The Impact of Planning on EDA RLF Performance

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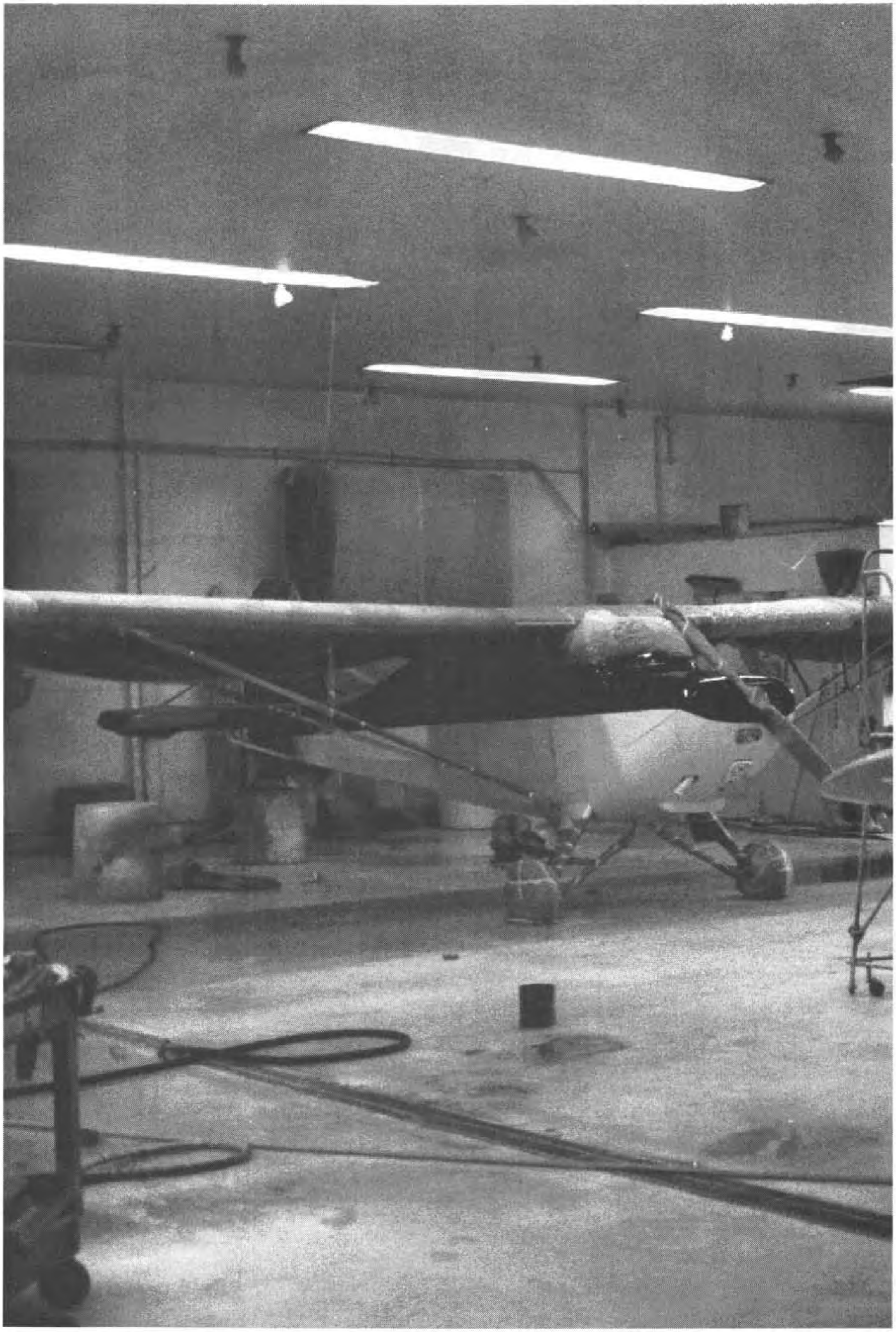
Contents



Executive Summary

Introduction

In March 2001, the nation's longest period of sustained economic growth—exactly 10 years—came to an end. The U.S. workforce was the largest in the nation's history, and the unemployment rate had reached a 31-year low. By March 2001, the United States had entered a recessionary period, and the events of September 11 contributed to a near free fall in the economy that continued through the end of the year.

Even during the best of times, however, there are communities that meet EDA's distress criteria—the local unemployment rate is at least one percentage point higher than the U.S. unemployment rate and local per capita income is 80 percent or less of national per capita income. Such areas are characterized by population loss and economic decline. Generally speaking, banks do not grant loans to businesses in these areas because the businesses have insufficient collateral, a checkered history, or a lack of experience. This is the loan environment in which Economic Development Administration (EDA) Revolving Loan Funds (RLFs) operate. Through EDA's RLF program, loans are given to businesses located in areas of significant economic distress. If the RLF loans are not available to those businesses, their employees might be either unemployed or underemployed, in the same sector or in another.

EDA has funded 637 RLF grantees nationwide. The grantees have issued 15,000 loans from loan funds totaling $700 million. RLF loan recipients do not have the level of business acumen that banks require, and the mean RLF default/write-off rate is 8.6 percent; however, 98 percent of the grantees establish loan pools that result in the creation of jobs. In addition, roughly one in five employees of businesses receiving RLF funding is either a minority or a woman, and 2 to 7 percent of the businesses receiving loans is minority- or woman-owned, respectively. Little or no private-sector money is initially available to the loan applicants; yet, they leverage twice their loan amounts in private-sector investment.[1]

If banks do not provide loans during good times, what can be expected when economic conditions deteriorate? There certainly will be less bank money for an increased number of applicants. EDA funds must have maximum impact. Thus, it is important to both understand and differentiate the role of planning in achieving economic restructuring and in contributing to the success of an RLF. RLFs operate in an environment of planning. This relates to their mission (which may include economic restructuring) and their results (which determine the degree of their success). Proper planning can contribute to achieving the goal

(Left) Grantee: The Lending Network. Custom Aircraft Painting, Inc., was a one-man operation before a $100,000 RLF loan allowed its owner to build this facility and to create three new jobs. The facility is located in an industrial park in Kelso, WA, just north of Portland, OR. Custom Aircraft Painting, Inc., paints private and corporate aircraft. Its customer base is nationwide. The RLF loan leveraged $160,000, including $60,000 in owner's equity.

[1] These data reflect the entire EDA RLF portfolio as of the beginning of 1999. Other data will be reported in the aggregate for the 30 case studies contained here.

of economic restructuring as well as to the efficient operations of a RLF.

Purpose of the Report

This report, one of three, will evaluate the importance of planning in economic restructuring and RLF outcomes. Specifically, the report addresses the following questions. Does planning play a key role in an RLF's ability to efficiently or effectively achieve a more progressive and dynamic industrial mix and, in so doing, create jobs at low cost and with low default/write-off rates? The importance of planning to economic restructuring and to RLF performance is evaluated. Do the Comprehensive Economic Development Strategy (CEDS) and the RLF Plan actively contribute to the purposeful economic upgrading of an area through the provision of loans to new and existing small businesses? Do these same planning vehicles allow RLFs to operate their loan funds more effectively in choosing loan recipients and the purposes for which loans will be given? Will they assist grantees in efficiently processing and overseeing the loans?

Gathering and Use of RLF Information

To answer the questions listed above, 30 case studies were undertaken nationwide. Regionally, case studies were selected in proportion to the number of RLFs in an EDA region at the time the study was initiated in January 1999 (see Figure 1).

Each of the 30 RLFs was visited, as were the RLF's loan recipients. RLF officials were asked to comment specifically on the importance of planning in undertaking the RLF, as well as its importance in achieving economic restructuring. In addition, officials were asked to comment on the productivity and performance of their portfolios. RLF loan recipients were visited to view the outcome of the loan and to verify the scale of employment and private-sector expenditures at the site. To determine the importance of planning to the RLF process and to economic restructuring, the analysis first examines the origin of the RLF and its formal links to planning; next, the results of the 30 case studies are viewed in the aggregate; and third, the results of the loan activities at each case study RLF are individually presented.

Background

An RLF is a pool of money for making capital available in distressed communities. Each fund, which is managed by a grantee, is distributed in the form of loans to area businesses. The fund is replenished by loan repayments, including interest. The initial loan pool includes the EDA grant (usually 75 percent of the total pool), and funds from non–EDA sources that represent the grantee's share (usually 25 percent of the loan pool). Loans given from the loan pool are combined with private money and other public money to form a total financing package that averages three times the EDA/grantee component.

In 1965, the Public Works and Economic Development Act (PWEDA) authorized EDA's grant programs. A 1974 amendment authorized Title IX, including the RLF program. In 1998, the EDA Reform Act reauthorized EDA's programs for five years without altering the agency's mission. In the later act, RLFs are authorized

Porter Institutional Foods is a wholesale food distributor located in Du Quoin, IL. In 1992, it received a $15,000 RLF expansion loan that leveraged $30,000 in private funding. The loan was fully repaid in March 1997. Two jobs were created.

through the EDA Section 209 Economic Adjustment Program, which defines an RLF as a capitalized fund making loans for small-business projects in accordance with local economic development strategies.

To be eligible for an EDA RLF grant, an applicant must meet one of the following three distress criteria: Unemployment in the application's area must be at least 1 percentage point greater than the national average; per capita income must be 80 percent or less of the national average; or there must be a special need such as severe long- or short-term unemployment. Grantees must comply with local laws, market loans to minorities, administer grants prudently, and submit regular status reports.

Finally, the grantee must certify on an annual basis that loans are in accordance with an RLF Plan (a technical document analogous to a business plan) and that the RLF Plan supports the region's Comprehensive Economic Development Strategy (CEDS)—a general guide to promoting sustainable economic development targeted employment growth in an area.

The CEDS Component

The locality's CEDS must be included or incorporated directly or by reference in a request for an RLF grant. Further, the CEDS must be the result of a continuing local economic development process. It must identify past and present problems and future economic development investments; identify private and public participants; describe how problems can be addressed in a way that fosters economic opportunity, transportation access, and environmental sensitivity; and indicate how the proposed economic development strategies can ameliorate local economic distress.

This small Expressor stand, owned by Jump Start, is located in Pendleton, OR. As a start-up business, Jump Start received an RLF loan of $5,000. This loan leveraged $6,000 in private-sector investment and an additional $4,600 in owner's equity. The loan created one job.

The RLF Plan Component

The RLF Plan is less comprehensive than the CEDS, but it must be consistent with its economic adjustment strategy. It describes the business and operating strategies that the grantee will use to administer the RLF. The business strategies include the financing strategy and the implementation policies to be used; portfolio standards and targets; loan selection criteria; and performance assessment practices. The operating strategies include procedures related to loan processing, closure, disbursement, and servicing.

Socioeconomics

This part of the evaluation surveyed 30 RLF grantees. The two most populous EDA regions, Philadelphia and Chicago, each contain approximately one quarter of the sample grantees. The remaining half of the sample is distributed about evenly among the other four EDA regions: Austin, Seattle, Atlanta, and Denver.

The 30 grantees issue loans in counties where the average per capita income is 90 percent of the host state

General Henry Biscuit Company is a cookie factory that received a $150,000 RLF start-up loan. The company is located in an EDA-funded industrial park. Thirty jobs were created and the company currently employs 115 workers.

and federal averages. Further, the share of the population with incomes below the poverty level is 20 percent higher than the state and national averages. Finally, RLF loans are issued in locations where the unemployment rate is 20 percent above state and national averages.

At the time of the initiation of this study, January 1999, RLFs ranged in age from one to 26 years; RLF loan pools ranged from $100,000 to $6 million; and the number of loans issued per grantee varied from three to 100. Of the 30 grants, 63 percent (19) were to address Long-Term Economic Deterioration (LTED) and 37 percent (11) were to address Sudden and Severe Economic Dislocation (SSED) or other programs.

Direct Results

All of the 30 RLF grants summarized in this report are up and running. All have produced jobs, and all but one have leveraged private-sector investment. The median initial fund amount is $1.3 million, of which EDA contributed $787,000. EDA's median contribution is 75 percent. The median number of loans per fund is 23; approximately 11 jobs are created by a typical $50,000 loan.

The 30 funds have created or retained 18,610 jobs at a median EDA cost of $563 per job and a median total cost per job of $821 (including all sources of funding). Median private-sector investment leverage was 8.2 to 1. In other words, for every dollar that EDA invested, the private sector invested $8.20.

Eighty-four percent of the loans were targeted for business start-ups (30 percent) or expansions (54 percent); 16 percent were for retention. Half of the loans were for industrial facilities; half were for commercial (30 percent) or services facilities (20 percent). Businesses owned by minorities or women each received about 12 percent of the loans. The mean combined default/write-off rate was 13 percent in terms of the number of loans and 11 percent in terms of the dollar value of loans. The loan funds grew at a median of 1.6 percent per year. In 10 years, in most cases, loan fund growth dollars exceeded default/write-off dollars.

Planning and RLFs

Loan-Applicant Problems

The most common problem facing inexperienced loan applicants is that banks will not lend money to them. Banks have limited ability to adjust their rates to accommodate risk; when risk is encountered by these lending institutions, they respond by not granting loans. The typical RLF loan is given to a below-average-income applicant in an area of high unemployment who can commit little capital to the proposed venture. Often, the EDA RLF is recommended to loan applicants by banks that will not provide loans to them.

Other problems facing business-loan applicants are (1) inadequate local labor forces and (2) local infrastructure and public-service inadequacies.

The Role of Planning

The CEDS provides an overall strategy within which an RLF operates; the RLF Plan provides criteria upon which to gauge success. The CEDS developed for an area must take into account local economic conditions and actors. It must then set forth a series of steps to address the economic development problem; it must also invoke measures to evaluate progress. The RLF Plan helps grantees lend to emerging entrepreneurs and minimizes loan defaults by requiring standard operating procedures and performance benchmarks of loan applicants. The technically oriented RLF Plan ensures that the loan is implemented in accordance with the CEDS, yet it does so in a way that follows acceptable accounting and financial procedures. Thus, the RLF loan must support the goals of the CEDS within the operational framework of the RLF Plan.

Planning in a Changing Environment

The 30 case studies show that the loan environment is changing, and that RLF loans are changing to reflect the new environment. How does planning at each of the aforementioned levels adjust to accommodate these changes? *At the CEDS level, there is little significant change, even on a multiyear basis.* The CEDS is sufficiently general and anticipatory of changes in long-term economic circumstances to remain current as both the environment of the loan and the loan purpose are changing. *On the other hand, at the RLF Plan level, change is needed and often takes place.* The RLF Plan is updated for such reasons as allowing a greater share of loans for a particular purpose, lowering required private-sector leverage ratios, or lowering mandatory 50 percent participation levels by the applicant or others. In addition, RLF benchmarks of default and repayment may be adjusted to reflect better or worse economic times.

Mac's Pub, in downtown Pocatello, received an RLF loan for $30,000 in June 1999. The loan created three new jobs and leveraged $10,000 in private-sector investment and $20,000 in owner's equity. Mac's Pub is owned by an Irish family and is the only Irish bar in eastern Idaho. Customers enjoy a wide variety of beer and ale, light food, and live music. The pub also sponsors pool and dart leagues and tournaments.

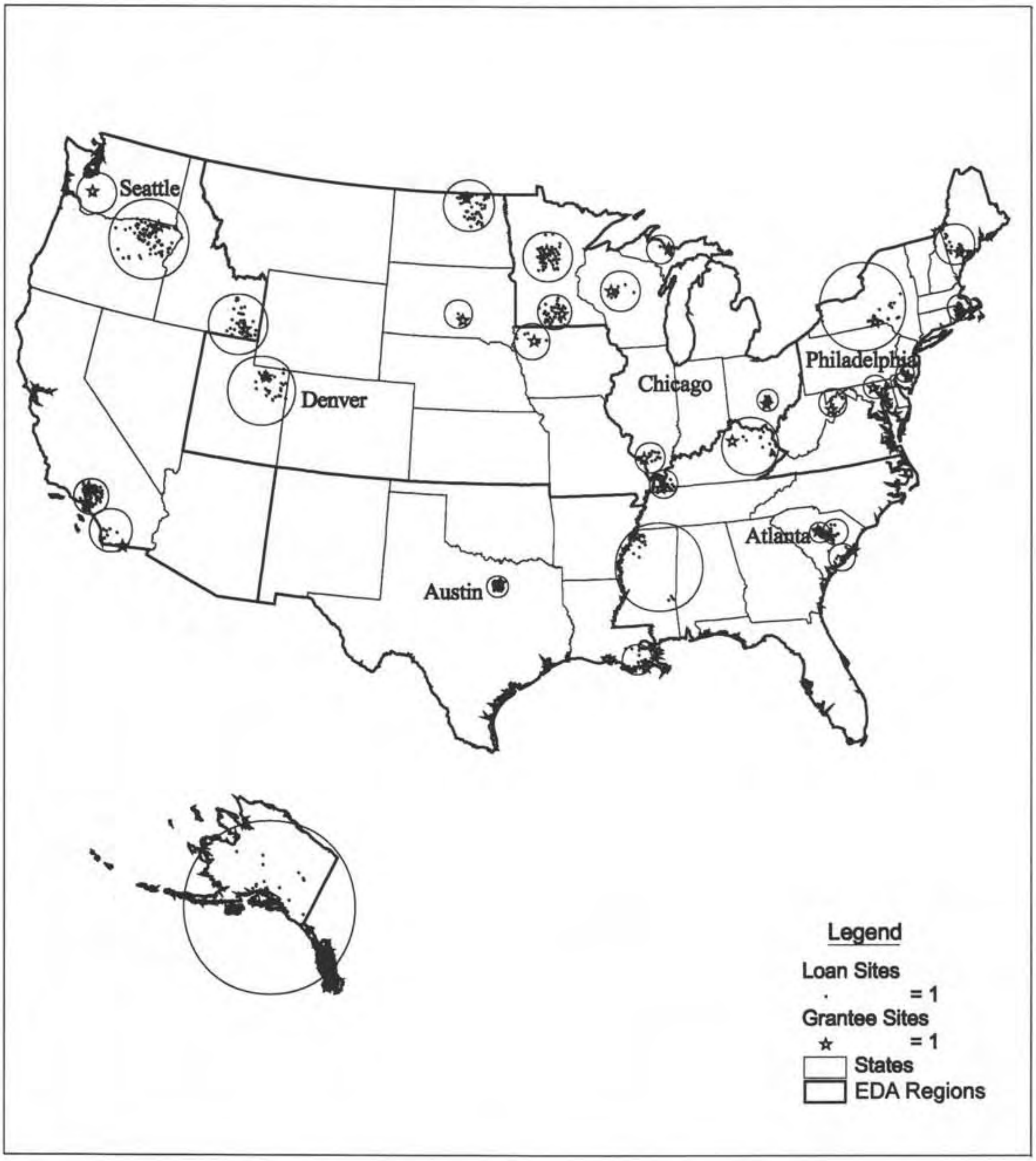
Planning and Structural Change

Planning is important to the RLF process. It is important at a macro level (the CEDS) because it ensures that the broad range of implemented economic development activities are directed to stated ends, such as economic restructuring. Planning is further important at the macro level because the goals of economic restructuring may be in conflict with those of general economic development, and the CEDS must be able to prioritize these efforts if they are in conflict. Planning is critical to moving forward an agenda of economic restructuring. Good planning promotes jobs that will both raise the median wage and provide new technical skills to workers.

Planning contributed to economic restructuring in two thirds, or 12 of the 18 locations in which it could make an impact. In the remaining 12 cases, the scale of the EDA effort was too small in relation to the extent of the job base (which was too large) to produce changes. There are also locations where job characteristics did not contribute to economic restructuring, and structural change did not take place.

Figure 1
The 30 Case Studies Visited

RLF Case Study Locations and Loan Sites



Planning and RLF Performance

Planning is important at the micro level (the RLF Plan) because it ensures that financial best practices are being used to oversee individual loans. As a result, default/write-off rates are low and the capital base grows. At the micro level, planning ensures that loans are offered to a specified clientele and that procedures are in place to allow the loan to be current and to perform adequately. The RLF Plan, correctly used, sets a frame for undertaking and monitoring the loan.

In 60 percent of all RLFs (18), grantees indicated that planning improved RLF performance. In other words, the presence of structured and current planning enabled the loan portfolio to perform more efficiently.

What Was Found? The Findings in Context

EDA is a government agency that promotes and depends on local and regional planning. All grants must be in accordance with a comprehensive strategy of economic regeneration. Planning is important to setting both the framework (CEDS) and the objectives (RLF Plan) for economic progress. Sustained and coordinated economic development would flounder without this type of planning. Other public agencies look to EDA to put a strategy of economic development in place. This type of strategy aids the RLF by ensuring that its activities support the general theme of economic restructuring. The strategy is also important to RLF portfolio performance because it targets recipients of loans and provides procedures and guides with which to view loan performance. It is this study's conclusion from the 30 cases examined that economic development planning is important to the goals of economic restructuring and to the basic objectives of portfolio performance.

Breakers Billiards Family Center is located in Lancaster, OH. It received a $17,770 RLF start-up loan for the purchase of equipment and working capital. It leveraged $22,212 in private funding and $4,443 in new equity. Two jobs were created.

Established in 1992, in Wasilla, AK, The Dog Wash is a store that, besides grooming dogs, specializes in dog food, treats and supplies. In 1994, this business received a $45,000 RLF expansion loan that created two jobs.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History of RLFs and RLF Planning

This component of the study describes EDA's RLF program. Exactly what planning structure is in place before an RLF is initiated and at what levels is this structure found? Planning that affects RLFs occurs at the macro level, involving guidelines set by the CEDS, and at the micro level, involving guidelines established by the RLF Plan.

The Revolving Loan Fund Program

The Economic Development Administration

Passed by Congress in 1965, the Public Works and Economic Development Act (PWEDA) authorized EDA to provide grants to create and retain existing private-sector jobs, and to stimulate business development in economically distressed areas of the United States. In a 1974 amendment, Title IX authorized grants for RLFS. In 1998, the Economic Development Administration Reform Act (Public Law 105-393, 42 U.S.C. Section 3121 *et seq.*, 112 Stat. 3596) reauthorized EDA programs for five years without altering EDA's basic mission and programs.

In order to build the long-term institutional capacity of communities experiencing high unemployment, low income, or other severe economic distress, EDA helped develop a nationwide network of Economic Development Districts (EDDs) staffed by professionals who work in partnership with state, county, and local government officials; Indian tribes; business leaders; and public and private nonprofit organizations. EDA's grant programs support infrastructure development, planning, training and technical assistance, and business development. These programs help communities address their economic challenges, identify and implement their own comprehensive economic revitalization strategies, and fund high-priority projects.

The RLF Legislative Basis

RLF grants for business development assistance are administered under EDA's Section 209 (former Title IX) Economic Adjustment Program, which was created in 1974 by an amendment to the PWEDA of 1965.[1]

Economic adjustment grants help communities alleviate existing or reduce the threat of future substantial and persistent unemployment or underemployment created by long-term economic deterioration

[1] Sec. 209. 42 U.S.C. §3149. (a) IN GENERAL— "On the application of an eligible recipient, the Secretary may make grants for development of public facilities, public services, business development (including funding of a revolving loan fund), planning, technical assistance, training, and any other assistance to alleviate long-term economic deterioration and sudden and severe economic dislocation and further the economic adjustment objectives of this title."

(Left) Grantee: Berkeley-Charleston-Dorchester Regional Development Corporation. The co-owner of SpeeDee Oil Change and Tuneup received a $70,000 RLF loan to refurbish this auto oil and repair facility in Charleston, SC. The loan saved nine jobs and created four new jobs.

(LTED), or sudden and severe economic dislocation (SSED), including economic restructuring, military base closures or realignments, defense contractor reductions, extraordinary depletion of natural resources, or natural disasters.

The Economic Development Administration Reform Act of 1998—often referred as the "new PWEDA"—has made some changes to the PWEDA of 1965, including the 1974 amendment that led to Section 209. In section 308.1 of the law's implementing regulations, the economic adjustment grant provision is no longer defined as a separate program with its own eligibility criteria. Rather, economic adjustment grants are "tools," including revolving loan funds.

RLF Purposes

An RLF is a capitalized fund used by local governments, EDDs, regional development corporations, states, and other nonprofit organizations to stimulate economic activity by making loans to small businesses in accordance with local economic development strategies, when private credit is unavailable (§308.7 of EDA's regulations). Loan principal and interest repayments and fees help replenish the RLF's loan pool, creating a revolving source of capital to finance additional loans and further develop the local economy. Consequently, RLFs aim to preserve their capital through prudent lending and portfolio management practices.

Grantee: City of Fort Worth. In September 1998, Carillo Funeral received a $25,000 RLF start-up loan that leveraged $100,000 in private funding and $17,500 in new equity.

An RLF is a flexible, independent, and targeted financial tool that enhances the capacity of low-income and distressed communities to invest in local firms to promote job creation and economic self-sufficiency.

The initial capital provided by EDA does not need to be repaid to the agency, except in cases of grant termination for cause or convenience of the RLF. However, loans have nearly always been fully repaid to the grantees by RLF borrowers. Grants have been provided to more than 637 locally administered RLFs that, in turn, have generated more than 15,000 loans to private businesses for a total amount of close to $700 million. RLFs have been increasingly acknowledged as an emerging force in economic development.

Eligibility Criteria

In order to apply for an RLF grant under EDA's regulations, the applicant must fulfill the set of eligibility criteria for economic adjustment assistance.

The eligibility criteria component is one of three major changes made by the "new PWEDA" Act. The other significant changes concern Comprehensive Economic Development Strategies and grant rates. The criteria for eligibility are divided into three subsections: Applicants, Area Eligibility, and Strategy Required.

First, an applicant may be defined as an EDD; an Indian tribe; a state; a city, a county, or other political subdivision of a state, or a consortium of such subdivisions; an institution of higher education; or a public or private nonprofit organization or association, if it acts in cooperation with officials of a political subdivision of a state.

Second, the regulations strengthened the criteria for area eligibility for an economic adjustment grant in two major aspects: criteria consolidation and time of qualification. An area is eligible if it meets one of the following criteria: Its unemployment rate is at least 1 percentage point greater than the national average for the most recent 24-month period for which data are available; its per capita income does not exceed 80 percent of the national average; or it has a special need "arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short- or long-term changes in economic conditions." Furthermore, there is a provision that allows small distressed areas within noneligible communities to be eligible for assistance. The time-of-qualification criterion requires an area to be eligible for assistance at the time of application; designation as a redevelopment area is no longer made.

Third, the application for a grant must include or reference a CEDS that is acceptable to EDA. The CEDS must be approved by the applicant's governing body no more than one year prior to the date of application.

RLF applicants must also submit an RLF Plan in accordance with the RLF guidelines.

Grantee: Northwest Iowa Planning and Development Commission. Maintainer Corporation of Iowa is a manufacturing company located in Sheklon, IA. In March 1998, it received a $50,000 EDA RLF loan that leveraged $66,000 from the state, $136,400 from local government, and $425,000 in private funding.

Grantee: Androscoggin Valley Council of Governments. Located in Buckfield, ME. Maine Apple Growers received a $72,000 retention loan that created 19 additional jobs and saved 14 existing jobs.

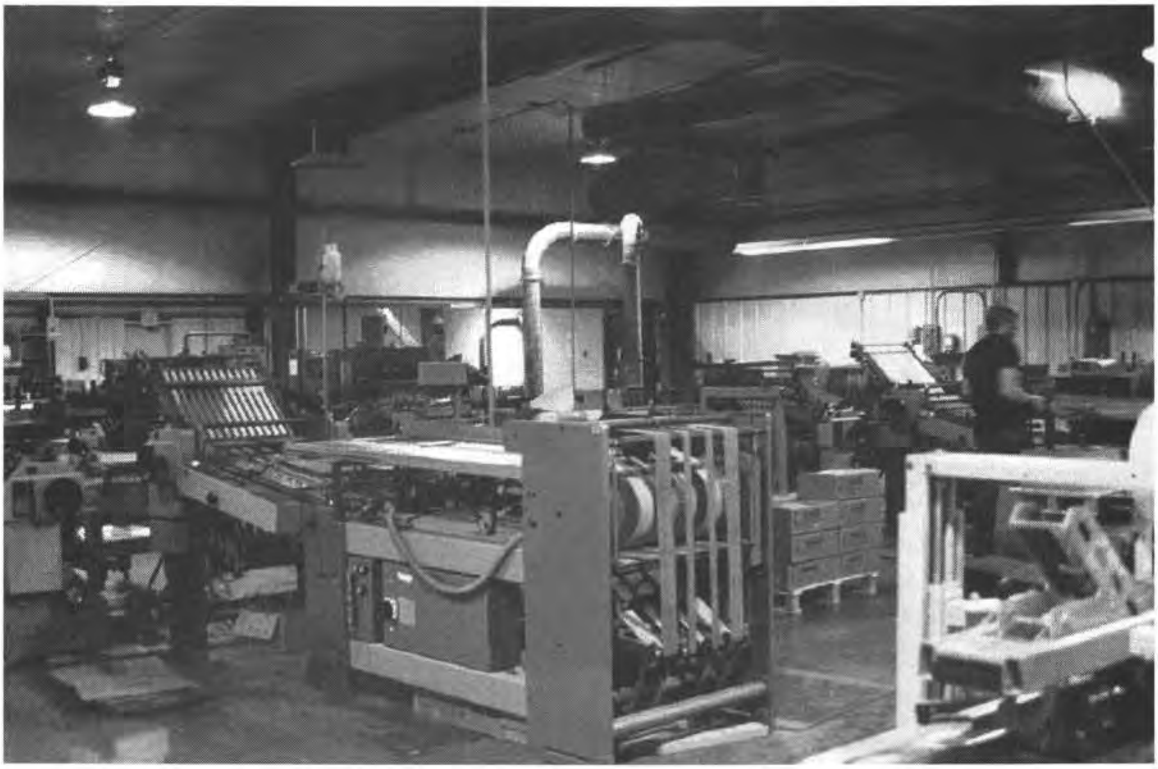
RLF Requirements for Grantees and Borrowers

Standard terms and conditions apply to RLF grants funded by EDA. The changes resulting from EDA's reauthorization apply to new RLFs and to the future actions of all previous RLFs funded by EDA.

Grant applications to capitalize or recapitalize an RLF must provide evidence of area and applicant eligibility, include or reference a CEDS, and identify all of the funding sources that will contribute to the project's financing.

RLF grantees, as well as any contractor that provides services on behalf of the RLF grantee, must comply with applicable federal, state, territorial, and local laws, such as environmental protection laws, civil rights laws, Davis-Bacon wage rates, or laws concerning the handicapped. They are accountable for marketing the RLF to prospective minority and women borrowers. RLF grantees must comply with EDA RLF guidelines, manuals, and any other instruction about the offered assistance that might be issued by the government.[2]

RLF recipients must comply with many administrative and financial requirements and procedures. Among other things, grantees are required to administer RLFs in accordance with lending practices gen-



Grantee: Purchase Area Development District. Kendor Wood, Inc., manufactures a variety of doors, cabinets, and related wood products for a market area that includes all states east of the Mississippi. Since receiving a $100,000 RLF loan in 1983, Kendor has grown from 14 to 65 employees, a net increase of 51 new jobs.

erally accepted as prudent for public loan programs and to protect the RLF assets. They must regularly submit reports to EDA. These include grant status reports, financial and performance reports, annual reports, and special reports.

Regarding planning requirements, "the Recipient agrees to certify annually to the Government that the RLF is being operated in accordance with the RLF Plan (as referenced in the Special Terms and Conditions of the grant); and that the RLF Plan is consistent with, and supports, implementation of the current Economic Adjustment Strategy for the project area."[3]

The Comprehensive Economic Development Strategy (CEDS)

The Legislation

Set forth in EDA's regulations, the requirement of a CEDS for economic adjustment assistance is one of the major changes of the "new PWEDA." The CEDS replaces the Overall Economic Development Program

[2] U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund Grants—Administrative Manual.*
U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund Grants—Standard Terms and Conditions.*
U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund—Plan Guidelines.*
U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund Grants—Audit Guidelines.*

[3] U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund Grants—Standard Terms and Conditions,* p.5.

(OEDP) as a prerequisite for public works assistance, and the requirement of an economic adjustment strategy for an economic adjustment implementation grant.

Similar to the former OEDP requirements, the CEDS must identify and address economic problems in a sensible and balanced manner and be updated at least every five years. The planning organization must also submit an annual strategy report that is acceptable to EDA. The strategy must also be approved by the applicant's governing body not more than one year prior to the date of application.

The new feature is that the CEDS must be included or referenced in the application for an RLF grant.

CEDS Content

A strategy must be the result of a continuing economic development planning process, developed with broad-based and diverse community participation, and contain the following:

(a) An analysis of economic and community development problems and opportunities, including incorporation of any relevant material or suggestions from other government sponsored or supported plans;
(b) Background and history of the economic development situation of the area covered, with a discussion of the economy, including as appropriate, geography, population, labor force, resources, infrastructure, transportation systems, and the environment;
(c) A discussion of community participation in the planning efforts;
(d) A section setting forth goals and objectives for taking advantage of the opportunities of and solving the economic development problems of the area serviced;
(e) A plan of action, including suggested projects to implement objectives and goals set forth in the strategy; and
(f) Performance measures that will be used to evaluate whether and to what extent goals and objectives have been or are being met (§303.3 of EDA's regulations).

EDA will approve any strategy—developed with EDA assistance, under another federally supported program, or through a local, regional, or state process—that meets these requirements.

Nevertheless, in the case of applications for assistance made under very special circumstances (e.g., immediately following a natural disaster), EDA will evaluate the acceptability of the accompanying strategy without expecting the precision and depth that would have been otherwise mandatory. In some cases, EDA may waive the administrative or procedural requirements for financial assistance awards.

CEDS and Natural Disaster Assistance

RLF grants are one of the tools used by EDA to provide assistance to areas affected by natural disasters.

Disaster-impacted communities often receive planning assistance from EDA in the form of an Economic Adjustment Strategy grant to the planning district in the area, to develop a strategic recovery-planning process.

EDA assists communities to address not only immediate economic recovery planning issues that are crucial to reviving the local economy in the short term, but also long-term solutions for restructuring the economy. The main focus of other agencies tends to be exclusively on emergency response and relief. A mini-CEDS is created when the CEDS does not exist or a linkage to the CEDS is drawn when it does exist.

Planning assistance permits affected communities to develop their economic vision and make decisions regarding their future priorities and investments. Communities can assess the impact of the disaster and identify alternative courses of action, such as rebuilding the economy as it was before the disaster, relocating businesses, attracting new businesses, and strengthening and diversifying the economic base to create new jobs and replace lost jobs. Therefore, they can better identify resource requirements and prepare a comprehensive economic development strategy and action plan.

The RLF Plan

The Legislation

An RLF Plan, as specified in §308.9 of EDA's regulations, is an additional document that RLF applicants must submit with their application for an economic adjustment grant. Applicants should follow the *RLF Plan Guidelines* to prepare an RLF Plan acceptable to EDA.[4] The RLF Plan must be approved before the grant award, generally by the organization's governing board, unless exempted from this requirement by EDA, as in the case of states.

In the RLF grant post-approval phase, EDA requires that RLF grantees manage their RLFs in accordance with their RLF plans, which may be modified, with EDA approval, as provided for in the *RLF Administrative Manual*.[5]

Grantee: Northwest Iowa Planning and Development Commission.

The Purposes

The RLF plan is substantive and procedural: (1) it presents how the RLF strategy lies within the scope of the CEDS for the area and contributes to its implementation and (2) it describes the operational procedures the RLF grantee will use in administering the RLF.

EDA uses RLF plans as part of the process of reviewing and evaluating RLF grant applications. The evaluation is based on criteria specified in EDA regulations §304 and on RLF criteria used for implementation grants as specified in §308.4 (c)(2). RLF applicants must show evidence of their need for public financial assistance to support business development in compliance with the CEDS, as well as management capacity and the ability to create networks between the business community and other financial providers. RLF plans must be internally consistent. Applicants must present their strategic objectives, describe the types of financing activities they will conduct, and provide evidence of their consistency with EDA policy and requirements.

The RLF Plan Content

The plan has two parts, each one containing distinct sections. The first part, titled "The RLF Strategy," is composed of seven sections. This part presents the RLF programmatic and financing strategies selected

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[4]U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund—Plan Guidelines.*

[5] U.S. Department of Commerce, EDA. Dec. 1998. *Section 209—Economic Adjustment Program—Revolving Loan Fund Grants—Administrative Manual.* Section VIII.E, pp. 11–12.

Grantee: Uintah Basin Economic Development District. In 1996, R. C. Exploration Drilling, Inc., received a $79,000 RLF loan that leveraged $100,000 in private funding and $91,000 in new equity. With this loan the company expanded, creating four additional jobs. Located in Gusher, UT, R. C. Drilling provides earth core samples to entities building roads, bridges, dams, and so on, to enable geological analysis prior to construction.

by the applicant to achieve the goals and objectives of the area's business development and CEDS plans.

Section (A) presents a summary of the nature and scale of the economic adjustment problem and the subsequent development of the CEDS. It describes the resources and assets from which the overall strategy is derived, the implementation programs, and the organizational structure of agencies and organizations responsible for the implementation of the adjustment strategy.

Section (B) focuses on the involvement of the business community in the development of the strategy. Active participation of the business sector is key to determining the needs of the community and, thus, the most appropriate types of RLF investments. The business strategy can be summarized if it has already been well documented in the CEDS.

Section (C) discusses how the financing strategy takes into account financing needs and the public and private sources of financing available. This section presents the financing niche that the RLF would occupy and its expected impact on the local economy.

Section (D) details the specific RLF financing policies and techniques that will be used (e.g., interest rates, requirements for equity, standard repayment terms for working capital and fixed-asset loans, types of collateral required, and loan sizes).

Section (E) describes the anticipated characteristics of the portfolio (e.g., percentage of investments in industrial, commercial, and service businesses; start-up, extension, and retention businesses; working capital vs. fixed-assets loans; private investment leverage; and cost per job).

Section (F) lists the economic impact criteria that will be employed for the evaluation of loans.

Section (G) describes the RLF assessment and RLF Plan modification processes.

The second part of the RLF Plan, titled "RLF Operating Procedures," serves as the internal operating manual for administering the RLF. It is divided into five sections.

Section (A) presents an overview of the organizational structure and distribution of responsibility for the main functions of the RLF. Sections (B) through (E) describe the procedure used, the documentation employed, the responsible parties, and the time frame of its implementation.

Revolving Loan Fund Procedures

RLF Income

RLF income can be used to pay for eligible and reasonable administrative costs of the fund. RLF recipients are expected to add RLF income to the RLF capital base where practicable. To determine the appropriate amount of RLF income to return to the RLF capital base, RLF operators must consider the costs necessary to operate an RLF program, the availability of other monetary resources, the portfolio risk level and projected capital erosions from loan losses and inflation, the community's (or area's) commitment to the RLF, and the anticipated demand for RLF loans (§308.12 of EDA's regulations).

RLF Records and Reports

Loan files and related documents and records must be retained by RLF recipients over the life of the loan and for a three year period from the date of final disposition of the loan (§308.13 of EDA's regulations).

All RLF recipients, including existing RLFs that receive capitalization or recapitalization grants, must submit semiannual reports until they qualify or requalify for "Annual Report" status. RLF recipients may apply for "Annual Report" status if:

(1) All grant funds have been disbursed for at least one year;
(2) Accurate semiannual reports have been submitted on-time for the preceding two years;
(3) Required periodic audits have been completed and submitted to EDA for the most recent audit period within the last two years; and
(4) EDA determines that the RLF is in compliance with all applicable RLF requirements (§308.14 of EDA's regulations).

RLF Accounting Principles

RLFs are expected to be operated in accordance with generally accepted accounting principles (GAAP) and provisions outlined in OMB Circular A-133 and Compliance Supplements as applicable (§308.15 of EDA's regulations).

An RLF recipient can make loans and loan guarantees to eligible borrowers at interest rates and under conditions determined by the RLF recipient to be most appropriate in achieving the goals of the RLF. However, the minimum interest rate an RLF can charge is four percentage points below the current money center prime rate quoted in the *Wall Street Journal* or the maximum interest rate allowed under state law, whichever is lower. In no event may the interest rate be less than 4 percent. However, should the prime interest rate exceed 14 percent, the minimum RLF interest rate is not required to be raised above 10 percent if doing so compromises the ability of the RLF recipient to implement its financing strategy (§308.15 of EDA's regulations).

RLF loans must be used to leverage private investment of at least two dollars for every one dollar of RLF investment. This leveraging requirement applies to the portfolio as a whole, rather than to individual loans and is effective for the life of the RLF (§308.15 of EDA's regulations).

RLF Capital Disbursement and Use

RLF loan activity must be sufficient to draw down grant funds in accordance with a time schedule. The time schedule requires that the initial round of lending (i.e., 100 percent of the grant) be completed within three years of the grant award (§308.17 of EDA's regulations).

Generally, eligible loans to borrowers include loans for fixed assets, the acquisition of equipment, working capital, or other authorized uses. The EDA grant and the local cash matching funds will be used only for the purpose of making loans under an RLF. To preclude borrowers from using RLF funds inappropriately, the purpose of each RLF loan must be clearly stated in the loan agreement (§308.18 of EDA's regulations).

Conclusion

EDA RLFs are guided by two important documents in the course of contributing to economic development. These are the CEDS and the RLF Plan.

The CEDS is a general regional plan. It sets the scene for a number of individual economic activities, including the RLF. It is the document that, among other things, specifies involvement in and commitment to economic restructuring.

The RLF Plan is more specific. It conveys the RLF's role in economic development as well as prudent procedures to employ in the course of establishing and implementing an RLF. The RLF Plan sets specific objectives for the RLF to meet. These have more to do with the types and recipients of RLF loans than with the goals of economic restructuring.

There are also a series of procedures that must be followed reflecting the most current (March 2001) EDA Regulations. These procedures govern the types of activities that are fundable, the schedule of disbursement, the records that must be kept including reports to be filed, accounting principles and private-sector leverage ratios to be achieved, and so on. The two planning documents and the EDA Regulations structure RLF behavior. However, the cumulative amount of the RLF and the size of the county where money is lent, contribute significantly to the extent of measurable restructuring that can be achieved by the RLF.


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General Overview of Case Study Results

Introduction

This section provides a general overview of the case studies. It presents the collective wisdom of the 30 EDA grantees by aggregating and summarizing their experience in the ten substantive areas that were covered in each case study. In this way, it ensures both broad RLF experience and similarly expansive views of RLF impact and success. The following areas appear in each case study and are summarized here:

- Socioeconomic Profile
- Background to the EDA Effort
- The CEDS and the RLF Plan
- The Role Played by EDA
- Direct RLF-Related Results
- RLF Management
- Planning and Structural Change
- Planning and RLF Performance
- Overall Assessment of the RLF

Socioeconomic Profile

Interviews with RLF staff were conducted at 30 grantee sites located in six EDA regions (see Table 1). The RLFs are located in counties where the average per capita income is 90 percent of the state and federal averages. In current dollars, at the time of grant application, average per capita income was approximately $13,670 in counties with EDA RLF grantee sites. The percentage of the population with incomes below the poverty level averages 15.6 percent. The average unemployment rate at these RLF sites, at the time of grant application, was 8.6 percent.

Five types of grantees were visited: city, county, Economic Development District (EDD), Indian tribe, and state sites. Table 2 summarizes the mix of sites visited and the economic adjustment problems experienced in the program areas before RLF funding. EDDs administer 17 of the RLF programs (57 percent); cities administer six (20 percent); counties administer four (13 percent); states administer two (7 percent); and, an Indian Tribe administers one (3 percent). In terms of the types of economic adjustment issues that served as the basis for EDA RLF funding, 19 programs (63 percent) were funded to deal with Long-Term Economic Deterioration (LTED) and 11 (37 percent) were funded to deal with Sudden and Severe Economic Dislocation (SSED), including two (7 percent) that were funded to deal with reductions in defense contracting or base closures/reductions; and one program (3 percent) that was funded to deal with natural disasters. Of the 19 LTED programs, 11 were administered by EDDs; four were administered by cities; two were administered by counties; one was administered by a state; and one was administered by an Indian tribe. Of the 11 SSED programs, six were administered by EDDs and two each were administered by a cities and counties. One was administered by a state.

(Left) Grantee: Region 9 Development Commission. George Martin stands beside one of the vats used to make wine at the Morgan Creek Vineyards near New Ulm, MN. In 1998, the start-up company received a $30,000 RLF loan that leveraged $100,000 in public funding, $34,500 in private funding, and 78,000 in owner's equity. Five jobs have been created.

Table 1
Sites Visited by EDA Region

Region	Number of Sites	Percentage of Total
Philadelphia	6	20
Atlanta	6	20
Denver	4	13
Chicago	6	20
Seattle	6	20
Austin	2	7
Total	30	100

Sources: CUPR, Rutgers University, The Epling Corporation.

Table 2
Types of Sites Visited, by Type of Economic Adjustment Problem Experienced

	Total		LTED		SSED	
Site Types	#	%	#	%	#	%
City	6	20	4	13	1	3
County	4	13	2	7	1	3
EDD	17	57	11	37	5	17
Indian Tribe	1	3	1	3		
State	2	7	1	3	1	3
Total	30	100	19	63	8	27

Sources: CUPR, Rutgers University, The Epling Corporation.
Notes: 1. Percentages may not add to 100 percent due to rounding.
2. NEODC and GEODC are separate EDDs but were interviewed as one site and are counted as one site in this table.

The interviews (questionnaire in Appendix A) covered a broad range of topics related to the planning, administration, and implementation of RLF programs. Specifically, they focused on (1) the relationship between overall planning (i.e., the CEDS and the RLF Plan) and economic restructuring and (2) the relationship of the two tiers of planning to the success of the RLF. Were the two tiers of planning well integrated? How did they affect economic restructuring? Is planning and its relationship to economic restructuring dwarfed by socioeconomic priorities or large scale of the service area at the grantee site? Does planning make RLF administration and implementation more effective in terms of achieving the economic adjustment goals set by EDA and the grantees? Are there intervening factors that might explain the importance and effectiveness of planning to the success of the RLF? How do grantees view the effects of the RLF program on the economic adjustment problems faced by their program areas?

Background to the EDA Effort

The site visits revealed that a number of economic adjustment problems were experienced by the sites before receipt of their RLF grants. One problem—the unwillingness of banks to provide loans to start-up or expanding businesses—was experienced by all 30 sites. Other problems shared by sites related most often to whether they had experienced long-term economic deterioration (LTED) or sudden and severe economic dislocation (SSED).

Unavailability of Start-Up and Expansion Loans

All of the sites experienced a general unwillingness on the part of banks to provide loans to start-up or expanding businesses—particularly to the start-ups. Start-up businesses, by definition, have no credit history. Often, the owner-applicants did not have extensive personal credit histories, or they had bad credit/employment histories.

According to the interviewees, banks historically have preferred making business loans for the purchase of goods that the banks could attach as collateral. Most local banks knew little about the local, regional, or national markets that entrepreneurs proposed to enter, and the banks were unwilling to bear the expense of analyzing these markets to gauge a business's potential for success or to assess a loan applicant's business plan. Thus, business loans, credit risks aside, represented a departure from the "tried and true" lending policies of the banks. This was even more of a problem, for both start-ups and expansions, when the owner-applicant needed a loan for *working capital;* that is, money to pay wages, utilities, rent, and other expenses that had no collateral value.

High interest rates posed less of a problem to start-up and expanding businesses than did the general unavailability of funds. Most loan applicants would have accepted high-interest-rate loans if they could have obtained them. There are a few exceptions, however. For example, the RLF staff at NIPDC (Spencer, Iowa) said that high interest rates and loan unavailability were equally problematic to loan applicants. At most of the other sites, however, high interest rates were more of a factor in determining whether or not the business could maintain sufficient cash flow to operate.

Economic Development Problems at LTED Sites

Some differences were evident in the adjustment problems faced by rural sites and urban sites dealing with LTED. The following discussion, therefore, addresses urban and rural sites separately.

Rural sites dealing with LTED. At rural sites experiencing LTED, the RLF grantees typically are EDDs that also receive EDA planning grants. By definition, these sites have experienced high rates of unemployment, low per capita income, and other conditions that are symptomatic of long-term economic deterioration. In most cases, the conditions were the result of overreliance on primary production (agriculture, timbering, mining) and the long-term decline in these sectors caused by international competition and other factors.

One of the most pervasive problems among the rural LTED sites is the loss of farms and the resulting loss of agricultural jobs. The interviewees told much the same story about the decline in agriculture and the effects of that decline on local and regional economies. For several decades before the 1990s, competition from foreign countries and large U.S. farm conglomerates had gradually lowered the per unit profit on agricultural products to a level at which small farms could not produce enough for the owners to make a livable wage. The problem was worsened by the increasing costs of compliance with environmental regulations. In addition, children of farm families were choosing occupations other than farming and leaving the family farms. Most of the owners of the family farms had neither the knowledge nor the money to employ the high-technology farming methods and equipment required for the high per acre yield that is characteristic of modern farming. As a result, the owners fell behind their competition, and, although some of them were able to obtain second jobs and save their farms, many of them sold their farms and

Grantee: Androscoggin Valley Council of Governments. Bachman Industries is located in Auburn, ME. It received a $15,000 RLF expansion loan that leveraged $1.5 million of private-sector investment. This loan created 50 additional jobs.

gave up farming altogether. Most of the farmworkers who were laid off and lacked skills that were transferable to other types of employment. Consequently, unemployment rolls increased. As produce from the family farms diminished, the plants that processed produce either went out of business or moved, adding more workers to the unemployment rolls. When many of the former farmworkers and plant employees tried to start new businesses, they faced the conservative lending practices of local banks. Outmigration of these workers increased, and young people, aware of the lack of local employment opportunities, left as well.

Examples of sites suffering from the long-term and severe effects of declines in agricultural production and employment are the CCEDC (Greenwood, Wisconsin); the R5DC (Staples, Minnesota); TIER (Binghamton, New York); the SLRCG (Sumter, South Carolina); PADD (Mayfield, Kentucky); and the NDPDD (Batesville, Mississippi). In several cases, the agricultural decline was in specific crops. Batesville, for instance, experienced a dramatic loss of farms in just three years—between 1985 and 1988—when the bottom fell out of the prices for cotton and bean crops. A similar problem was experienced in the both the CCEDC and TIER areas, which were hurt by reductions in milk prices and the resulting loss of dairy farms. The R5DC, SLRCG, and PADD sites have lost small farms that produced a variety of products because prices have dropped to a level that hinders the viability of small-unit farming.

Agriculture was not the only primary-production sector in decline at rural LTED sites. The timber industry was in decline at sites in Alaska, the Northwest, and the South. For example, the GEODC/NEOEDD site (Pendleton, Oregon) suffered a significant loss of jobs in timbering and wood products—in addition to the jobs lost in the agricultural sector. The TLN (Chehalis, Washington) area experienced a decline in mining, and the GERPDC (Carbondale, Illinois) area suffered a decline both in agriculture and demand for high-sulfur coal. The EDCCM (Marquette, Michigan) suffered the long-term loss of its most important industry, iron-ore mining, and was dealt a crippling blow with the closing of the K. I. Sawyer Air Force Base, the largest employer in the county. The small, remote communities in rural Alaska were experiencing job and tax-revenue losses in oil, fur trapping, and fishing. Alaska's losses as a result of foreign competition in wild salmon and the growth of "farm-raised" salmon in the "lower 48 states" had been, and still is, a significant problem.

The LBSTPD (Lower Brule, South Dakota) suffered an unusual LTED adjustment problem. In addition to many of the problems described above, the Native American tribe had been moved five times in the past 100 years, hindering any realistic possibility of creating a sound economic base and a supportive social infrastructure.

Urban sites dealing with LTED. The four urban sites dealing with LTED—CBAC (Camden, New Jersey); LA-CITY (Los Angeles, California); CLB-CITY (Columbia, South Carolina); and FW-CITY (Fort Worth, Texas)—share the problems that are typically faced by older cities in the United States: urban blight and decay in the downtown business and residential areas and competition from surrounding suburban areas. These blighted and decaying areas, populated to a large extent by minorities, had experienced three or four decades of high unemployment and high crime rates, inadequate housing, unskilled labor, and low wages before receiving an EDA RLF grant. South-Central Los Angeles, for example, never fully recovered from the urban riots of the 1960s; it experienced riots again in 1993 and an earthquake in 1995. Camden, New Jersey, has suffered disinvestment since the 1960s and was not part of the urban comeback of the 1990s. According to RLF staff, most of the city was redlined by the banking industry in the early 1990s. Like Los Angeles and Camden (although at a lesser scale), Columbia, South Carolina, had experienced several decades of urban decline in several census tracts that make up its downtown residential and nonresidential areas (which have a large minority population) and significant competition from the Chandon and Five Points residential and nonresidential areas of the city. Again, most of the grantees in these cities cited redlining by the banks as a factor that limited entrepreneurial activities and perpetuated and reinforced the intergenerational cycles of unemployment, crime, and other social and economic distress.

Grantee: Region 8 Planning and Development Council. S. J. Morse makes wood veneer for furniture, cabinets and other wood products. An RLF loan in the amount of $25,000 "filled the gap" between total project costs of $255,000 and the $230,000 invested by the private sector ($115,000) and other public programs ($115,000). The loan created/retained two jobs.

Economic Development Problems at SSED Sites

As described in Section 1, most of the sites experiencing SSED have suffered the effects of military base closures, reductions in defense contracting, and/or natural disasters. The economic adjustment problems faced by those sites are closely correlated with the specific "sudden and severe" event prompting the EDA RLF grant; that is, the type of event—base closure, defense adjustment, natural disaster, or some other form of SSED—largely defined the problems that the sites faced.

At sites where the SSED was defense related, the major economic adjustment problem was the difficulty of absorbing former defense workers into an undiversified economy. In the CSDEDD area (San Diego, California), for example, reductions in defense contracts hit the local economy particularly hard because of the large number of defense-contracting firms in the area. The major adjustment problem at this site, therefore, was finding a way to absorb a glut of highly educated former defense workers into the local economy. The same problem was experienced in the BCDED area (Towson, Maryland) when Lockheed-Martin downsized from 1,900 to 500 employees.

When the SSED was a natural disaster (e.g., the hurricanes in the BCDCOG area [North Charleston, South Carolina] and the SCPDC area [Thibodaux, LA], or the 200-year flood in the TLN area [Chehalis, Washington]), the immediate problem was reestablishment of the businesses that were destroyed or severely damaged. In the BCDCOG (North Charleston, South Carolina), SCPDC (Thibodaux, Louisiana), and TLN (Chehalis, Washington) areas, however, the problems were more complex than those found at other sites. The BCDCOG, for example, is one of the few sites that was experiencing LTED in addition to three instances of SSED: a base closure (Charleston Naval Complex, 1993 to 1996); resulting losses in

Figure 2
Economic Development and the CEDS

Problems	Goals	Objectives	Strategies	Programs
Conditions that need to be adjusted to regenerate the economy	A philosophy that needs to be embraced to ultimately resolve the problems	Short-term milestones that need to be achieved to reach the goals	Approaches that will best achieve the objectives	Actions that will most effectively implement the strategies

defense contracting (beginning in 1993); and a natural disaster (Hurricane Hugo, 1989—the event that prompted the first EDA RLF grant). Similarly, the SCPDC, NCPC (Devils Lake, North Dakota), and R9DC (Mankato, Minnesota) suffered both LTED and SSED. In each case, loss of agriculture presented the primary LTED problem; however, it was an SSED incident that prompted EDA's RLF grant. In the SCPDC area, the SSED incident was Hurricane Andrew (1992); in the NCPC area, the SSED incident was the flooding of a lake; and in the R9DC area, the SSED incident was the sudden and severe drop in farm prices in the 1980s followed by a 1993 flood. The TLN area also suffered both LTED and SSED, the latter resulting from a 200-year flood in 1996. In summary, these sites not only had to rebuild businesses and residences destroyed or severely damaged by disasters, but they also had to do so in areas experiencing long-term economic deterioration.

Macro Planning—The CEDS

The EDA CEDS requires the grantee to undertake the following activities:

- Identify the economic adjustment problems.
- Define the scope and magnitude of the problems.
- Set goals, objectives, and strategies for effectively dealing with the problems.
- Identify and program the resources needed to address the problems.

There appeared to be substantial agreement among the interviewees that the CEDS, while time consuming to prepare, is both valuable and necessary. Most grant managers have a clear sense of how the parent organization is dealing with economic adjustment problems and how the RLF fits into the organization's mission.

Although the RLF staffs also had a sound understanding of the economic adjustment problems facing their areas, they often had difficulty articulating which specific CEDS goals, objectives, and strategies addressed a specific problem and how the goals, objectives, and strategies related to each other. Also, it was frequently the case that one agency's goal or objective was another agency's strategy. In general, however, the CEDS developed for the agencies appeared to be consistent with the model presented in Figure 2.

Grantee: North Central Planning Commission. Meehan Machine and Radiator is a company located in New Rockford, ND, that serves the area farmers and businesses with steel machining and radiator repair. In 1991, it received a $30,000 RLF expansion loan that leveraged $192,743 in private funding and $100,000 in new equity. This loan created an additional 2.75 jobs.

Table 3
Typical Relationship among Goals, Objectives, and Strategies of the CEDS

Prevalent Goal	Typical Objectives to Achieve the Goal	Typical Strategies to Achieve Objectives
Provide new jobs	1. Retain/expand existing businesses 2. Create/attract new businesses	1. Provide start-up/expansion capital 2. Strengthen marketing program 3. Improve infrastructure 4. Upgrade old industrial sites 5. Create new industrial parks
Diversify the economy	1. Fill sectoral niches 2. Offer higher-skilled labor 3. Provide efficient public services 4. Attract value-added industry	1. Undertake an economic study 2. Provide job training 3. Improve services with grants 4. Market the area's advantages

Source: Data from field interviews undertaken by The Epling Corporation.

Establishing Achievable Goals, Objectives, and Strategies for Economic Development

There are two economic development goals that are prevalent in the CEDS of all the sites, regardless of whether they are LTED or SSED sites: to provide jobs and diversify the economy.

Table 3 shows the relationship between goals and the objectives and strategies that are identified to achieve them.

Typical goals and objectives for sites with disaster-recovery plans include relocating businesses away from disaster-prone areas (e.g., flood plains), modernizing and/or expanding businesses while restoring them, and diversifying the economy while rebuilding it. The goals and objectives for sites experiencing military-base closures tend to focus on such issues as converting the military base to commercial and industrial uses that will diversify the economy and make use of the skills of former civilian military-base workers. The goals and objectives for sites experiencing reductions in defense contracting often include absorbing dislocated skilled and educated workers into businesses other than those that are defense-related, and developing new industries not dependent on defense.

Table 4 shows the typical ways in which the CEDS goals, objectives, and strategies deal with specific types of economic development problems. The table reveals that a single goal, objective, or strategy might serve several development problems.

Based on discussions with RLF staff members about the substantive content of their CEDS, it appears that the highest priority is to expand, repair, or install new infrastructure, particularly roads, water/sewer, and storm-drainage facilities, and other public facilities and services needed to support development. Typically, infrastructure projects absorb the majority of the financial resources (federal, state, and local) identified in a CEDS. Other goals and objectives include the improvement of schools, libraries, and airports; the rehabilitation, expansion, or construction of new industrial sites, particularly industrial parks; the improvement of skills training; the promotion of recreational and tourism activities; the protection and enhancement of the environment; and the encouragement of local entrepreneurship and small-business activity. At SSED sites dealing with the results of natural disasters, the projects listed above often share priority with rebuilding business establishments and homes.

Table 4
Addressing Economic Adjustment Problems with the CEDS

Adjustment Problem	Typical CEDS Goals, Objectives, and Strategies
Lack of Available Capital	Initiate an RLF program; provide gap financing; identify venture capital
Unemployed Workers	Create/attract living-wage jobs; diversify economy; start an RLF program
Low Wages	Create/attract value-added industries that offer living wages; provide job training
Unskilled Labor	Improve job training; provide job counseling; create/attract jobs
Inadequate Infrastructure	Build/improve industrial access roads; rehabilitate/install modern sewer/water
Inadequate Industrial Sites	Rehabilitate existing industrial sites; create new industrial parks with infrastructure
Inadequate Housing	Increase supply of sound low- and moderate-income housing
Unstable Neighborhoods	Rehabilitate poor housing; increase neighborhood retail; build community centers
Lack of Entrepreneurship	Provide leadership training and business support services; provide capital
Failing Local Tax Revenues	Promote efficient public services; attract high-ratable, value-added industries
Outmigration of Workers	Create/attract living-wage jobs; provide job training and job counseling
Outmigration of Young People	Create/attract jobs; provide community centers; promote youth-oriented retail

Source: Data from field interviews undertaken by The Epling Corporation.

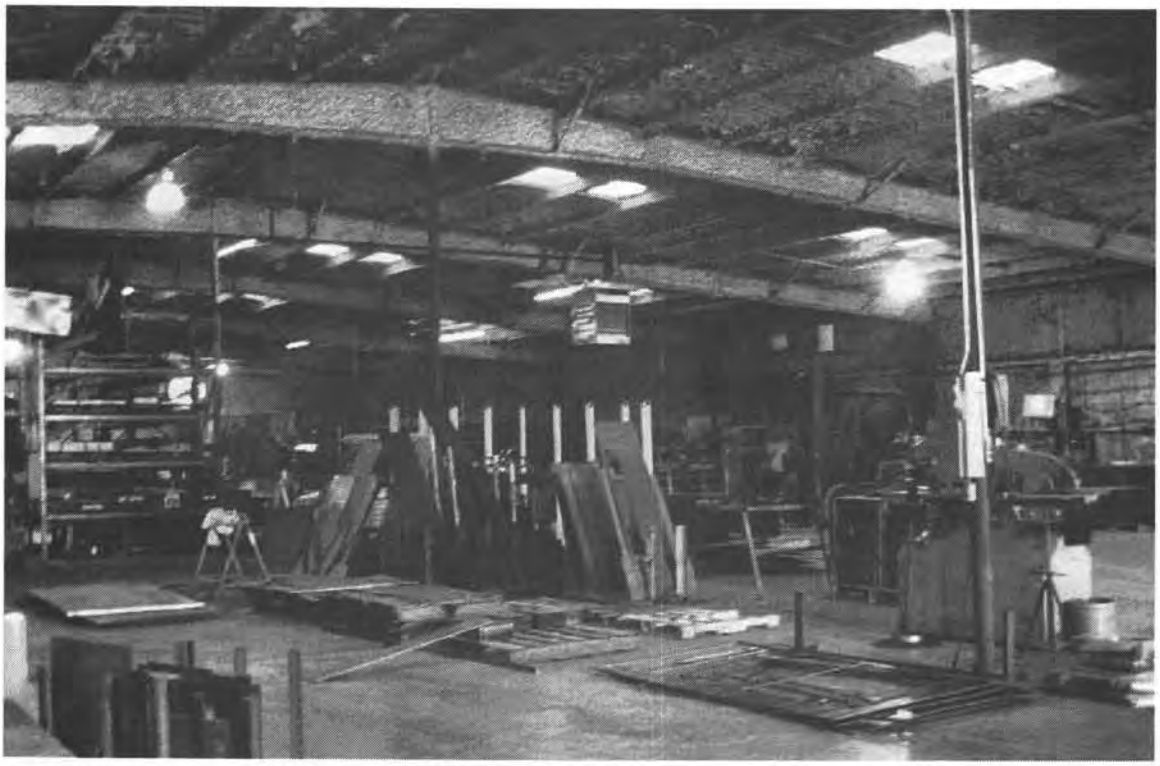
Coordinating Local, Regional, State, and Private-Sector Efforts.

Optimally, the CEDS coordinates efforts for an area's economic development with local, regional, and state plans for economic development and with plans at all governmental levels for transportation, environmental protection, health, education, and other public policy areas. Typically, the goals and objectives contained in these documents are oriented to take advantage of whatever unique attributes exist in the community or region. Such attributes might include the specific skills of unemployed workers, a special historical or cultural resource, or a particular natural resource. Several examples can be cited. First, in CSDEDD (San Diego, California) and BCDED (Towson, Maryland), the supply of highly educated, former defense workers combined with the existence of high-tech firms in the area resulted in strategies to create or expand businesses in high-technology fields. Second, one of the foci of the BCDCOG (North Charleston, South Carolina) regeneration program is to build upon its historic downtown, nearby Fort Sumter, and other tourist attractions by expanding retail trade and services that support tourism. Third, the existence of large quantities of pumice in the SICOG (Pocatello, Idaho) region led to RLF funding for the creation and expansion of several new businesses that use pumice in products for which there are worldwide markets.

Micro Planning—The RLF Plan

The Relationship between the RLF Plan and the CEDS

As discussed above, the CEDS is a strategic document that coordinates and integrate a variety of actions toward the achievement of economic development goals. Because an RLF is only one of several activities necessary to achieve economic adjustment goals, the RLF Plan should describe the role that the RLF would play within the established strategic framework. Accordingly, the RLF Plan should include, at a minimum, the following elements: identification of the *specific* goals, objectives, and strate-



Grantee: North Delta Planning and Development District. Aluminium Extrusions, Inc., got started with an RLF loan of $75,000 in 1992, which leveraged $450,000 in other public funds and $715,000 in owner's equity, for a total project cost of $1.24 million. This EDA investment resulted in the creation of 90 jobs, 45 of which are filled by minority employees.

gies of the CEDS that the RLF will address; and a description of the RLF strategies and actions necessary to achieve those goals, objectives, and strategies: and the guidelines and standards that will be applied during implementation of the RLF.

Adjustment Problems Addressed by RLF Plans

There are at least six economic adjustment problems that are typically addressed by RLF plans (see Table 5):

- high unemployment, particularly among the sites dealing with LTED
- a significant loss of jobs in a major economic sector
- a low number of jobs paying livable wages
- outmigration of the labor force and young people
- a lack of capital for new small businesses
- a lack of training, technical assistance, and business services for entrepreneurs

RLF plans also address economic adjustment problems by including strategies that tie directly to specific strategies of the CEDS. For example, several of the CEDS strategies for the R5DC (Staples, Minnesota) could be compatible with those of the RLF. The parenthetical comments in the following list identify the R5DC CEDS Strategies that could be addressed by the R5DC's RLF activities or loans:

- Provide leadership training *(a potential RLF activity)*
- Use local resources in economic development
- Develop telecommunications technology *(a potential RLF lending priority)*
- Promote industrial parks *(a potential RLF lending priority)*
- Provide planning assistance to businesses *(a potential RLF activity, if funds are available)*

Table 5
Addressing Major Economic Development Problems with an RLF Plan

Adjustment Problem	Typical RLF Plan Goals and Objectives
Lack of Available Capital	Provide gap financing; identify and promote venture capital
Unemployed Workers	Fund new businesses, particularly those that would diversify the economy
Low Wages	Fund new businesses, particularly value-added industries that offer living wages
Unskilled Labor	Initiate job-training and job-counseling programs
Inadequate Infrastructure	Fund businesses locating where new infrastructure is or will be installed
Inadequate Industrial Sites	Fund businesses that will support the rehabilitation of old industrial sites
Unstable Neighborhoods	Increase neighborhood retail businesses and services, particularly those that rehabilitate buildings or sites
Lack of Entrepreneurship	Provide leadership training and business counseling; provide capital
Failing Local Tax Revenues	Prioritize funding of high-ratable, value-added businesses
Outmigration of Workers	Prioritize funding of living-wage jobs; provide job training and job counseling
Outmigration of Young People	Prioritize funding of businesses that provide youth-oriented retail and services

Source: Data from field interviews undertaken by The Epling Corporation.

- Provide financial assistance to businesses *(the principle RLF activity)*
- Provide marketing assistance *(a potential RLF activity, if funds are available)*
- Support expansion of the forest-products industry *(a potential RLF lending priority)*
- Promote tourism *(a potential RLF lending priority)*
- Encourage local processing of agricultural products *(a potential RLF lending priority)*.

CEDS strategies can provide guidance to an RLF in terms of setting priorities for the lending practices and determining the forms of assistance the RLF can offer to businesses. Based on the interviews, it appears that most RLF plans tend to include many of such priorities and activities. The RLF staffs then implement the RLF Plan strategies as opportunities arise with loan applicants and with changes in local economic conditions. This practice helps explain, at least in part, why EDA recognizes changes in local conditions and lending practices that are not reflected in the RLF Plan. The practice appears reasonable, however, given the desired linkage between the CEDS, and the RLF Plan, the need to provide some flexibility in the RLF so that funds can be lent instead of held in a bank account, and the breadth of needs that most grantees face.

RLF plans also deal with economic adjustment problems by targeting loans to certain economic sectors that capitalize on the area's natural and cultural resources. For example, the SCPDC (Thibodaux, Louisiana) targets the following specific industries in its CEDS:

Grantee: The Lending Network. Custom Aircraft Painting, Inc. is a company located in an industrial park in Kelso, WA, just north of Portland, OR. It was a one-man operation before a $100,000 allowed him to build this facility and create three new jobs. The RLF loan leveraged $160,000, including $60,000 in owner's equity.

Grantee: City of Fort Worth. View of the patio of Scampi's Mediterranean Cafe, a business that started with a $25,000 RLF loan. The EDA support leveraged $25,000 in private funding and $5,000 in new equity for a total project cost of $55,000. Six jobs were created, including four hold by minority employees.

- shipbuilding and boatbuilding
- data-entry centers and services
- export of local products
- light manufacturing
- imports of Latin American and South American products

Finally, most of the RLF plans have goals and strategies to expand opportunities for minorities, women, and other economically disadvantaged groups. Some plans provide environmental safeguards to protect wetlands, wildlife habitats, groundwater quality, etc.

The Role Played By EDA

Economic Adjustment Problems after the RLF Grant

Most of the grantees said that there has been at least some improvement in their local or regional economies since the receipt of their RLF grants. They credit the strong national economy during the latter half of the 1990s as aiding and abetting this change. However, without question, the EDA RLF and its associated planning is given credit for having an uplifting effect on economic conditions. The strategic targeting of goals for economic investment allows multiple actors to participate in the activities that foster economic restructuring.

Status of Adjustment Problems

Grantee descriptions regarding specific improvements in their local economies fall into three categories: "better," "slightly better," and "no change." Grantees said that conditions associated with the following economic adjustment problems had improved and were considered to be "better" than they had been before receipt of the RLF grants: lack of available capital, unemployed workers, unskilled labor, inadequate industrial sites, failing local tax revenues, and lack of entrepreneurship. Conditions associated with the following economic adjustment problems were considered to be "slightly better" than they had been before receipt of the RLF grants: low wages, inadequate infrastructure, outmigration of workers, and outmigration of young people. Grantees said that there had been substantially "no change" in one economic adjustment problem—unstable neighborhoods and communities.

The RLF as a Factor in Change

All of the grantees believe that the RLF has been, in varying degrees, a contributing factor in helping them deal with most of their economic adjustment problems. Three broad rating categories describing the significance of the RLFs emerged during the interviews: the RLF as a major factor, a moderate factor, or a minimal factor.

The grantees believe that the RLF has been a *major* factor in helping to reverse the following problems: lack of available capital and lack of entrepreneurship. They believe the RLF has been a *moderate* factor in dealing with the following problems: unemployed workers, inadequate industrial sites, outmigration of workers, outmigration of young people, unstable neighborhoods, and failing local tax revenue. The RLF is considered to have been only a *minimal* factor in helping the grantees deal with the following problems: low wages, unskilled labor, and inadequate infrastructure.

Bases for Grantee Evaluations of Post-RLF Conditions

The following discussion sets forth the bases on which the grantees, as a group, categorize local conditions related to each economic adjustment problem after the RLF grant (post-RLF condition) and the role that the RLF played in changing conditions.

Lack of available capital. The grantees described post-RLF conditions as "better." Most banks are still conservative in their lending practices for business loans, particularly in rural areas. However, there was general agreement among the interviewees that the availability of capital improved once the banks found the RLF willing to assume much of the risk.

The most prominent role played by RLFs has been in the area of "gap financing," or filling the void between the amount the bank is willing to risk and the owner's capital. Even when the RLF assumes most of the risk, however, the banks often require a first deed of trust, letting the RLF have a second deed of trust.

Grantee: Kentucky Department for Local Government. Johnson County Gas Company received a $1,321,374 RLF loan in 1980. Installation of a 3" main tie-ins at Meally, KY.

Unemployed workers. The grantees described post-RLF conditions as "better." Most of the grantees have seen a decrease in local unemployment rolls in the past few years, and, they credit the improvement to the expansion of the nation's economy during the 1990s. Several of the grantees, particularly those dealing with LTED, also cite the outmigration of unemployed workers to communities experiencing job surpluses as a factor contributing to the reduction of unemployment in their areas.

The RLF's role in decreasing unemployment has been moderate. The grantees believe that the RLFs did as much as could be expected of such a relatively small fund in creating and retaining workers. They also believe that it often takes several years before fledgling businesses are in a position to expand and hire workers at a level that will significantly affect unemployment. Some of the businesses (e.g., restaurants) may never have more than a dozen or so workers.

Low wages. The grantees described post-RLF conditions as "slightly better." The grantees have not seen a significant rise in wages, although as local unemployment has dropped, there have been slight wage increases in certain economic sectors.

The RLF's role has been minimal in affecting the slight increase in wages. One reason, according to most grantees, is that most RLF loans are producing jobs that pay at, or near, the prevailing wage rate in the community.

Unskilled labor. The grantees described post-RLF conditions as "better." The RLF staff believe that improving the skill level of the workforce is the greatest need to be addressed; however, it is also the area in which the RLF has the least effect. Most of the improvement on this issue has been the result of individual initiative on the part of workers, job-training programs sponsored by local businesses and indus-

Grantee: City of Camden, Division of Economic Development. Santana's Bakery received a $30,000 RLF loan that leveraged $53,000 in private funding. The loan helped create two jobs and save two jobs.

tries, and JTPA. Many of the EDDs, particularly in rural areas, provide job training with JTPA funds.

The RLF's role in increasing the skill level of the workforce has been minimal. RLF monies typically are not used to fund job-training programs; however, many of the RLF staffs, particularly at EDDs in rural areas, also serve as JTPA staff, so there is close coordination between the two economic development activities.

Inadequate infrastructure. The grantees described post RLF conditions as "slightly better." Most of the improvement in this area has been the result of federal and state financial aid for highways and water and sewer facilities. Many RLF staffs, particularly those at EDDs in rural areas, help to acquire and implement infrastructure funding (e.g., an EDA public-works grant). Work in the area of infrastructure is usually supported by EDA public works funds or other funding sources available to EDDs.

The RLF's role in improving infrastructure has been area is attributed primarily to the strong national economy and to federal and state aid for public works projects and the rehabilitation of old industrial buildings and sites. EDA public works grants play a major role in this area of improvement.

The RLFs have played a moderate role in improving industrial sites. Several RLFs have had a direct impact on reclaiming abadoned industrial sites by funding businesses to rehabilitate and occupy old industrial buildings. RLFs also directly impact new industrial parks and downtown business areas in need of rejuvenation by funding businesses that will locate in these areas. Examples of RLFs that have had a direct effect are those administered by the TLN (Chehalis, Washington) and the SLRCG (Sumter, South Carolina).

Unstable neighborhoods and communities. The grantees described post-RLF conditions as "slightly better." Instability of neighborhoods is still a problem at the highly urbanized sites (e.g., LA-CITY [Los Angeles, California]) and, to a lesser degree, in large urban centers like CLB-CITY (Columbia, South Carolina). Instability is also a problem also in small, remote communities (e.g., ADI [Juneau, Alaska]). Most of the RLF staffs at these sites report that there has been no substantial change in the overall status of

this problem. Although there are "spots here and there" where some improvement is discernible, the improvement is minimal when compared with the scale of the problem.

RLFs have played a moderate role in addressing this problem in neighborhoods and small, remote communities. They have helped in at least four ways:

- by funding neighborhood-level retail trade and services that address the basic, everyday shopping needs of the residents (e.g., grocery stores in South-Central Los Angeles and day-care centers in Alaska's remote communities);
- by lending to minority applicants who can serve as entrepreneurial role models and who offer retail products and services that cater to minority interests (e.g., TIER [Binghamton, New York]);
- by lending to applicants who will restore and occupy neighborhood and downtown buildings (CLB-CITY [Columbia, South Carolina]); and
- by lending to projects that will clean up hazardous waste sites as part of new building constructio

assistance would reduce the funds available for lending. Some EDD staffs that are supported by EDA planning-grant funds provide some business assistance, but most of them feel that this assistance is too limited and that more funding is needed. Several interviewees feel that the SBDCs (Small Business Development Corporations), which are funded to perform some of this type of support, often are located too far away for businesses to use or are unable, for various reasons, to supply the quality of support needed on a consistent basis. Nonprofit groups (e.g., SCORE) do not exist near many of the sites, and, when such groups do exist in reasonable proximity, the performance of some of them is not consistent. The result is that neither the RLFs nor the other economic development activities have had a significant effect on improving entrepreneurial competencies.

Failing local tax revenues. The post-RLF conditions were described as "better." As is the case with a number of the economic adjustment problems, most of the credit for improvements in local tax revenues is

Grantee: City of Camden, Division of Economic Development. Santana's Bakery received a $30,000 RLF loan that leveraged $53,000 in private funding. The loan helped create two jobs and save two jobs.

tries, and JTPA. Many of the EDDs, particularly in rural areas, provide job training with JTPA funds.

The RLF's role in increasing the skill level of the workforce has been minimal. RLF monies typically are not used to fund job-training programs; however, many of the RLF staffs, particularly at EDDs in rural areas, also serve as JTPA staff, so there is close coordination between the two economic development activities.

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The RLF's role in improving infrastructure has been minimal. RLFs are not established to finance the construction of public infrastructure such as roadways, water facilities, sewer facilities, and public buildings. Therefore, the RLFs do not have a direct impact on that type of infrastructure.

Inadequate industrial sites. The grantees described post-RLF conditions as "better." Improvement in this area is attributed primarily to the strong national economy and to federal and state aid for public works projects and the rehabilitation of old industrial buildings and sites. EDA public works grants play a major role in this area of improvement.

The RLFs have played a moderate role in improving industrial sites. Several RLFs have had a direct impact on reclaiming abadoned industrial sites by funding businesses to rehabilitate and occupy old industrial buildings. RLFs also directly impact new industrial parks and downtown business areas in need of rejuvenation by funding businesses that will locate in these areas. Examples of RLFs that have had a direct effect are those administered by the TLN (Chehalis, Washington) and the SLRCG (Sumter, South Carolina).

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Grantee: Southeast Idaho Council of Governments. Mac's Pub, in downtown Pocatello, Idaho received an RLF loan for $30,000 in June 1999. The loan created three new jobs and leveraged $10,000 in private-sector investment and $20,000 in owner's equity. Mac's Pub is owned by an Irish family and is the only Irish bar in eastern Idaho. Customers enjoy a wide variety of beer and ale, light food, and live music. The pub also sponsors pool and dart leagues and tournaments.

this problem. Although there are "spots here and there" where some improvement is discernible, the improvement is minimal when compared with the scale of the problem.

RLFs have played a moderate role in addressing this problem in neighborhoods and small, remote communities. They have helped in at least four ways:

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- by lending to minority applicants who can serve as entrepreneurial role models and who offer retail products and services that cater to minority interests (e.g., TIER [Binghamton, New York]);
- by lending to applicants who will restore and occupy neighborhood and downtown buildings (CLB-CITY [Columbia, South Carolina]); and
- by lending to projects that will clean up hazardous waste sites as part of new building construction (LA-CITY [Los Angeles, California]).

Lack of entrepreneurship. The post-RLF conditions were described as "better." The interviewees believe that entrepreneurship, has increased substantially (i.e., numbers of new entrepreneurs) as a result of both the expanding national economy and the efforts of the RLF. The concern of most of the interviewees, however, is that entrepreneurship has not substantially improved *qualitatively:* that is, they feel that many entrepreneurs do not have the business skills, leadership skills, and other requisites for operating a business successfully over time.

Most of the grantees feel strongly that their RLFs have contributed substantially to entrepreneurship in their areas. Many of them do not feel, however, that they should use RLF monies to provide critically needed managerial, business-planning, and other forms of technical assistance because the provision of such assistance would reduce the funds available for lending. Some EDD staffs that are supported by EDA planning-grant funds provide some business assistance, but most of them feel that this assistance is too limited and that more funding is needed. Several interviewees feel that the SBDCs (Small Business Development Corporations), which are funded to perform some of this type of support, often are located too far away for businesses to use or are unable, for various reasons, to supply the quality of support needed on a consistent basis. Nonprofit groups (e.g., SCORE) do not exist near many of the sites, and, when such groups do exist in reasonable proximity, the performance of some of them is not consistent. The result is that neither the RLFs nor the other economic development activities have had a significant effect on improving entrepreneurial competencies.

Failing local tax revenues. The post-RLF conditions were described as "better." As is the case with a number of the economic adjustment problems, most of the credit for improvements in local tax revenues is given to the nation's expanding economy during the mid- and late-1990s. In most instances, however, the condition has not improved to the level where continued federal and state assistance is not needed. Lost tax revenues at sites dealing with LTED and at sites dealing with SSED (particularly military-base closures and cuts in defense contracting) are still a significant problem.

The interviewees appear to be of two minds regarding the role of RLFs in contributing to this improvement; some describe the program's role as major, others describe the program's role as moderate. Many of the interviewees believe that their RLFs have played a major role because of the amount of private capital leveraged by the loans, the number of new businesses supported, and the number of jobs created and retained. Others believe that, given the large size of most of their local economies, the percentage contribution made by RLF loans may be relatively small. This is particularly the feeling among RLF staffs at EDDs where the loans often are spread over several counties and municipalities. Regardless, the general belief is that as the small start-up and expansion businesses funded by the RLFs mature, they will contribute significantly to local tax revenues.

Outmigration of workers. The post-RLF conditions were described as "slightly better." Outmigration of workers occurred primarily at sites dealing with LTED and at sites dealing with SSED in cases of military-base closures and reductions in defense contracting. It was not as big a problem at sites dealing with natural disasters. Many of the LTED sites are still experiencing this outmigration, although, in some cases, at a reduced rate. To the extent that this outmigration included unemployed workers, there was a positive effect in terms of stemming the rising unemployment rate that existed prior to the RLF grant. Unfortunately, many of the workers who leave grantee sites to take jobs in communities that have job surpluses are the higher-skilled workers.

The RLFs have played a moderate role in addressing this problem. Most of the interviewees believe that the RLF program helped to absorb displaced workers but that the fund was too small to have a major impact. They also feel that as funded businesses mature and begin to expand, the impact could well be "major."

Outmigration of young people. The post-RLF conditions were described as "slightly better." Grantee sites experiencing greatest outmigration of young people are the rural sites that have been dealing with LTED (particularly in agriculture, mining, and lumbering) over the past two decades. Before the 1990s, many of the young people leaving the sites were escaping low-paying agricultural, mining, and lumbering jobs. With the recent boom in high technology, however, many of the young people are being attracted to other areas by the higher pay and increased career potential offered by this sector.

The RLFs played a moderate role in addressing their problems. They have tried to stem the outmigration of young people in three ways:

- by creating jobs that offer livable wages;
- by funding retail trade and services businesses that will offer products and services attractive to young people (e.g., the SICOG [Pocatello, Idaho]); and
- by funding basic retail trade and services that will help stabilize urban neighborhoods (e.g., LA-CITY [Los Angeles, California]).

Unique Issues at SSED Sites

RLFs funded for disaster- and defense-related SSED are dealing, at least initially, with a temporary dislocation of the local economy. The following discussion focuses on the unique circumstances at these sites.

Natural disasters. Descriptions of post-RLF conditions were mixed. Depending on the type and scale of the natural disaster experienced at the site, the length of time that has passed since the disaster struck, and the length of time that has ensued since the grantee received the RLF grant, interviewees gave different

Grantee: South Central Planning Development Commission. Located in Belle Rose, LA, Shelby Gaudet contractors received a $61,030 RLF expansion loan in 1997. This loan leveraged $193,679 in private funding and created 10 additional jobs.

Grantee: South Central Planning Development Commission. Front view of Copeland's Restaurant, which started with a $250,000 RLF loan. This loan leveraged $1.55 million of private-sector investment and new equity and created 125 jobs. The loan was fully repaid in 1999.

views on post-RLF conditions. Responses ranged from "better" to "no change."

Most of the RLFs dealing with disaster are dealing with LTED as well. As a result, RLFs tend to deal with the disaster in broad terms, providing loans to any qualified applicant who will create jobs or retain existing jobs; that is, the loans generally are not focused only on the businesses that were destroyed by, or had to be relocated because of, the disaster. In most cases, businesses and residents suffering losses receive disaster-recovery assistance from other EDA programs and from other state and/or federal agencies (e.g., FEMA). As a result, the RLF is usually viewed as a moderate factor in producing positive change in LTED and as a minimal factor in helping to overcome the effects of the disaster.

Military-base closures. The post-RLF conditions were described as "better." Primarily as a result of the dramatic expansion of the nation's economy over the past several years, the impact of base closures at most of the sites has not been as dire as originally expected. A good example of this phenomenon is the BCDCOG (North Charleston, South Carolina).

The RLFs have played a moderate role in addressing problems related to military base closures. As is the case with the RLFs dealing with natural disasters, RLFs dealing with base closures tend to provide loans to any qualified applicant who will create jobs or retain existing jobs. One of the typical goals of sites experiencing the effects of base closures is diversification of the local/regional economy to avoid a similar event in the future. Therefore, the RLF's role appears to be both logical and effective.

Cuts in defense contracting. The post-RLF conditions were described as "better." Two sites dealing with cuts in defense spending—CSDEDD (San Diego, California) and BCDED (Towson, Maryland)—report that their local economies have improved with ex-

Table 6
Status of Economic Adjustment Problems After the RLF Grant

Adjustment Problem	Magnitude of Change	Role of RLF Programs	Rationale for the RLF's Role
Lack of Available Capital	Better	Major	RLF program is a major source of gap financing
Unemployed Workers	Better	Moderate	Fund is too small to have a major impact
Low Wages	Slightly better	Minimal	Most jobs produced by loans offer wages that match the prevailing local wages
Unskilled Labor	Better	Minimal	Most job training is provided by businesses and JTPA
Inadequate Infrastructure	Slightly better	Minimal	New and expanded infrastructure undertaken with other grants
Inadequate Industrial Sites	Better	Moderate	Helps provides tenants when possible
Unstable Neighborhoods	Slightly better	Moderate	Helps provide neighborhood retail; fund is too small to have a major impact
Lack of Entrepreneurship	Better	Major	RLF program is a major source of entrepreneurial support
Failing Local Tax Revenues	Better	Major/ Moderate	RLF program has a major impact overall, but it is often spread too thin
Outmigration of Workers	Slightly better	Moderate	Helps create some new jobs; fund is too small to have a major impact
Outmigration of Young People	Slightly better	Moderate	Helps provide youth retail; fund is too small to have a major impact
Natural Disasters	Mixed	Mixed	Fund is too small to have a major impact
Military-Base Closures	Better	Moderate	Fund is too small to have a major impact
Cuts in Defense Contracting	Better	Moderate	Fund is too small to have a major impact

Source: Data from field interviews undertaken by The Epling Corporation.

pansion of the nation's economy, particularly in the high-technology fields.

The RLFs have played a moderate role in addressing the effects of cuts in defense contracting. The RLF staffs at both sites credit the RLF with contributing to the improvement, but the small size of their funds compared with the large scale of their economies prevents the RLFs from having a major impact. Table 6 summarizes the status of economic adjustment problems after the RLF grant and the role that the RLF played in dealing with the problems.

RLF Management

Administration. There are several issues related to RLF management that might affect program performance: charging program costs, overseeing multiple RLFs, subcontracting, RLF sustainability, staffing, and turnover in staff. The method of charging RLF program costs varies depending on the size and complexity of the parent organization. Many of the RLF staff members work only part-time on the RLF. This is particularly true of administrative personnel—secretaries, bookkeepers, etc.—and, in a number of cases, the RLF directors. At the large, complex parent organizations, staff often administer RLFs other than EDA

Grantee: Clark County Economic Development Corporation. Located in Greenwood, WI, Haas Towels is a minority-owned business that received a $15,000 RLF retention loan in 1998. The loan leveraged $75,000 in private funding and saved one job.

RLFs, and they also often support other business development and support programs unrelated to the RLF. The positions of many of these staff members are funded from general revenues.

The situation at smaller parent organizations, particularly the EDDs, is different from that described above. Unlike cities, counties, and states, EDDs do not have taxing authority and must depend on "annual contributions" from their local governments, state and federal grants-in-aid, fees for service, and several other small and often undependable sources of revenue to support all of their programs. In fact, most EDDs fund their RLF staff, in large part if not fully, with EDA planning-grant funds.

Most of the RLF staffs manage multiple RLF programs. For example, PADD (Mayfield, Kentucky) and the SLRCG (Sumter, South Carolina) administer five RLFs each; and the NDPDD (Batesville, Mississippi), BCDCOG (North Charleston, South Carolina), SICOG (Pocatello, Idaho), and GEODC/NEOEDD (Pendleton, Oregon) administer four RLFs each. Managing multiple RLFs offers the EDA RLF several advantages:

- it increases the amount of dollars available for lending;
- it helps RLFs build toward a combined capital base that eventually could make their programs financially sustainable;
- because there is more lending, it raises the stature of all the RLFs in the communities and regions; and
- for all these reasons, it encourages parent organizations to allocate more resources to the RLFs.

The most popular federal revenue sources for RLFs, in addition to EDA, are the SBA's 504 program, the SBA's MicroLoan program, the USDA's RD-IRP program, and HUD's CDBG program. In at least one case, the U. S. Forest Service funded an RLF. There are other sources of funds as well. The state of Washington's RLF, which is unique among the states in terms of scale and breadth of funding sources, includes funds from banks, corporations, individuals, foundations, and religious institutions. Maryland has an RLF that allows lending agencies (e.g., BCDED) to submit applications on behalf of local businesses.

Examples of local governments that have used CDBG funds to create RLFs include the City of North Charleston, South Carolina and Charleston County, South Carolina. In a number of these cases, an EDD (e.g., BCDCOG) might administer the local RLF, and in other cases the EDD might simply work closely with the RLF's administrator. An example of an RLF program funded by private-sector sources is CSDEDD (San Diego, California); banks have contributed to a separate RLF fund.

Grantee: City of Fort Worth. Joe T. Garcia's Mexican Restaurant is a business owned by Lancarte Trust, that received an $58,000 RLF expansion loan that leveraged $72,500 in private funds and $14,500 in equity. This loan created four jobs.

Grantee: Greater Egypt Regional Planning and Development Commission. The Print Shop is a minority-owned business located in the central business district of Sesser, IL, a former coal mining community. In 1992, this printing and stationery business received a $22,500 RLF retention loan that leveraged $45,000 in private funding. The loan saved three jobs.

Few of the RLFs subcontract their activities, although they do pay fees for such services as title searches, credit checks, and other services involved in closing loans. The primary reason they do not subcontract services is to reduce RLF expenditures by making maximum use of whatever in-house resources are available. In some areas, such as promotion, economic-sector analyses, and credit-risk analysis, an adequate level of in-house expertise may not exist, and simply using whatever staff resource is available could, in the long term, negatively affect RLF outcomes.

These are exceptions to this general rule. The RLF at CSDEDD subcontracts its legal services, credit-underwriting services, business-plan evaluation, and technology-assessment services. TLN (Chehalis, Washington) was created as an independent agency to implement RLF lending, and it subcontracts with the EDD for technical assistance, administrative support, and other services. Almost all of the RLFs pay fees to title companies and attorneys to close loans.

Sustainability refers to an RLF's ability to pay the basic staffing and administrative costs necessary to operate the RLF without subsidy, and to have a reasonable amount of funds remaining to meet the demand for loans. Given the above definition, none of the grantees felt that their RLFs were sustainable, particularly if the full costs of activities necessary to maximize RLF outcomes are included. RLF staffs named the following as "necessary activities": job counseling; leadership and entrepreneurial training; and technical and managerial assistance, including guidance in bookkeeping, product marketing, and company promotion. Several interviewees believe that their RLF capital fund would have to reach at least $5 million before they would consider it to be sustainable. For reasons explained above, the large parent organizations (i.e., cities, counties, and states) tend to be less concerned about the issue of sustainability.

Sustainability is a larger issue for the EDDs and other small, independent RLFs.

Two staffing issues were addressed during the interviews: staff size and staff turnover. Interview discussions regarding the size of the staff specifically administering the EDA RLF often were complex. As described above, most of the RLF staffs administer more than one RLF as well as other types of business assistance programs. Most staff time in RLF lending is consumed in the following activities:

- interviewing prospective borrowers
- providing business-plan assistance and advice
- reviewing applications
- analyzing credit histories
- obtaining RLF board approval
- originating the loans

After a loan is made, considerably more time is required if there are repayment problems. Most of interviewees said that they usually visit a borrower's site or call approximately once each quarter, perhaps less often if the business is doing well. Record keeping and reporting to EDA and other funding sources consume time as well.

The responsibility for performing some of these activities is shared with or delegated (by the RLF director) to other staff in the larger parent organization. Some of these staff members are included in the "overhead" of the organization (e.g., secretaries and bookkeepers), so their time is never attributed specifically to the RLF; yet they often perform administrative duties essential to the RLF (e.g., monitoring borrowers). Because bits and pieces of numerous staff members' time are given to several RLF and business-support activities, an accurate reading of actual staff time spent on the EDA RLF is almost impossible to obtain.

Grantee: Lower Brule Sioux Tribal Planning Department. Lower Brule Sioux Tribe's buffalo herd.

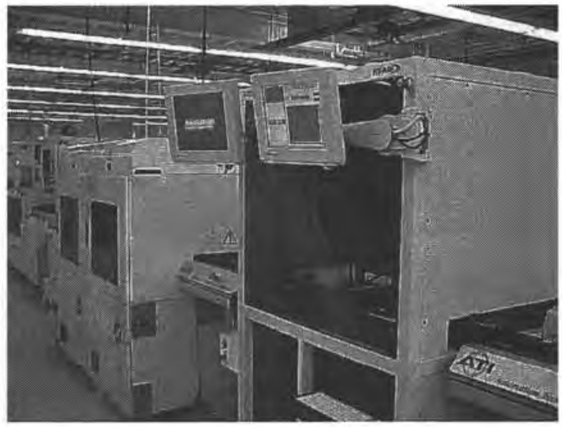
Most of the interviewees report that there has been little turnover in staff. Where there has been turnover, the principal reason is "higher pay in the private sector"—although one RLF director stated that his RLF actually draws people from the private sector because it has built a reputation for expertise in financing high-technology enterprises. At sites where there has been turnover, the results are mixed. At a couple of sites where the turnover has been particularly high, the impact has been negative because it damaged networking relationships with private-sector lenders, increased the need for training of new staff, and slowed the pace of lending. In most cases, the RLFs have one principal staff member who administers the RLF, maintains network participation, serves as a liaison with funded businesses, and works with the RLF board to decide which new applications to approve. Loss of this key person slows down these processes and activities until a replacement is employed, is trained, and reestablishes relationships.

Networking. Networking in RLFs has two components: networking with other public-sector organizations and networking with private-sector organizations and individuals.

Networking with other public-sector organizations occurs primarily with other RLFs, and the networking occurs at the national, multistate-regional, state, and substate-regional levels. At the national level, most of the networking occurs at meetings of national public-interest organizations, for example, the National Association of Development Organizations (NADO) and the Council for Urban Economic Development (CUED). Both national and multistate-regional networking also occurs at meetings of federal agencies, for example, at EDA's annual meetings and annual meetings of the Appalachian Regional Commission. State-level networking occurs at statewide meetings of substate-regional councils (e.g., COGs and EDDs), and, in cases where there are numerous RLFs in a state, at regular meetings of RLF staffs (e.g., the state of Washington). At the substate-regional level, networking occurs between RLF staffs who administer RLFs for separate local governments in a region. Several of the interviewed RLF staff members play leadership roles in the various levels of networking (e.g., TLN and BCDED).

Networking with private-sector organizations (e.g., banks, venture-capital organizations, individuals, and foundations), can be formal or informal. Formal networking occurs when RLF staff members are active members of an organization specifically created to share information and experiences in capital lending to businesses. The interviews revealed that few RLF staff members belong to formal networks. The reason appears to be that most of the formal networks are created only for private-sector lending organizations. Nevertheless, two of the RLFs visited by the researchers (CSDEDD and LA-CITY) either have existing ties or are developing close ties with formal networks in their areas. Most of the RLF staffs engage in informal networking, which includes such activities as having lunch with a local bank's business-lending official, "dropping by the bank to say hello," or making presentations at meetings of local civic and business organizations (e.g., Rotary Clubs, chambers of commerce, boards of trade).

According to the interviewees, networking, both formal and informal, is the activity that suffers most when there is high staff turnover in the RLF. Most of the interviewees believe that effective networking is essential to the success of an RLF, and because it takes time to develop the trust, respect, and interpersonal relation-



Grantee: City of San Diego Economic Development Division. Vectron's K2-AOI unit is on line at QualComm. The K2-AOI unit inspects populated printed circuit boards in either pre- or post-oven in-line inspection. The system provides accurate, reliable, and high-speed detection of missing components, wrong components, high-angle tombstones, strong polarity, skewed components, as well as shorts or solder bridges on leads. Vectron claims that the unit is faster as well as more accurate and more reliable than other systems in the market. Vectron received a $125,000 RLF loan in 1995.

ships required to become an accepted participant in these networks, the RLF program suffers when staff leaves, particularly when a key program staff member leaves.

Partnerships. Most of the RLF partnerships are informal; programs primarily keep each other informed of potential borrowers and share information. In this sense, these partnerships are not much different from networking relationships.

In terms of relationships between the RLFs and other types of organizations, the few partnerships that do exist tend to be formal. The relationship between the TLN (Chehalis, Washington) and the Lewis County Economic Development Council is a good example. According to the TLN interviewee, the partnership provides for administrative support, shared facilities and services, and cooperative policy formulation. In another type of formal partnership, an RLF agrees to administer an RLF for a local government; for example, the BCDCOG administers the RLF of Charleston County, South Carolina. Another formal partnership arrangement requires an RLF staff or board member to serve on the board of directors of another RLF. For example, a staff member of the NDPDD's RLF (Batesville, Mississippi) has a seat on the RLF board of directors for the city of Batesville's RLF, and the director of the BCDED RLF (Towson, Maryland) has a seat on the board of directors for Maryland's RLF.

Based on the RLF interviews, there does not appear to be any unwillingness to enter into partnerships when there are positive results for the parties involved. There also does not appear to be any negative effects when a partnership is informal instead of formal.

Planning and Structural Change

The Environment of Structural Change

Structural change takes place in environments where economic conditions are not so severe that basic economic survival is not the dominant issue and in situations where the level of economic development activity relative to the size of the local economy is capable of a measurable impact. There are at least 12 of the 30 grantee sites where there are very severe economic conditions or the local economy is so large that the focus of planning cannot be economic restructuring (see Table 7). These are typically Northeast or Midwest counties or central cities regarding severe conditions and Southern counties regarding scale disparities. In the first case, the primary job of planning is across-the-board economic regeneration regardless of type of, or the wages paid by, the new or retained employment. In other words, retail and low-level personal service businesses are suitable loan recipients because the employment and wages that they generate are better than no employment or wages at all. In the second case, generating a relatively small number of jobs in the midst of a large economic base can have very little effect on economic restructuring. Several active RLFs generating 2,500 jobs in a labor market of 500,000 employees will not move the area in any significant or sustained direction. All of the most careful planning could go for naught because more change is happening in the large base that one can't control than is being contributed through the efforts of targeted economic development.

On the other hand, there are locations where economic conditions are not so intense and the economic base is relatively small such that reasonable levels of economic intervention are successful and are contributors toward economic restructuring. Here, EDA planning in the form of both the CEDS and RLF Plan is having a documented effect. The employment base is being diversified, the stage of production is being advanced, wages are increasing, and regional imports are diminishing. The way that this can happen is through very aggressive economic development planning followed by support programs for implementation. In 12 of 30 of the grantee sites, or about 40 percent, this type of change is happening.

Shifts in the Stages of Production

One of the issues explored with the RLF staff at each site was whether or not the RLF grant had been instrumental in moving the area's economy from a lower stage of production to a higher stage. The staffs were to identify this movement between the four stages of production:

1. primary production (e.g., agriculture, mining, and timber)
2. simple manufacturing (i.e., processing of local primary products, for example, food processing and lumber milling
3. fabricative manufacturing (i.e., manufacturing that uses as input already-manufactured products, for example, furniture, apparel, industrial machinery, electronic equipment, etc.)
4. producer services (business-oriented banking, insurance, finance, publishing, information processing, consultancy, planning, research and development, etc.)

Table 7
Planning and Structural Change—Planning and RLF Performance

Site	Economic Restructuring: Moderate or Significant Effect	Economic Restructuring: Little or No Effect	Comment on Economic Restructuring	RLF Performance: Moderate or Significant Effect	RLF Performance: Little or No Effect	Comment on RLF Performance	Overall Comments
AVCOG		X	Distress too severe	X		Redone CEDS and RLF Plan	Riskier loans; defaults in other
BCDCOG		X	Inappropriate scale		X	Aggressive RLF	Riskier loans
BCDED	X		Inappropriate scale	X		Focused RLF	Good management
CBAC		X	Distress too severe		X	Nonspecific RLF	Good consultant manager
CCEDC	X		Appropriate scale	X		Aggressive RLF	Riskier loans; higher default
CLB-CITY		X	Other objectives		X	Focused RLF	Well-performing RLF
CSDEDD	X		Planning in place	X		Focused RLF	Good consultant manager
DCED	X		Planning in place	X		Redone CEDS and RLF Plan	Well-managed RLF
EDCCM		X	Other objectives		X	Significant contracting out	Well-performing RLF
FCRPC		X	Other objectives		X	RLF Plan dated	CEDS—too general
FW-CITY		X	Other objectives	X		Aggressive RLF Plan	Riskier loans
GEODC/ NEOEDD		X	Other objectives		X	Nonspecific RLF	RLF and CEDS too general
GERPDC		X	Distress too severe		X	Nonspecific Plans	Well performing RLF
JFR		X	Distress too severe	X		Focused RLF	Good management
KDLG	X		Planning in place	X		Focused RLF	Good management
LA-CITY		X	Other objectives	X		Focused RLF	Good management
LBSTPD	X		Planning in place		X	Functioning CEDS and RLF Plan	Slow in initiating
NCPC	X		Appropriate scale	X		Focused RLF	Good management
NDPDD		X	Distress too severe		X	Nonspecific RLF	RLF running satisfactorily
NIPDC	X		Inappropriate scale	X		Focused RLF	Well-performing RLF
PADD		X	Inappropriate scale		X	Nonspecific RLF	Good loan review committee
R5DC	X		Appropriate scale	X		Specific RLF	Well-performing RLF
R8PDC		X	Distress too severe		X	Nonaggressive RLF	Competent in-house management
R9DC		X	Other objectives	X		Focused RLF	Well-performing RLF
SCPDC	X		Planning in place	X		Focused RLF	Well performing RLF
SICOG	X		Planning in place		X	Nonspecific RLF	Well performing RLF
SLRCG	X		Inappropriate scale	X		Specific RLF	Good management
TIER		X	Distress too severe	X		Aggressive RLF	Riskier loans; high default
TLN		X	Inappropriate scale	X		Focused RLF	Good CEDS
UBAOG		X	Distress too severe	X		Aggressive RLF	Riskier loans; higher default
Total	12 40%	18 60%		18 60%	12 40%		

Many of the interviewees said that their communities and/or regions had experienced at least some shift in the stages of production. At some of the sites, shifts in the stages of production occurred at two levels of geography: one level includes urban centers and the other level includes surrounding rural lands and small rural communities. For example, the RLF staff for ADI (Juneau, Alaska) noted that while most of the state's small rural communities are still in the primary-production stage, there has been discernible movement toward simple manufacturing in these areas and, in the larger cities like Anchorage, Ketchikan, and Seward, there has been movement toward producer services, particularly in the form of information processing. Similarly, the RLF staff at the AVCOG (Androscoggin, Maine) noted that "... the dominant stage industry in the Lewiston-Auburn area shifted from fabricative manufacturing to producer services. In the remaining area of AVCOG primary production continues to prevail but tourism and medical industries have become strong throughout the Valley."

Five (17 percent) of the 30 interviewees stated that the RLF program had been "instrumental" in the shift from one stage of production to another. Of the remaining 25 interviewees, 23 (77 percent) stated that the program, if not instrumental in a shift, was at least "helpful," "favorable," or "enhancing," or "deserves some credit." Only two of the interviewees (7 percent) indicated that the RLF had no effect; and in both cases, there had been no shift in the stages of production. In the cases in which there was no shift, interviewees indicated that the RLF program at least helped to "stem decline" in some economic sector or helped to "diversify the economy." The most common reason given, both explicitly and implicitly, for the RLF not being instrumental in a shift was that the fund was too small to effect dramatic economic changes.

Changes in the Mix of Retail Trade and Services

Most of the interviewees said that loans to retail-trade and service businesses usually did not generate many jobs, nor did such loans leverage much private capital. Typically, loans to retail trade and service businesses were made for the following reasons;

- *To support high-priority businesses and industries.* The BCDCOG, for example, provided a loan to a bed-and-breakfast in the center of the Charleston, South Carolina, tourist district to support tourism, one of the city's major economic sectors.
- *To provide basic neighborhood and community services.* ADI (Juneau, Alaska), for example, provided loans for a day-care center in a small, remote community, and LA-CITY provided a loan to rebuild a grocery store in South-Central Los Angeles.
- *To rehabilitate buildings and sites in renewal areas.* For example, CLB-CITY provided loans to rehabilitate two buildings (one now a restaurant; the other an office building) in downtown Columbia, South Carolina.

Grantees often feel pressed to make loans for retail-trade and service businesses when funds are available and there are no applications for loans to high-priority businesses. Some grantees, like CSDEDD (San Diego, California) and BCDED (Towson, Maryland), typically will not make loans to retail-trade and service businesses because they receive sufficient applications in their highest priority area—high-technology companies.

Planning and RLF Performance

The Effect of Planning

In 60 percent of the 30 cases studied, planning, primarily in the form of the RLF Plan, was highly instrumental in the performance of the RLF. In these 18 cases, the structure of Part I (goals) and Part II (procedures) of the RLF Plan helped in targeting the activities of lending and also in administering and overseeing the loan (see Table 7). Where planning was instrumental in (1) servicing the correct population, (2) structuring the loan, and (3) overseeing its performance, RLF plans were usually focused, current, and referred to on a daily basis. Where there was little effect, the RLF Plan was dated, unfocused, and often unobserved during the course of daily operations.

In some cases, RLFs could simply get by with good loan officers, often with experience from the banking industry. Yet, the really successful sites, that were able to lend to marginal clients and still exact a respectable level of default and growth of the capital base, were those sites where strong observance of current RLF plans took place.

EDA Planning (the CEDS and RLF Plan), long known as the fabric within which many different federal program operations take their guidance, appears very instrumental in the successful operation of RLFs. The RLF Plan, in particular, seems to provide just the right amount of goal structure (Part I) to determine who is the client, and just the right amount of administrative procedure (Part II), to provide for successful loan operations.

Nonetheless, there are successful RLFs that operate in situations where the planning documents are neither specific nor very current. These are situations where (1) in-house staffs run several RLFs from multiple agencies, (2) a former banking industry employee is the loan officer, or (3) a consulting group manages the RLF. In each of the above cases—a large professional staff, an employee with prior loan administrative experience, or a consulting group whose income depends upon efficient management, respectively—RLFs can be well managed unrelated to the level or the currency of the planning in place.

There are one or two grantee sites where, in an absence of planning, the RLF did not appear to be performing well. However, there were no instances where with planning in place, current and observed, the RLF was not performing well.

Other Effects

The following seven factors, that might affect the performance of RLFs emerged during the interviews: organization arrangements; the role and composition of boards of directors; managing risk; RLF management; networking; partnerships; and marketing.

Organizational arrangements. The RLFs visited by the researchers exist in a multitude of organizational forms. Most are located in parent organizations that have other programmatic duties and responsibilities. The lone exception is the TLN (Chehalis, Washington). The RLF staffs of parent organizations are typically located in the economic development departments of cities, counties, states, or EDDs. Within these departments, at least three conditions can exist that potentially affect the strength of the linkage between the CEDS and the RLF Plan: the knowledge of the RLF staff concerning the CEDS, the financing and sustainability of the RLF, and RLF direction and outcomes.

The extent to which the RLF program is administratively entangled in a complex bureaucracy. An RLF staff operating in a large, complex city, county, or state bureaucracy (EDDs are usually not very large or complex) experience several vexations. First, they often have to share control over decisions concerning budget, personnel, payroll, and related matters that are cumbersome and time-consuming. This frustrates the staff and often results in staff turnover. Second, the RLF program, because of its typically small budget and staff, is often overlooked in the day-to-day operations of the parent organization. Third, because RLF loans support private enterprise and not the parent organization's capital outlays (e.g., helping to pay for the expansion of a road or a sewer line), the RLF is often regarded as somewhat of an anomaly in the government agency.

The extent to which the RLF staff is a key player in helping to establish economic development policy, particularly as contained in the CEDS. As a general rule, the larger and more complex the parent organization, the less involved the RLF staff is in significantly influencing economic development policy. Among the sites, there was no instance in which an RLF was excluded from policy determinations, but the linkage is clearly weak in the larger organizations. Several staff members of RLFs located in large, complex organizations were not sure who or what agency prepared the CEDS, when it was last updated, or what goals, objectives, and strategies in it were pertinent to the RLF. Nevertheless, these interviewees appeared to have a sound understanding of the economic development problems that the RLF addresses.

The RLF staffs at the EDDs appear to have a strong role in helping the parent organization formulate economic development policy. In fact, many RLF staffs serve as leaders in formulating the CEDS and in implementing other economic development programs. The RLF staffs at the EDDs also tended to be quite knowledgeable about the contents of both the CEDS, and the RLF Plan. The only exceptions were recently hired staff members. TLN (Chehalis, Washington), because of its collocation and close administrative relationship with its EDD, reflects these same characteristics.

Role and composition of boards of directors. In most cases, the boards of directors of RLFs located in large, complex organizations are made up of other staff from the parent organization. These boards appear to be performing all of the formal roles expected of them in terms of overseeing the RLF, approving the RLF Plan, approving loans, etc. However, the researchers did not get the sense that the boards were as actively engaged in their RLFs as were the boards for programs located in smaller organizations—for example, those located at the EDDs (including the TLN). Most of the boards associated with the EDDs contain a broad array of public officials, minority-group members, bank representatives, and local business officials who "have their fingers on the pulse" of the local economy and have a sense of what would be good or bad local investments. Many of these EDD board members often know the managerial capacity and character of loan applicants. This level of knowledge may be next to impossible to achieve for RLF boards operating in large metropolitan areas and at the level of state government. It appears that the latter boards rely heavily on credit reports and other formal devices in making decisions on loans. How this difference in the role of RLF-program boards of directors affects program outcomes is not entirely clear, particularly from a statistical standpoint. However, many of the EDD staffs believe that, given the paucity of entrepreneurial talent and skills in their areas, the role played by their board members has helped to prevent unwise loans and has contributed significantly to successful program outcomes.

Managing risk. The interviews revealed that there is a tension in RLF lending with which banks and other private lenders do not have to deal. This tension is created by the mission of RLF programs to reverse LTED or SSED in an area while maintaining a well-performing portfolio of loans. As a result, RLF staffs are frequently required to answer the following question: "Do we make this high-risk loan to achieve potentially higher economic benefits than usual, or do we select another project that offers lower economic benefits but is safer in terms of the loan being repaid."

All of the RLF staffs interviewed had sound knowledge of and appreciation for EDA's objectives for the RLF program, and the staffs were committed to

Grantee: North Central Planning Commission. Located in Rolla, ND, the Rolla Seed Company cleans grain to a certified level, giving it added value by reselling the grain as certified seed. In 1996, the company received a $35,000 RLF expansion loan that leveraged $35,000 in private funding and $7,000 in new equity. An additional 2.5 jobs were created.

achieving those objectives. The staffs also know, however, that they must maintain a well-performing portfolio because each default reduces the amount of RLF capital available for lending.

The ideal situation for dealing with this tension appears to exist where there is a large pool of RLF applicants who are likely to repay the loans and who propose to start or expand businesses that have potentially great economic benefits. While this situation is not common, it seems, based on the interviews, to appear most often with RLFs operating in urban areas and dealing with SSED that involves either reductions in defense contracting or natural disasters. First, urban areas have the breadth of resources, markets, suppliers, and networking infrastructure that support fledgling businesses. Most rural areas lack those advantages. Second, reductions in defense contracting typically create pools of highly educated, new entrepreneurs with strong knowledge and skills in the products or services being offered, and natural disasters typically involve reestablishing businesses that were, at least in some measure, successful before the disasters. Two examples of RLFs in this situation are CSDEDD (San Diego, California) and BCDED (Towson, Maryland), both of which are dealing with SSED because of reductions in defense contracting.

The least ideal situation for dealing with the tension in RLF lending exists where there is a small pool of RLF applicants (1) who can reasonably be expected to repay the loans and (2) who propose to start or expand businesses with only marginal economic benefits. This situation appears to surface most often with RLF programs operating at EDDs in rural areas and dealing with LTED. Unlike their RLF-program coun-

Table 8
Grant Type, Completion, and Funding

Classification of Projects		
Purpose	Number	Percentage
Long-Term Economic Development Deterioration (LTED)	19	63.3
Sudden and Severe Economic Dislocation (SSED)	11	36.7
Defense Adjustment	(2)	(6.7)
Disaster Recovery	(1)	(3.3)
Other	(8)	(26.7)
Total	30	100.0

Project Completion	
Status	Percentage
Up and Running	100.0
On Time	50.0
Overall Project Funding (Median)	
Total Funding	$1,281,026
EDA Funding	$786,699
EDA Share	75%*

* EDA share is not the simple ratio of the first to the second cost number when medians are employed

Source: CUPR, Rutgers University.

terparts in urban areas, many of these rural RLF programs have had to develop unique methods to reduce risk to an acceptable level. The program at SICOG (Pocatello, Idaho), for example, places a great deal of emphasis on the character of the applicant, in addition to his or her credit history, managerial skills, etc. Because the members of the RLF Board of Directors are public, business, civic, and minority officials drawn from communities across the region, they tend to know many of the applicants and often use this knowledge to help evaluate their risk potential. As stated in the preceding section, this approach would be very difficult to apply in a highly populated urban area or at the state level where it is unlikely that an official would have such knowledge of a particular applicant.

Direct RLF-Related Results

The above sections examined the role of grantee RLFs primarily in terms of their effects on the specific economic development problems experienced at the sites. This section looks at the broader effects of RLFs on the overall economy of communities and regions. The section begins with a statistical analysis of the RLFs in terms of jobs created, private-sector dollars leveraged, etc.

Project Completion

Flexibility is the attribute that characterizes the best of the RLF industry. The unstructured nature of the RLF industry is a great asset that allows RLFs to innovate and adapt rapidly to demand variations. RLF administrators can structure the criteria of loan eligibility, the terms of assistance, and the repayment provisions depending on the financial needs of each individual business. Flexibility makes RLFs more effective at promoting business development, creating jobs, and developing economic self-sufficiency in underserved markets.

The interplay between flexibility in lending and the minimization of risk is a daily reality for most RLFs. If RLFs fail, it is because this balance has not been achieved. Of the 30 RLFs in the sample, all were up and running and half distributed their funds according to schedule (all monies distributed in three years) (see Table 8). Of the 30 up and running RLFs, all were completed at the time of analysis. RLF dollars loaned were equal to or larger than the total amount of the original grant.

Information obtained from EDA's records indicates that for the projects analyzed here, the median RLF

Table 9
RLF Employment Creation/Retention and Cost

Project Job Creation/Retention	
Percentage of Projects that Produced or Retained Permanent Jobs	100.0
Number and Cost per Job	
Total Number of Jobs	18,610
Number of Jobs per $1.0 Million of EDA Funding	377
EDA Cost per Job	$4,043
Number of Jobs per $1.0 Million of Total Investment	279
Total Cost per Job	$5,963

Source: CUPR, Rutgers University.

project is funded at a level of $1,121,026 when all sources of funding are counted (1998 dollars). EDA's median contribution is $786,699. EDA's median share of total RLF project funding is 75 percent (see Table 8).

Projects Producing Jobs

Of the 30 sample RLF projects, all created or retained permanent jobs (see Table 9).

Number and Cost of Direct Permanent Jobs

The 30 case-study RLFs had received EDA funding for varying periods (one to 20 years). The total number of direct permanent jobs created or retained was 18,610 (see Table 9).

Median total cost per job for these 30 RLFs is $821. Median EDA cost per job is $563. The $563 figure represents EDA funding alone compared with resulting jobs; the $821 total figure represents all sources of grant funding (applicant as well as EDA) compared with resulting jobs (see Table 9).

Other Direct Measures for RLFs

RLFs are measured using the standard criteria of jobs created/retained and private-sector funds leveraged. RLFs are also measured by the number of businesses assisted (loans made) and by the scale of the capital base that has been accumulated, which is the original grant amount for the RLF (including both EDA and local shares) plus interest accrued, minus bad debt.

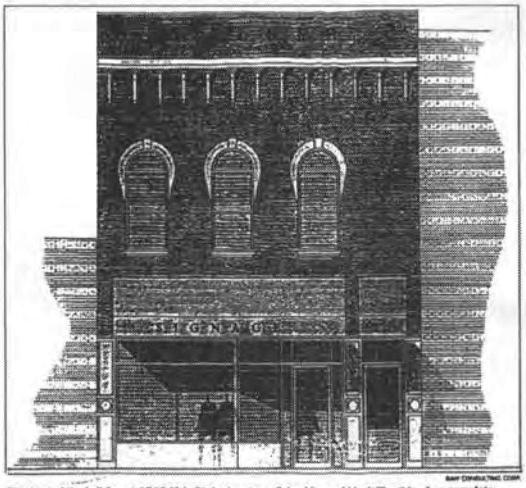
For the sample RLFs, businesses assisted (loans made) per RLF average 23, and total jobs per business average 11. These are funded from a median capital base of $1.07 million. Of the 30 initiated RLF projects, 97 percent (29 projects) leveraged private-sector investment (see Table 10).

The sample RLFs have combined median default and write-off rates of approximately 11 percent if dollar amount of loans is considered. RLFs primarily fund business expansions (54 percent) and industrial firms (49 percent) (see Table 10).

It should be realized that these are not the equivalent of bank loans, but rather loans of much higher risk. At the interest rate charged to those of marginal credit history or inexperienced entrepreneurs, there is virtually no private-sector competition. Default/write-off rates for completed RLFs reflect this risk but are still within industry standards for this type of loan.

All of the RLF performance information contained in this table comes from 1998 grantee semiannual reports to EDA.

The State, April 15, 1999



BAW CONSULTING CORP.

The front of the building at 1710 Main St. in downtown Columbia would look like this when complete.

Renovation will provide mix of food, music, business

By ALANA ODOM
Staff Writer

A new corporation plans to bring the sound of blues to Main Street.

BAW Consulting Corp. of Blythewood has bought and is renovating 1710 Main St., a two-story building across from the Richland County Judicial Center. Offices and a restaurant featuring a blues band are slated for the space.

The first level of the building was previously occupied by Oriental Gardens Chinese restaurant, while the remainder of the property was vacant.

When renovations are completed in mid-May, the entire 44,000-square-foot building, including its basement, will be used. The building will have a new name, the Walker Building.

The Walker Building's first floor and basement levels will house Bentley's, a restaurant featuring Southern-style cuisine and serving as the new permanent home for blues musicians Fatback & The Groove Band.

The building's second floor will have 1,900 square feet of professional office space for lease.

Jim Leventis, chairman of the Downtown Columbia Business Association, said the proposed uses would meet a market demand.

"In some of marketing surveys that were conducted by the university, people have commented that they would like to have food and an evening with some musical entertainment," Leventis said.

There are different themes for different portions of Main Street, Leventis said, and the 1500 block toward the 1700 block combines residential space, food and some office use.

"I think this restaurant and blues place will add to the theme and bring people downtown in the evenings and also at lunch time," he said.

Barry Walker, a partner with BAW Consulting Corp., said the company originally bought the building simply as a real estate investment.

"As we determined the use for the property, we thought it could be a lasting tribute to my mother, and I was looking for a place for the band to play," said Walker, who is known around the Midlands as "Fatback."

Susan Walker is president of the company whose first business venture is the 1710 Main St. project.

Barry Walker, her husband, said he wanted the building to be named in tribute to his mother, Viola Walker, who defied the odds and worked her way out of poverty.

"She was an African-American woman from Moncks Corner who moved to Connecticut and raised two boys who both went to college despite the fact they lived in the ghetto and were on welfare," he said.

"She did this with a 10th-grade education and eventually went back to college and got her bachelor's and master's degree," he said.

Three years ago, Viola Walker died while vacationing in South Carolina.

Johnny Davis, general manager

PLEASE SEE MUSIC PAGE B11

Grantee: City of Columbia Department of Community Development. A news article on the renovation of the Walker building and Bentley's contribution to city life. The Walker building, located across from the judicial building, was restored with RLF funds. It houses Bentley's jazz restaurant, also an RLF loan recipient, on the ground floor and offers other offices on the upper story.

Direct Private-Sector Investment

Direct private-sector investment supported by an RLF primarily involves the improvement of a building. This involves partitions, lighting, furniture, business equipment, and security devices. For the 30 RLF projects analyzed, private-sector investment totaled \$412 million, or \$8.17 million per \$1.0 million of EDA funding (see Table 11).

Public-Sector Investment

Non-EDA public-sector investment involves the RLF's matching portion of the grant. In total, public-sector matching investment amounts to \$15 million for the 30 RLF projects. There is also additional public-sector involvement when the grantees make loans. For the 30 projects this amounts to \$99.50 million, or \$1.36 million per \$1.0 million of EDA funding (see Table 11).

Project Solvency

Two measures of fiscal solvency are important. The first is the combined default/write-off rate, which indicates that a loan has not been repaid for 60 days (default) or has had no activity for one year (write-off). A second measure is growth of the RLF base on a year-by-year basis. This measure is the difference between the RLF base at (n) years and the RLF base at the 0 year, divided by the RLF base at the 0 year, and expressed annually by again dividing by (n). RLF loans exhibit a combined business/dollar value default/write-off rate of about 11 percent and grow the RLF base at about 1.6 percent annually. The default/write-off rate is certainly reasonable given the marginal credit histories and limited business experience of loan applicants; the growth in the RLF base is also healthy—increasing by 16 percent over a ten-year period.

Overall Assessment

The Effectiveness of EDA's Planning Process

Although some of the interviewees feel that preparing the CEDS is an onerous task, few, if any, feel that the process is not valuable. Aside from qualifying the sites for receipt of EDA funding, which is no small consideration on the part of any of the sites, the pro-

Table 10
RLF Portfolio Summary

Summary	
Number of Businesses Assisted (Loans Made) per RLF (Median)	23
Jobs per Business (Median)	11
Amount of RLF Capital Base ($ Million) (Median)	1.07
Percentage of the $ Amount of Default/Written Off Loans (Median)	11
Percentage of Projects that Leveraged Private-Sector Investment	97
RLF Portfolio Targeting	**% (Mean)**
Start-Up	30
Expansion	54
Retention	16
Industrial	49
Commercial	29
Service	22
Minority-Owned Business	12
Women-Owned Business	12

Source: CUPR, Rutgers University.

Table 11
Public- and Private-Sector Investment

Public-Sector Investment		Private-Sector Investment	
Grant Matching			
Total Amount of Public-Sector Investment ($ Million)	15.21		
Amount of Public-Sector Investment per $1.0 Million of EDA Funding ($ Million)	0.36		
Loan Matching			
Total Amount of Public-Sector Investment ($ Million)	99.47	Total Amount of Private-Sector Investment ($ Million)	412.07
Amount of Public-Sector Investment per $1.0 Million of EDA Funding ($ Million)	1.36	Amount of Private-Sector Investment per $1.0 Million of EDA Funding ($ Million)	8.17

Source: CUPR, Rutgers University.

Grantee: Alaska Division of Investments. Custom Woodworking, Inc., is owned and operated by John Manthei. The business was established in 1972 in Fairbanks, AK. This business received a $50,000 RLF expansion loan in 1995. The loan created two additional jobs. This plant has been operating at a profit since it opened and has expanded into the pole furniture business.

Grantee: South Central Planning Development Commission. Interior of Brake's Plus, a business located in Houma, LA. It received a $109,000 RLF start-up loan that leveraged $187,000 in private funding and $44,000 in new equity, and created 8 jobs.

cess contributes substantially to the work of the grantee agencies in three important ways:

- it institutionalizes strategic planning as a managerial function;
- it ensures that local, regional, state, and national strategies for economic regeneration are coordinated; and
- it provides the context for program implementation.

Institutionalization of strategic planning. According to the interviewees, one of the most important contributions of the CEDS to the economic regeneration of an area is the process used in the formulation of the planning documents. Most interviewees said that the EDA-required planning processes fill two important needs at the sites.

- The process forces grant recipients to *assess objectively* and in detail the area's economic strengths, weaknesses, opportunities and threats—a process known in the strategic-planning field as *SWOT.* The EDA planning process does not use the term SWOT; however, EDA requires substantially more analysis in terms of project programming, resource identification and allocation, interagency coordination, etc. The EDA process forces applicants to convert ad hoc decision making to thoughtful decision making, reduces "wish lists" to realistic and achievable programs for economic renewal, and establishes targets that are useful in program evaluation.
- The process *builds consensus* among community, business, and civic leaders toward the achievement of specific, mutually shared goals for economic regeneration. This consensus-building process helps considerably to overcome misunderstanding, mistrust, and other negative factors that often exist between the three sectors (i.e., public, private, civic) when an area is under