

Sources of Business Financing



business
oregon.



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Financing Needs – What Are They?

1. Working Capital
2. Equipment
3. Real Estate
4. Infrastructure (water, sewer, roads, lighting, internet, sidewalk, ports, etc.)
5. Blue Sky / Intangibles (trade marks, patents, customer list, brand name etc.)
6. Research & Development
7. Stock Purchase / Partner Buyout

Short Term – 1 year or less - Lines of Credit (Accounts Receivable & Inventory Financing)

Mid Term – 3 – 10 year Term loans (Equipment)

Long Term – 10+ year Term Loans (Real Estate / Infrastructure)

Financial Life Cycle of a Business/Project

- **Concept or Early Stage** – Pre-revenue – High Risk

Grants / Equity

- **Growth Stage** – may or may not be profitable – Moderate to High Risk

Equity / Private Lenders / Government Finance Programs / Royalty Financing /
Non-traditional Lenders / Tax Incentives / Grants

- **Mature / Exit Stage** – Moderate to Low Risk

Traditional Lenders / Government Finance Programs / Tax Incentives / Grants



Landscape of Tools – 1,000's of Them!

- **Federal** – Over 170 federal financing programs for everything you can imagine – small business, redevelopment, environmental remediation, transportation, water, rural development, urban infill, underserved markets, capital improvements, energy, minority owned businesses, etc.
- **State** – Hundreds of state programs including grants, loans, tax credits, subsidies, tax incentives, bonds, etc.
- **Other** – Banks, Credit Unions, Community Development Financial Institutions (CDFI), Community Development Corporations (CDC), Economic Development Agencies (EDA), counties, cities, ports, private lenders and investors, etc.

Landscape of Tools - Sampling

Micro-lending

Mezzanine Funds

Tax Abatements

SBA 504 Loans

SBA 7(A) Loans

501(c)3 Bonds

CDFI's/CDC's

Port Funds

City Funds

Foundations

Angel Investors

GO Bonds

Municipal Bonds

Vender Financing

Tax-Exempt Bonds

New Market Tax Credits

Economic Development Agencies

Seed & Venture Capital

Tax Increment Finance (TIF's)

USDA B&I Guarantee

Bank/Credit Union Loans

State Funds

Revenue Based Financing

Purchase Order Financing

Friends and Family

Brownfield Loans/Grants

Tax Revenue Bonds

Basic Research Grants

Grants

EB-5

Credit Enhancement

Special Assessment

Collateral Support

BIA Loans/Support

Crowdfunding

County Funds

Factoring

Private Notes

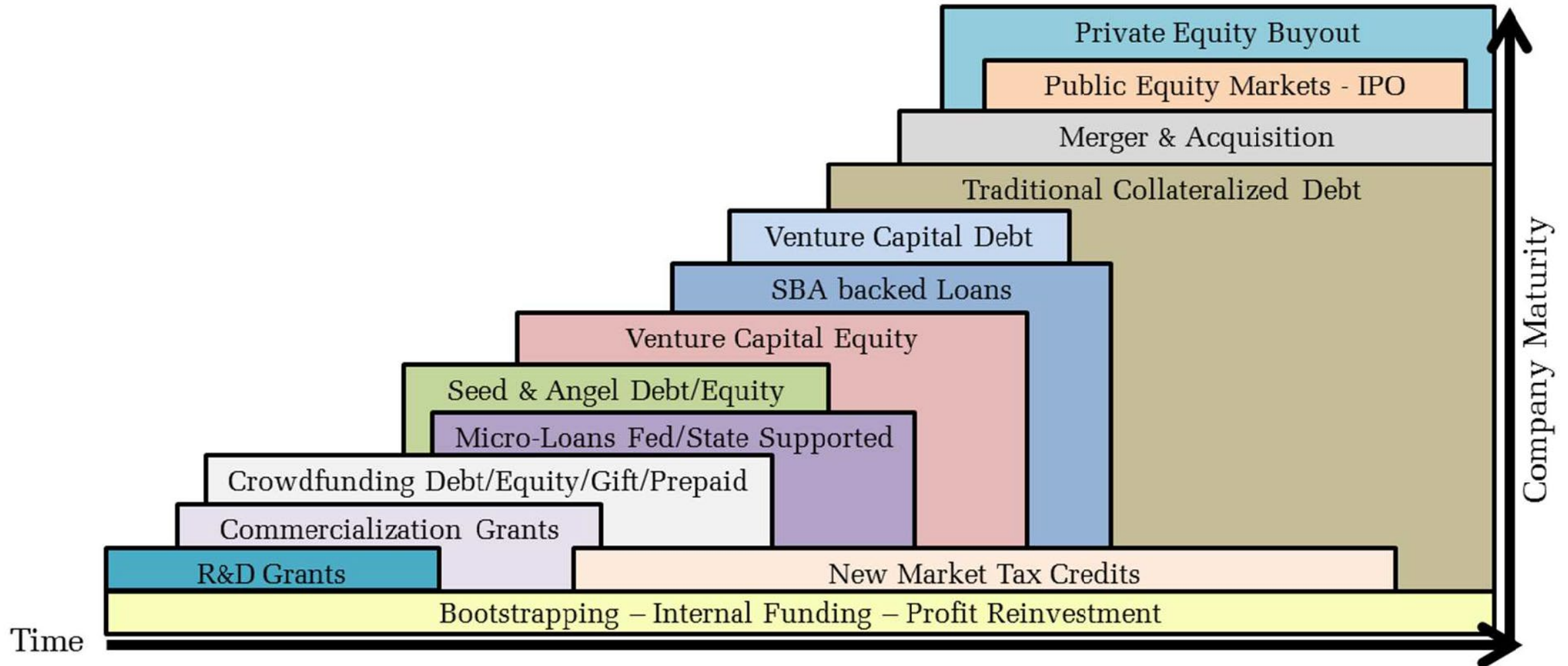
Venture Capital

SBIR Grants

Tax Incentives

Kickstarter

Business Funding Ladder (Oregon Capital Scan 2016)



Tax Incentives – What Are They

- A tax incentive is a tax code designed to incentivize or encourage a particular economic activity.
- Tax incentives simply remove part or all the burden of the tax from whatever market transaction is taking place.
- If implemented and designed properly, tax incentives can attract investment to an area.
- Other benefits of tax incentives include, increased employment, higher number of capital transfers, research and technology development, and also improvement to less developed areas.

Grants – What Are They?

- Money in exchange for organization's time to accomplish a societal goal (Private Foundation / Company Grants)
- Money to discover new things, test hypotheses (Basic Research Grants) and commercialize technology (Small Business Innovation Research SBIR)
- Money given by an organization to accomplish a particular purpose

Equity versus Debt

Equity

Ownership (own it)

Return on their money (ROI)

Give up some Ownership

Give up some Control

Team & Product

Must Sell to Satisfy
(may also pay dividends or
buyout)

Debt

Loanership (rent money)

Return of their money +
interest (APR)

Give up some Profit

Give up Personal Guarantees

Cash Flow & Collateral
(Good & Sufficient)

Must make Payments on time
as agreed to satisfy lender

Pros / Upside - Grants

- Free money*
- May be able to obtain early stage / concept stage funding
- Can receive generous amounts of money
- A good way to build visibility and credibility

*May be taxable – check with your tax professional

Pros / Upside - Equity

- Funding designed for early stage / higher risk businesses
- Do not need sales and or need to be profitable
- Terms can be flexible and tailored to each business
- No set repayment schedule
- Can bring on investors who have:
 - Industry experience or contacts
 - Skill sets that may be lacking in the business

Pros / Upside - Debt

- Do not give up control or ownership of the business
- Can be a low cost of capital
- Fairly quick turn time
- No profit sharing
- Sits senior to equity
- Do not give up any of the upside
- State and Federal programs designed to help “almost bankable” borrowers
 - SBA – 7(a) / 504
 - USDA - B&I guarantee
 - Business Oregon – CEF / CAP / ORF / EDLF / OBDF
- Interest paid can be tax deductible*

*Check with your tax professional

Cons / Downside - Grants

- Very specific – eliminates many businesses
- Competition is fierce with low success rate, eliminating many applicants
- May cause a business to modify their business model to qualify
- Very detailed paperwork for submission
- Time consuming research to find and determine eligibility
- May need to hire a professional grant writer
- There are strings attached to the money you receive – no such thing as free money

Cons / Downside - Equity

- Deep-dive due diligence
 - Focused on founder / team
 - Product / market / problem solved
- Can be costly:
 - Attorney fees
 - Due diligence costs
 - Time away from the business to focus on fund raising
 - May need to share in the profit of the business via dividends
 - High level of reporting/accountability to investors
 - May need to sell the business or buyout investors to satisfy them
- Give up some ownership and possibly control of the business
 - Dilutes ownership
 - May need to share decision making
- Can take a long time
- Sits junior to debt

Cons / Downside - Debt

- Focused on lower risk deals
- Need to have revenue
- Most lenders require
 - Cash flow - profitable
 - Guarantees
 - Collateral
- May require financial performance covenants
- Do not share on the downside – lenders want their money back
- Need a good credit history to qualify
- Lenders expect to be paid on time and as agreed – requires discipline

A still from the movie 'The Archnumber' featuring Tom Cruise. He is in a laboratory setting, looking upwards with a concerned expression. A red radiation warning sign is visible on a table in the background. The text 'Help Me Help You' is overlaid in large white letters.

**Help Me
Help You**

Find the right financing source

- Tax Incentives – incentive, not a subsidy
- Grants - needs to solve or accomplish a certain goal or purpose
- Equity - needs an exit strategy
- Debt - needs to be repaid on time and as agreed

Source of Tax Incentives

- CPA's
- Tax attorneys
- IRS website:
 - <https://www.irs.gov/businesses/small-businesses-self-employed/business-tax-credits>
- State taxing agencies
- County treasurer or taxing authority
- City treasurer or taxing authority
- SBDC's / EDA's / Chambers

Sources of Grants

- www.grants.gov
- www.sbir.gov
- www.guidestar.org
- <http://foundationcenter.org>
- Each Federal Agency's website
- State Agencies websites
- Grant writers/consultants

Sources of Equity

Founder's personal savings

Profits from the business

Friends & Family

Accredited Investors

Venture Capital

Partnerships (suppliers / competitors / industry experts)

Key employees / ESOP's

Crowd Funding

Grants

Angel Investors

Social/Impact Investors

Sources of Loans (Debt)

Banks / Credit Unions

Government Programs

➤ Federal / State / County / City

Suppliers

Dealers / Manufacturers

CDFI's / CDC's / EDA / Ports

Friends & Family

Foundations

Private Notes

Factoring

Purchase Order Financing

Revenue Based Financing (RBF)

Credit Cards

Crowd Funding

Other Resources:

- <https://www.sba.gov/funding-programs>
- <https://www.rd.usda.gov/programs-services/all-programs/business-programs>
- <http://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/>
- <http://www.oregon4biz.com/Oregon-Business/Tax-Incentives/>
- <https://www.cdfa.net/>
- <https://oeda.biz/>
- <http://www.americassbdc.org/>

Economic Development Finance



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