateral for the loan requested.

Jason meet later with CAIC officials and the loan was reduced to \$150,000 to purchase 3 new CNC machines and 1 lath machine. Copies of invoices for all equipment was obtained and Jason is to build the additional square footage as he can. He will add 15 new employees with average pay of \$15 per hour.

The Loan Committee approved the new loan 6/19/2013 for \$150,000 for 10 years at 4.25% fixed. CAIC Board of Directors approved Jason's Loan on 8/20/2013. Jason was then able to purchase the equipment he needed for his expansion and start adding additional employees. Jason was very thankful for the help he received in doing his expansion. He became discouraged during the process but didn't quit. It takes a special person to risk everything for a dream and not give up when the going gets tough. Things didn't go like Jason thought it would or should but he kept on working and was willing to adjust to make it work.

Triple C Machine & Fab's Second Expansion

Ron Cyrus County Mayor asked for another meeting with Jason Cantrell as Jason was needed to expand again. A meeting with Jason was held on 7/08/2014. At that time he needed to add 1,860 sq. ft. of manufacturing space, 2 more CNC machines, 1 CNC lath, and 2 knee mills. This would be a \$425,000 total project and he needed to borrow \$300,000. He now has 22 employees and would need to hire 15 more. His business is really growing and he needs the additional space and equipment to keep up with his customer demand.

A loan committee meeting was held on 8/13/2014 where another expansion loan was presented to the committee. Triple C needed to borrow \$300,000 from CAIC to go along with the \$125,000 Jason was putting into the expansion. He would be adding 1,860 Sq. Ft. of manufacturing space, purchasing 2 new CNC machines, 1 CNC lath, and 2 knee mills. He would be adding 15 more jobs with an average wage of \$15 per hour. The collateral would be 1st position on all the equipment and 2nd position on the property, personal guarantee from Jason Cantrell, and assignment of life insurance for the amount of the loan on Jason. The loan committee wanted the loan to be no more than 80% of equity Jason has in the property. The equipment would be a bonus to that. Jason's home/farm has an appraised value of \$880,000 and he owes \$300,000. He agreed to allow CAIC to take a 2nd mortgage on his home/farm. Once again, Jason showed he is willing to do what it takes to be able to get the capital to expand his business.

CAIC Board of Directors approved Triple C's Loan on 8/19/2014. They approved \$300,000 for 15 years at a fixed interest rate of 4.75. Triple C has started their latest expansion, and they have contracted with a licensed contractor to add the additional manufacturing space. They have ordered their equipment and hired 3 more employees.

Lessons Learned:

In working with Triple C Machine & Fab. the information learned from three TCED courses; Tennessee Entrepreneurship & Small Business Development, Tennessee Economic Development Finance Course, and Tennessee Business Retention and Expansion Course. Where vital in the positive outcome for Triple C Machine & Fab and Overton County. Triple C was able to get the capital they needed to expand. Overton County got additional jobs with above average wages.

The Entrepreneurship course talked about the traits needed to start a business, these are the same traits that Jason has the drive, the ability, and willingness to take risks. These are the traits takes to start a business in today's economy. Jason completed his Tool & Die certification and could have made a good living working for another company and continuing to farm on the side, but he decided to risk everything to go into business for himself. He started Triple C Machine & Fab.

In the Retention & Expansion course pointed out that good communities grow their economies in three primary areas; entrepreneurial development, business recruitment, and business retention/expansion. This information was used to address the Overton County IDB. They had a

young entrepreneur who had started his business about one year ago and he was needing to expand and purchase more equipment to meet his customers' demands. They could help him and show him they were willing to work with him by recommending to the County Legislative Body that they grant him a PILOT equal to what he is paying now, allowing him to add the additional equipment and jobs without increasing his personal property liability. This would show Jason they were doing all they could legally do to help him expand. The County Legislative body approved the PILOT and gave him an incentive that if he reach 20 employees in 5 years they would extend the PILOT for another five years automatically. Statics show that 85% of new jobs come from expansions, and this is certainly true in our region. Working with growing companies like Triple C is a win for all parties.

This project points out the most important role in economic development is the matching of financial resources to the needs of the company. Capital greases the wheels of economic development. Projects have to have capital to move forward. In Jason's case he would not have been able to expand and create jobs if not for the revolving loan program. He had reached out to his bank but they didn't want to loan him any more money than they had already loaned him. To the bank, the risk of loaning him any more money was greater than any reward. Their job is not creating jobs, it's making sure they get all their money repaid. Job creation is a critical component of the revolving loan funds mission. The revolving loan fund is ideal to a project the size of Jason's two expansions. There are different sources of capital for different size projects. Bonds for different types of projects; IDBs Bonds, Aggie Bonds, Exempt Facility Bonds, Enterprise Zone Bonds, and Qualified Mortgage Bonds. CDBG for companies and infrastructure needs, EDA and USDA for large and midsize projects. The revolving loan is a great fit for any

region because most of the expansions are in the \$150,000 to \$300,000 range. The maximum loan is \$300,000 with the average loan being \$150,000.

The Revolving Loan Fund is a great capital source to help someone like Jason, who needs are in the \$150,000 to \$300,000 range of capital to grow their business.

All communities in the state should become knowledgeable of all sources of capital especially The Revolving Loan Program, every community is served by a Development District. All of the Development Districts have a loan or business development program. This is a great source for capital in the \$150,000 to \$300,000 range projects.

All Chamber and Economic Development Professionals should take The Tennessee Economic Development Finance Course as soon as they possibly can. It would be time well spent. All professionals need to have as many sources of capital in their tool box as they possibly can because capital does grease the wheels of economic development.

This project demonstrates that if a community is not utilizing The Revolving Loan Program as a source of capital they are missing a great opportunity to help their small businesses grow and create jobs. Most small and medium size firms cannot get the capital they need from their bank to expand. They don't have sufficient collateral for additional capital. The IRP is set up to fill the gap to provide the capital. The IRP's mission is to create jobs through the improved access to capital.

Resource Page

Practitioner's Guide to Economic Development Finance

Toby Rittiner

USDA Intermediary Relending Program Instructions 4274-D

Tennessee Development Finance Course February 20-21,2014

Tennessee Business Retention and Expansion Course November 6-7,2013

Tennessee Entrepreneurship and Small Business Development Course February 20-21,2014

Abbreviations Used in Report

CAIC	Cumberland Area Investment Corporation
CDBG	Community Development Block Grant
EDA	Economic Development Administration
IDB	Industrial Development Board
IRP	Intermediary Relending Program
PILOT	Payment in Lieu of Taxes