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## PREFACE

As our work on this project proceeded we developed serious doubts about the CETA Job Creation Program's ability to fulfill its goals, particularly those of creating self-sufficient enterprises and contributing to economic development. We have attempted to incorporate these doubts into the Handbook, because we feel that Prime Sponsors must be aware of the obstacles that project applicants will face. We remain optimistic, however, about the program's potential for providing people with training and entrepreneurial experience and for creating some small-scale, labor-intensive, community-based enterprises.

It is important that CETA Job Creation not be isolated from other employment and economic development efforts in the Commonwealth of Massachusetts. The Job Creation Board, the Community Development Finance Corporation (CDFC) and other agencies and programs with similar purposes are in a position to either support or conflict with CETA Job Creation. Success of the CETA Job Creation Program depends on coordination with these other efforts.

We wish to acknowledge several people who have given us invaluable assistance and support in the preparation of this handbook. Betty Rossen and Bill Herring provided information about winterization projects. Elizabeth Ford collected the material on technical assistance. Ned Hill and Mitch Rosenberg commented on previous drafts of the handbook. Sandy Leon provided needed support and encouragement throughout the project.

Finally, we express special appreciation to Art Solomon, Bennett Harrison and Beldon Daniels, who started us thinking in new ways about employment and economic development.

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PART ONE - THE PROGRAM

INTRODUCTION

The CETA Job Creation program is designed to create permanent job opportunities for unemployed members of local communities through the creation of self-sustaining non-profit enterprises. Local CETA Prime Sponsors will allocate funds from Title VI of the Comprehensive Employment and Training Act of 1973 (CETA) to enterprises sponsored by eligible community-based organizations, community action agencies, community development corporations, or individuals. CETA funds will be used as wage subsidies to help defray the start-up costs of an enterprise; funds for capital investment must be obtained from other public and private sources. Establishing enterprises may be one way to provide long-term jobs for the community as well as training opportunities for the participants.

The passage of CETA in 1973 marked a new era in public service employment programs. CETA tried to combine the goals of reducing structural unemployment through the provision of skill training and/or subsidized, transitional employment and relying on local initiative to define spending priorities. The Department of Labor makes grants to about 400 Prime Sponsors who design and execute their own programs according to federal guidelines.

Title VI was added to CETA in 1974 in response to the recession. It was aimed at providing transitional public service employment opportunities for the disadvantaged and temporarily disadvantaged. Its underlying assumption was that the economy would improve after a year and private sector jobs would once more be available. In fact, however, unemployment rates have remained high and Title VI has been refunded annually; this temporary holding mechanism is becoming a permanent approach to the unemployment problem. The apparent ineffectiveness of this and other CETA programs in reducing the unemployment rate has been a source of dissatisfaction among Massachusetts agencies involved in em-

ployment programs. This concern has led to proposals for new uses of CETA funds to make a direct connection between public spending and permanent job opportunities. Two such proposals are the Massachusetts Local Initiative Program and the CETA Job Creation Program.

In 1976 the Massachusetts Local Initiative Program (MLIP), inspired by the Canadian attempt to solve similar problems, was sponsored by the State Manpower Service Council (SMSC). One of its objectives was similar to the traditional public service employment programs of CETA--to offer short-term productive employment to CETA-eligible persons. However, MLIP had two additional objective that carried the notion of local initiative even farther. One objective was to assist individuals or groups in initiating projects meaningful to the community. The second was to provide the community with a good or service which in some way improved the quality of life and was presently needed but unavailable. Such projects as craft guilds, craft marketing, day care centers, recreational activities for youth, restoration of historic buildings, community clean-ups, tenant associations, residential improvement programs, fisheries, and food cooperative were funded on a six-month basis. The funds came from a discretionary budget allocated to state governors under Title I of CETA. Projects were chosen according to the extent to which they provided, among other things, a product, training, or a service which was lacking in the community, the extent to which they serviced disadvantage groups, and the extent to which they utilized other funding sources.

Although MLIP was short-term, the SMSC's intention was to distinguish employment provided under MLIP from the isolated, agency job slots often characteristic of other public service employment programs. Thus, productive MLIP employment was to involve work proposed and performed by individuals or

groups in the community. Such work could have future value to the individual; however, MLIP was designed as a short-term job creation program that did not necessarily have any long-run impacts.

The CETA Job Creation Program is based on a similar notion--that community-based and -created projects are more likely to be beneficial to both workers and the community than are traditional isolated job-slots. In addition, however, the Job Creation Program attempts to create permanent job opportunities. Most other CETA programs provide only temporary employment or training with the assumption that private sector jobs will be available for CETA "graduates". Such jobs, however, often do not exist due to both cyclical downturns in the economy and structural problems (which are particularly severe in Massachusetts). Also, discrimination against women and minorities often prevents them from moving into jobs in the private sector. Although the latest CETA legislative revision has reoriented much of Title VI funds from job slots to project-oriented employment, the projects are still only short-term. It is important to note that CETA Job Creation is not a legislative change; rather it is an administrative attempt to more effectively use CETA funds.

By combining public and private resources, Title VI has the potential to provide self-sustaining jobs. Resources in addition to the CETA wage subsidy will be used to furnish tools and equipment useful in teaching workers new skills. The result may be higher levels of productivity than was previously feasible with MLIP projects that were funded solely with wage subsidies. Increased productivity, in turn, may lead to increased project revenues, higher wages, and self-supporting activities. Examples of MLIP projects which have potential as long-term enterprises are craft guilds, food cooperative, and canneries.

It is important to note again the conditions which the CETA Job Creation Program is trying to fulfill and which will guide the type of enterprises to be funded. First, the program is aimed at severely disadvantaged and long-term unemployed workers. (Experienced managerial personnel can be paid from the ten per cent of CETA funds not restricted to wages and from enterprise income.) Second, CETA Job Creation is aimed at creating new opportunities for the unemployed while at the same time providing a good or service meaningful to the community or to the quality of life of its members. That is, the enterprise should have a public service objective. Third, projects must not displace currently employed workers. Fourth, new enterprises must be non-profit. Fifth, CETA funds will be provided for one year only.

The next section of this Handbook (Section II) provides a more detailed description of how the CETA Job Creation Program will work, how the above conditions affect which enterprises will be the most feasible, and some of the problems that may be encountered. Part Two explains how to evaluate a project applicant: Section III explores the employment impacts of an enterprise; Section IV describes the three components used to assess the potential for self-sufficiency--management, market analysis, and financial analysis; Section V discusses how to evaluate whether a project needs the CETA subsidy. An example of the type of project that may be suitable for the subsidy is presented in Appendix 1. This case study illustrates how the steps outlined in the text of the Handbook can be applied by the Prime Sponsors to evaluate project proposals. Finally, Appendix 2 lists sources of capital and technical assistance available to Program applicants.

## II. How Will CETA Job Creation Work?

### A. Goals

The CETA Job Creation Program has several goals, related to providing jobs for the unemployed and inducing local economic development. Because of the constraints outlined below inherent in the CETA regulations and the difficulty in starting a viable enterprise even under ideal conditions, it is unlikely that any enterprise will meet all of these goals. However, it is hoped that every CETA enterprise will be designed to achieve at least one of the purposes described in the following paragraphs.

The basic goal of the program is the creation of permanent, good jobs for the unemployed by developing self-sustaining enterprises. An example of such an enterprise is a housing rehab business which used its first (subsidized) year to accumulate equipment, train workers and build a reputation in the community, and by the second year became a viable enterprise, providing permanent jobs for its workers.

Since achievement of this goal may be extremely difficult, we present a secondary goal: the creation of enterprises which provide skill training and entrepreneurial experience for participants. Since Job Creation projects, unlike traditional CETA employment, must produce marketable goods or services, they have the potential to train participants in marketable skills; the projects can also give their workers valuable entrepreneurial experience. This training and experience is important for individual worker mobility as well as for community economic development. An example is the Hampshire Community Canning Center, a LIP project in which a few workers used the entrepreneurial experience gained by organizing and managing the cannery in developing additional projects to stimulate the local agricultural sector. If a project gives its participants

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marketable skills and experience, it may be valuable even if the enterprise ultimately fails.

Another secondary goal of CETA Job Creation is the development of enterprises which will further stimulate the local economy. Small-scale projects are generally seen as having little potential for economic development. In small towns and rural areas, however, well-placed CETA Job Creation projects can have an impact by buying from and selling to established local enterprises. One example is the network of community enterprises begun as an offshoot of a Community Action Agency in northeastern Vermont; a home building project spurred the creation of a sawmill, which spawned a logging operation, and all three utilized CETA labor.<sup>1</sup>

#### B. Problems in Achieving These Goals

Three components are needed to create a viable enterprise-- good management, a marketable product or service, and adequate capital. Entrepreneurial and managerial ability are crucial because enterprise creation demands creativity, dedication and the ability to inspire confidence in others (especially the enterprise's creditors.) A marketable product or service is essential for an enterprise to operate without subsidy, and capital is a prerequisite for all enterprises to get off the ground, remain solvent, and expand.

These elements are difficult for any new enterprise to obtain, but they present special problems for CETA Job Creation enterprises because of constraints inherent in Title VI regulations.<sup>2</sup> These constraints include the following:

<sup>1</sup>Boston University Institute of Employment Policy, "Locally Directed Economic Development: The Experience in Northern Vermont," December, 1976.

<sup>2</sup>The State Manpower Services Council of Massachusetts is currently awaiting interpretation of these regulations from the Department of Labor, and some may be waived or modified for the CETA Job Creation Program.

1. Projects must employ members of the target population (Massachusetts' residents are eligible if they have exhausted their unemployment insurance benefits but their claim has not expired, or if they are not eligible for unemployment insurance benefits for monetary or non-monetary reasons.). This poses potential problems in finding an entrepreneur and in capital acquisition. The target population may not have access to personal savings, which are an important source of equity for a new enterprise. Banks often require personal equity investment as a measure of entrepreneurial commitment to a project.

2. Projects must be non-profit and have a "public service objective". The public service objective requirement will limit the type of product or service that the enterprise can sell, and may consequently limit its viability because most goods and services with a clear public service objective are not marketable. The non-profit constraint may make it difficult to attract a good entrepreneur to the enterprise, for it requires finding people who will commit a tremendous amount of energy with little desire for monetary reward. It will also prevent the enterprise from attracting investment capital, and force it to rely on contributions for initial equity.

3. Projects must not displace currently employed workers. This limits the type of product or service that the enterprise can offer by virtually prohibiting competition with existing local businesses. It dictates the creation of enterprises which will meet a new demand or one inadequately met by existing local business.

4. Projects must use at least 90% of their Title VI funds for wages and fringe benefits. This means that the CETA subsidy will not provide start-up capital. The types of capital which are the most crucial and the most difficult for a new enterprise to obtain are equity and long-term debt; a subsidy earmarked for wages will not help the enterprise obtain either of these.

5. Projects must be completed within one year. According to current interpretation of the regulations, this means that an enterprise can receive a CETA subsidy for one year only.<sup>1</sup> This creates problems for viability, since virtually all new businesses take from two to five years to reach the break-even point.

C. What Types of Enterprises Will Work?

Given the constraints outlined above, are there any types of enterprises which may be able to succeed in attaining self-sufficiency, providing good, permanent jobs, offering worthwhile training and experience, and/or stimulating the local economy? The answer is a qualified yes. Each proposed enterprise must be critically evaluated in terms of its potential to meet these goals, but some generalizations can be made about types of enterprises which will have the greatest chance of success:

1. Small-scale enterprises--Because of their size and relative non-complexity, small-scale enterprises have the best chance of succeeding without an experienced, high-powered entrepreneur. They are also more likely to have a non-hierarchical organizational form and hence a high degree of worker commitment, which can substitute for certain entrepreneurial qualities.

2. Labor-intensive enterprises--Since the CETA subsidy is primarily a wage subsidy and obtaining other capital will be a major problem for CETA Job Creation projects, labor-intensive enterprises can make the best use of the subsidy. For a manufacturing firm requiring \$20,000 worth of equipment/worker, the major obstacle comes in finding start-up equipment capital; a wage subsidy will hardly make a dent in the start-up expense.

<sup>1</sup>If, however, "project" can be defined as the start-up of the business, then in subsequent years expansion or continued operation of the same enterprise could be defined as a separate project and re-funded. We are awaiting Department of Labor clarification of this issue.

Any such industry which could succeed with a wage subsidy could probably also succeed without one. For a weatherization business requiring much less equipment/worker, however, the CETA subsidy could make the difference between successful or unsuccessful start-up.

3. Collectively-organized enterprises--As mentioned in connection with small-scale enterprises, non-hierarchical organization often means more worker commitment, which can substitute in part for the lack of an experienced entrepreneur. This is especially true for an enterprise created by a group of people with strong personal motivation to make it work--in a sense, they share the role of entrepreneur. This was the case in the Mass-Craft Marketing Project, a successful LIP project. Collectively organized enterprises can also provide broader training for participants by encouraging both rotation of responsibilities and opportunities for self-management.

4. Enterprises producing a good or service which is needed in the community or for which a public agency provides a captive market--This assures the enterprise a market in spite of the public service and nondisplacement constraints. One example is the Wind-O-Seal enterprise started by the Lynn Economic Opportunity Agency, which markets its product to Community Action winterization programs throughout the state. Another example would be a community-sponsored child-care center in an area with no existing child-care facilities.

5. Enterprises providing innovative products which are not currently available in the marketplace--This addresses similar marketing problems to those mentioned under the previous point. It also has economic development ramifications, because if a new product developed in a town catches on, it has great potential for expansion within the town. Job Creation subsidies are not geared to high technology industries, but could be used for small-scale, experimental production such as wind power equipment, innovative agriculture (e.g. hydroponics), devices

for handicapped people, etc.

6. Enterprises which train people in difficult skills-- Because of the one year wage subsidy, the CETA Job Creation concept is especially well-suited to projects which require long training periods or high training costs. Although such enterprises might succeed without a subsidy, it allows them to hire and train members of the target population by providing a year-long period before workers must reach full productive capacity.

7. Enterprises linked to a community development corporation (CDC), community action program (CAO) or some other well-established organization--Such a connection provides the enterprise with technical assistance and administrative support to supplement its limited entrepreneurial experience. It can also confer legitimacy on the enterprise and help provide access to capital through non-profit, tax-exempt status in the case of a CAP. and through federal and foundation grants, etc. in the case of a CDC.

8. Enterprises which are linked to other community enterprises--As in the northern Vermont experience mentioned previously, community-based enterprises whose products are linked, e.g. they buy from and sell to one another, can reinforce each other and have a significant impact on a rural or small town economy. Economic links with other public enterprises help non-profit, community-based enterprises overcome the difficulties they encounter in an economy geared to private enterprise.

No enterprise will embody all of these characteristics. However, Prime Sponsors can seek out projects with some of these qualities by distributing information on CETA Job Creation to community groups representing segments of the target population. It is likely that substantial interest can be generated, particularly given the Success of the LIP program in which project initiative came from small community groups and individuals.

#### D. Pitfalls to Avoid

Title VI constraints make it difficult to design projects that will meet the goals of the CETA Job Creation program. Keeping the goals in mind, therefore, Prime Sponsors should be especially cautious of the following types of enterprises:

- Projects which will provide "bad jobs", displace local workers, or fail to employ the target population
- Enterprises which will take the subsidy and fail after a year
- Enterprises which do not need the subsidy

These last two issues are closely related, because many enterprises with potential for long-term survival will not really need the subsidy to start up, and many enterprises which need the subsidy to start up will not be viable when it is withdrawn.

The remainder of this handbook is oriented toward these three issues, and suggests how Prime Sponsors can evaluate proposed projects in terms of their employment impact (Section III), potential for viability (Section IV), and evidence of need for the subsidy (Section V). Such an evaluation is a particularly difficult task. While a project's employment impact is fairly straightforward, analyzing both viability and need for the subsidy requires some knowledge of finance and experience in business. This handbook provides a framework for such analysis and suggests questions for evaluating CETA Job Creation proposals, but it does not explain how to do a thorough analysis. It is strongly recommended that after screening projects for their employment impact, Prime Sponsors seek help from knowledgeable people in finance, business or public technical assistance services such as the Small Business Administration (SBA) or the Economic Development Administration (EDA) to evaluate viability and need for the subsidy.

It is especially important to avoid raising unrealistic

expectations for the CETA Job Creation ~~program~~. Some enterprises can succeed, create permanent jobs, and ~~possibly~~ even stimulate the local economy. Other projects, even ~~if~~ they ultimately fail, will provide valuable training and experience. However, the program's constraints and the difficulty of starting new enterprises must be acknowledged and considered ~~both~~ by Prime Sponsors and the individuals and groups applying ~~for~~ CETA subsidy.

PART TWO - EVALUATING PROPOSED PROJECTS

### III. EMPLOYMENT IMPACT

The success of training and employment programs is too often measured by counting up the absolute number of training slots and jobs created with little or no regard for the quality of the jobs. A training program which trains ten people to be janitors is not necessarily more successful than one which trains five people to be electricians. Employment and economic development strategies should have multiple objectives which include increasing both the long term quantity and quality of employment. In evaluating the employment impact of a project proposal, a number of questions ought to be asked which consider the qualitative benefits of the jobs created, the number of jobs created, and who benefits from the jobs.

#### What is the Quality of Jobs Offered by the Project?

Work plays a crucial role in people's lives. It need not be regarded as merely a means of supporting oneself and one's family; it can and should be a fulfilling social activity which gives people a sense of worth. When work is organized such that it consists of repetitive, unmeaningful, detailed tasks, it is rational for workers to feel dissatisfaction. Since the quality of work life affects people's self concepts and their relationships outside of work, it is imperative that attention be given to the quality of jobs created.

"Good jobs", or primary sector jobs, have traditionally been characterized by adequate wages and benefits, sufficient opportunities for advancement, good working conditions, and job security. While these characteristics were not emphasized in designing traditional CETA employment, they are crucial in the CETA Job Creation Program because the jobs created through the projects are

intended to be permanent.

Furthermore, the increasing number of secondary jobs or "bad jobs" (i.e. jobs which characteristically pay very little, have few opportunities for advancement, little security, poor working conditions, and unintegrated, repetitive tasks) and the decreasing proportion of "good jobs" is considered by some to be a major cause of the high unemployment rate. Economists who support this theory believe that the high unemployment rate can be explained in part by high turnover prevalent among workers confined to "bad jobs". It logically follows that workers in "bad jobs" will tend to quit those jobs more readily than those employed in "good jobs". In the long-run, therefore, projects which provide bad jobs will exacerbate the problem of unemployment.

In addition, "bad jobs" encourage workers to develop work habits unacceptable in the primary sector. It is rational for workers stuck in "bad jobs" to have a casual devotion to their jobs, and to exhibit high rates of tardiness and absenteeism. Thus, workers in the secondary sector are considered relatively unproductive, partly because of the work patterns developed in secondary jobs. Of course, bad work habits do not cause "bad jobs", rather, they are developed and serve to reinforce the existence of bad jobs.

"Good jobs" have traditionally been associated with high skill, capital intensive manufacturing enterprises, while labor intensive jobs like clerical or custodial work are often described as prototypical "bad jobs". All of the characteristics of a "good job" need not exist for a job to be "good". For example, a child care job which does not provide training or opportunities for advancement and only lasts nine months out of the year might still be considered a "good job" if it provides adequate wages and benefits, interesting and meaningful work in a pleasant supportive environment, and allows for collective decision

making. Another example is a craft collective, which may not provide job security or high wages but does offer an opportunity for worker ownership and self management.

Given the goal of creating good jobs, the following questions can help evaluate the quality of the jobs provided by a CETA Job Creation Project:

PAY: A "good job" provides adequate remuneration.

-What are the starting and progressive wages?

-What fringe benefits are offered?

SKILLS: A "good job" provides learning opportunities.

-What is the skill content of the job?

-What skills will be learned? What training will be offered?

MOBILITY: A "good job" opens up other opportunities within and outside of the enterprise. Jobs which supply skills that are locally in high demand are preferable, because they can serve as a bridge to a locality's unsubsidized primary jobs.

-What are the opportunities for movement and advancement within and outside of the enterprise?

SECURITY: A "good job" provides security.

-Is the work non-seasonal?

WORKING CONDITIONS: A "good job" provides a pleasant, supportive work environment which encourages workers to realize their potential

-Is the work organized as a set of integrative tasks rather than small tasks done over and over again?

-Will the worker be provided a sense of social worth?

-How much control will the worker have over her or his work?

-Will the decisions be made collectively or hierarchically?

-Will the job encourage interaction among workers?

### How Many Jobs Does the Project Create?

In evaluating the employment impact of a project, one must consider the actual number of permanent jobs created.

The CETA project must not displace existing local employment. Displacement can occur in several ways and to varying degrees. The most serious form of displacement is bumping. The most blatant example of bumping is a situation where an existing enterprise fires half of its employees and fills the vacancies with CETA employees. Even though the new CETA employees may be more disadvantaged than the previous employees, this form of displacement can not be tolerated.

A more subtle, yet equally harmful type of bumping can occur if a CETA Job Creation project provides a good already provided locally. If demand for the good does not increase and if the CETA Job Creation project absorbs some of the market, the existing enterprise may have to lay off some of its employees. It may be difficult to find a project without potential for displacement, because the requirement that the project eventually become self sufficient means that there must be a market for the good or service.

Displacement can also occur through attrition and expansion. This would happen if an existing enterprise received CETA Job Creation money and used it to employ people in job vacancies resulting from normal attrition or in new jobs resulting from expansion that would have occurred without the subsidy. This is not a form of job creation, because the jobs would exist without the subsidy. This form of displacement, although undesirable, may be tolerated to some extent if the project has offsetting benefits (e.g. employment of people who in the past have been precluded from those jobs due to discrimination).

In addition, special care must be taken to prevent the funding of CETA

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Job Creation projects which will use the wage subsidy to undercut prices charged by unsubsidized competitors.

Who Will Benefit From the Jobs?

The project must employ the target population consisting of those workers who are the most disadvantaged in terms of unemployment.

Projects which will provide jobs requiring a high level of skill or education may not benefit the target population as well as other jobs might. A problem may arise in matching skill requirements to skills possessed by disadvantaged target groups because CETA Job Creation projects, in contrast to traditional public works projects, must become self-sufficient and therefore will require some jobs with high skill or educational requirements. Projects will need at least one person with entrepreneurial and managerial skills, not usually possessed by target group members; these people can be hired as non-CETA employees and paid with the non-wage portion of CETA money or with project income. If other skill requirements cannot be matched to those of the target groups, special training and on-the-job-training will have to be incorporated into projects.

#### IV. Potential for Viability .

##### Introduction:

Evaluating the viability of a new business is extremely difficult. It requires judging the ability and commitment of the entrepreneur, the market potential of the product, and the adequacy of the enterprise's capital. Because of the Prime Sponsors' limited time and expertise, seeking outside technical assistance is strongly recommended.

Many proposals for CETA Job Creation enterprises will contain less complete information than that required by bankers or public lending agencies to evaluate the viability of a new enterprise. Prime Sponsors have two choices--evaluate the proposal based on the limited information presented, or help the applicant do a more complete analysis. A more complete analysis is preferred, both for its predictive value and proof that the proposal is serious--an enterprise which cannot put together an adequate business plan today has little chance of succeeding in years to come. Also, a complete analysis insures that the entrepreneurs have considered potential pitfalls in their proposed venture. For help, Prime Sponsors can refer applicants to the sources of technical assistance listed in Appendix 2.

This section is divided into three parts: management, market analysis, and financial analysis. The management section discusses the importance of entrepreneurial and managerial skills. The market analysis section discusses how to assess the market for a particular project applicant's good or service. Finally, the financial analysis section describes capital needs of new and expanding enterprises and presents a framework for evaluating viability.

## A. Management

Entrepreneurial and managerial skills are key factors in starting a business and managing it once it is viable. This section is not intended as a complete analysis of these skills; rather, it is a brief description intended to be useful to Prime Sponsors for project evaluation.

Most people think of creativity and commitment as the most essential qualities of an entrepreneur. An equally basic factor, however, is a healthy pessimism about the difficulties inherent in creating an enterprise. It is vital that a person wishing to start a business be realistic about the likelihood of both good and bad events occurring. Numerous unexpected events and delays plague business start-up and operation; even a usual, seemingly riskless situation may backfire and cause a business to fold. An entrepreneur must be able to understand and weigh the consequences of daily crises, and make realistic decisions about how to handle such crises.

Good management is also vital to enterprise viability. A good manager must have the ability to oversee a wide variety of operations such as financial and production activities and interpersonal relations. Both perseverance and creativity are required of a manager regardless of the scale of enterprise s/he manages.

Because of the importance of management, bankers, granting agencies, and other potential providers of capital look carefully at the manager's experience and ability before offering funds to an enterprise. This is especially true for new enterprises, which have no "track record"--the lender's decision rests in large part on her/his confidence in the manager. Consequently, enterprises lacking good management will find it very difficult to obtain loans and, to a lesser extent, grants.

Good entrepreneurs and managers are scarce in any population,

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but the non-profit and target population Title VI constraints restrict the pool of knowledgeable, skilled and experienced entrepreneurs and managers even further. Experienced managers usually demand a large return on their invested money and time; in addition, discrimination in education and hiring has limited the access of many target group members to traditional sources of entrepreneurial and managerial skills. Therefore, project applicants may lack or be inexperienced in the skills necessary for start-up and operation. Prime Sponsors must evaluate whether applicants have a sense of a project's risks and the ability to handle unexpected situations.

## B. MARKET ANALYSIS

### I. Using a Market Analysis

Market analysis is the careful study of the factors which affect the total possible sales of a product or service. Understanding these factors is central in determining the likelihood of success of a CETA-funded enterprise. An analysis involves an evaluation of the geographical size of the market, the population's willingness to buy, the ability to buy, and competition in the market. It supplies tangible information about the basic support offered to the enterprise by its market (i.e. demand), as well as the strength and scope of this demand. Such data can then be used to assess whether the projected sales figure used in the cash flow and income statements is based on realistic assumptions.

The analysis is also useful in assessing the potential for future growth or expansion. CETA Job Creation Program enterprises will always be small-scale when they are first established. Therefore, the enterprise's initial size may be much smaller than the market warrants. Growth, however, is one of the long-range goals of the Program; the ability to expand largely depends on the strength of demand for the good or service produced. Prime Sponsors should use the potential for expansion based on market data as one of the selection criteria for choosing among otherwise equal competing proposals--equal in terms of number and quality of jobs, utility of goods and services, etc.

A market analysis will also help in recognizing problems which may need to be worked on before the enterprise receives a CETA subsidy. For example, an uncommon enterprise such as a cooperative cannery may appear to be in demand based on the rural lifestyle and income of a certain population. However, despite the attractiveness of coops, potential customers may not know enough about this type of service to patronize it. To obtain proof that there will be

will be a market response to the new enterprise, a small survey can be taken to measure local attitudes.

Finally, information collected for the market analysis on the characteristics of potential consumers, competition, and size of the market can be used by the new enterprise to determine the optimal sales strategy, define a good promotional strategy, and evaluate product designs.

## II. Defining the Geographic Size of the Market

The first step in a market analysis is to define the geographical market area. The small-scale nature of most OETA-funded enterprises means that their market area will most likely be small--within a city, a metropolitan area or a part of the state. (Bureau of the Census breaks down population, housing, and other relevant information by census tracts for most cities. Therefore, markets can be analyzed by very small sectors where necessary. Market data from trade manuals and government agencies are usually published according to cities and county boundaries or by metropolitan areas where they exceed the city and county limits.) The market area of an existing business desiring to expand may be defined by using the former market area as a base and adjusting it to accommodate the expansion.

The market area may be redefined if subsequent analysis uncovers a small or weak market relative to the enterprise's cash needs. Enlarging the market area, however, is subject to physical and cost constraints of distance between the product and consumers. These constraints will vary by method of sales, type of product and consumers. For example, an enterprise producing a good for consumption by a low-income group and which will be sold in a single store should not depend on customers who must travel a great distance.

## III. Defining the Numerical Size of the Market

Estimating the sales possibilities in a particular market begins by analyzing the number of prospective customers in the market area. The number of prospective customers depends upon the type of product under consideration. For a consumer product that is frequently used by most people, the probable sales in an area could be measured by the total population, by the number of families, or by the number of dwelling units. For consumer products that are purchased less frequently and only by specific groups, a more detailed analysis of the population is required. For example, a home weatherization business may only be used by owners of homes over a certain age: the number of these older homes in the area provides a measure of the market. (Other common population descriptions which may be relevant to specific products or services are the age distribution and the degree to which the population lives in a rural, urban or suburban environment.) A good description of the nature of the product or service will help to determine the type of consumer most likely to buy it. Therefore, the product description should include what need the product is designed to satisfy, whether it is a staple or an impulse item, and the frequency of use or purchase. The number of potential consumers then defines the size of the market.

It is important to consider possible changes in the market area population. Such information can be obtained by comparing U.S. Census figures for different years. A trend can be calculated for the particular market measure chosen above. A decision must then be made about whether this trend will continue or what factors may cause it to reverse, slow down, or quicken. An absolute decline in population may not endanger the market since it also depends on the rate of decline and who the people are who remain. Alternately, a growing community is not an automatic sign of a good market, especially if the product is used infrequently by that part of the population that is growing. Therefore,

Therefore, the entrepreneur must examine the composition of the new population.

The population should also be examined for seasonal or cyclical unemployment periods in which demand for the product or service may decline. This may be particularly characteristic of towns that depend on the tourist trade in Massachusetts. A service for the non-tourist population may not be in as much demand during off-season months when much of the population is not working. The issue here is whether there are enough sales during the employment periods to tide the business over during a time of weak demand.

#### IV. Defining the Monetary Strength of the Market

After the number of possible purchases of the product in the selected area has been measured according to the qualitative analysis above, buying power should be estimated as accurately as possible. Current town and city income distribution estimates are available from the U.S. Census. (Farm income data, broken down by counties, are available from the U.S. Department of Agriculture.) Books such as the Survey of Current Buying Power<sup>1</sup> and Market Guide<sup>2</sup> contain data on personal spending patterns of income groups by counties and principal cities. Information is also available from business schools of universities.

A frequency distribution of income groups and an estimation of the spending patterns of these groups provide an estimate of the buying power or monetary strength of the market for various categories of goods.

As described in the population analysis, trends in employment and income should be examined for any changes that may affect the target population's spending power.

#### V. Competition in the Market

Once the total demand for a product in a given territory has been esti-

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1. Published by Sales Management magazine annually.

2. Published by Editor and Publisher magazine.

mated, the next step is to estimate the amount of competition a new enterprise will face. While the CETA Job Creation Program will make every effort not to fund projects that are likely to lead to displacement, competition must still be studied. Products or services that are similar or that may be substituted for each other may act as competition in the market place. There is little to do to lessen competitive pressure operating against a business, but it is good to develop a clear working knowledge of what it will face--the state of competition, the relative strength of the business within the market, and the general patterns of development and change. In addition, a study of the competition is likely to point up methods of operation which may be beneficial for use in the new enterprise. Particular attention should be given to competitors of roughly the same type and size as the Program applicant since they are likely to be the applicant's real competitors.

The following questions will provide a framework with which to analyze the competition:

1. How many competitive businesses are there within the market area of the enterprise? Where are they located? What can be found out about them?
2. How many competitive businesses have gone out of business or moved out of the market area with the past year?

If there has been a decline in the number of competitors, an attempt should be made to find out why. If the decline has been significant, it may indicate that there are too many businesses of that type for the potential sales volume. If other areas of the analysis tend to indicate a declining market, exodus of competing businesses may serve to support these findings.

3. How many competitive businesses have opened in this market area within the past year?

Is this increase in competition more than would normally be expected?

What circumstances have been responsible for the increase in competition? Can the market support all these businesses?

Unless the market grows in proportion to new competitive entries, the net result is a smaller share for each competitor.

4. What sort of sales effort does the competition make?

How do the competitors advertise, promote? What advertising media are used? How much? What is the quality of competitors' sales forces?

5. What is the general physical appearance of competitive establishments?

6. What are the general pricing policies of competitors?

An actual price comparison of specific products or services should be made. Attention should be concentrated on general price levels rather than specific items--the purpose is to compare the new enterprise and its competition, taking into account cost of merchandise, relation with sources of supply, cost of operation and so on.

7. Is there evidence of concerted or cooperative effort on the part of the competition to increase the total market?

Through trade associations? Joint promotional programs? How effective does the effort appear to be?

## VI. The Prime Sponsor's Role

Applicants should present the Prime Sponsor with supportive data concerning the existence of a market for their enterprise. The Prime Sponsor must then analyze the data, based on the above discussion, to ensure that all aspects of the market have been considered.

### C. Financial Analysis

Enterprise creation is not a simple task; a high proportion of new businesses started each year ultimately fail, and the constraints imposed by Title VI regulations make the success of a CETA Job Creation enterprise even more difficult. One such constraint is capital availability; since Title VI funds subsidize only the wage component of an enterprise's working capital, other capital needs such as equity and debt for start-up costs must be obtained elsewhere. Small and/or minority businesses have traditionally had very limited access to such resources; non-profit enterprises similarly have trouble obtaining both equity and debt capital. These limitations must be appreciated if Title VI funds are to succeed in creating new enterprises and permanent jobs.

This section includes a discussion of capital needs of new and expanding enterprises--what they are and how they are estimated--and presents a framework for determining whether a proposed enterprise is viable. It is primarily intended to present an introduction to these complex issues and to suggest some important questions to ask; Prime Sponsors are strongly urged to seek further assistance in performing a financial analysis.

#### 1. Capital Needs

Two types of capital are required to create an enterprise: start-up capital, including promotional and fixed asset capital, and working capital. Promotional capital includes advertising, training, legal fees, and other expenses necessary to get the business off the ground. Fixed asset capital includes funds necessary for buildings, land, fixtures and machinery acquisition. Working capital is the amount of cash and inventory that the enterprise must have on hand at all times to cover current obligations (rent, wages, materials, etc.). While promotional and fixed asset capital are strictly start-up or expansion needs,

a certain amount of working capital is needed throughout the life of the enterprise.

A distinction can be drawn between service-oriented and production-oriented firms in terms of the amount and type of start-up or expansion capital needed. A service-oriented business may need only working capital to pay wages and purchase materials and supplies, while production-oriented firms require capital for investment in buildings and/or equipment as well as working capital.

a. Debt vs. equity

Start-up and working capital come from two sources: equity and debt. Equity capital is money that does not usually need to be repaid; it is obtained either through a grant with "no strings" attached or through an investor who expects to share in any appreciation of the business. Since investors in non-profit enterprises cannot profit from the growth of the business, the only real source of equity for CETA Job Creation project applicants is contributions and/or grants.<sup>1</sup>

Debt capital is borrowed money carrying an interest charge; the borrower must pay the lender in fixed (usually monthly) installments of principal, interest, or both. An enterprise is concerned with its proportions of debt and equity capital because this determines its ability to meet obligations in periods of both high and low revenue; if the business is overburdened with debt and suffers unexpected expenses, it may not be able to meet loan installment payments. The more debt obligations the enterprise must meet, the longer it will take it to reach the break-even point. Different debt/equity ratios are acceptable depending on the industry, its nature of operations, projected business conditions, and management style.

A lender is concerned with the debt/equity ratio not only

<sup>1</sup>To obtain grants the enterprise must have non-profit, tax-exempt status.

because of its effect on the enterprise's viability, but because it determines the lender's risk. The more money s/he invests relative to the enterprise's total capital, the more the lender will lose if the enterprise fails. Therefore, because lenders perceive new small business as high risk business, they will not accept a high debt/equity ratio.

b. Short-term vs. long-term debt; secured vs. unsecured debt

Short-term loans are repaid in a year or less, intermediate-term loans in one to five years, and long-term loans in more than five years.

Although loans can be either secured or unsecured, most are secured. In a secured loan agreement, the borrower pledges a security or asset against default on the loan. Either equipment or accounts receivable can be pledged; however, banks prefer a tangible asset such as equipment. This makes it more difficult for labor-intensive firms to obtain loans.

Intermediate and long-term loans are more difficult to obtain than short-term loans, but for most new businesses they are essential for financing equipment and other major start-up expenses. The CETA subsidy, however, may enable some enterprises to get by on short-term loans--if the subsidy allows the enterprise to show a surplus during the first year, and start-up capital needs are relatively small, the enterprise can finance its start-up costs through one-year loans paid off with the surplus. This is one of the major ways in which a CETA subsidy can help an enterprise start up, by eliminating its need for hard-to-obtain long-term loans.

c. Estimating capital needs

The amount of capital needed for fixed assets depends on the nature and scale of the business. Leasing equipment can reduce initial fixed asset investment; this may be essential for CETA Job Creation enterprises because of their difficulty in obtaining start-up capital. Excessive investment in fixed

assets should be avoided for two reasons. First, given the limited amount of available start-up capital, heavy fixed asset investment may prevent the enterprise from allocating an adequate amount to working capital. Second, overinvestment in fixed assets raises the breakeven point and becomes a burden during unexpected periods of falling prices or low sales.

New small businesses should consider several factors when determining working capital requirements. A time lag of three months to over a year is typical before the business will have sufficient income to pay expenses; there must be adequate working capital to sustain it during this time. Unexpected delays, increased expenses, and sudden drops in demand must all be provided for with working capital reserves. Sufficient cash allows a business to both take advantage of discounts offered by suppliers and to grant credit to its customers. A new small business must make sure it has the economic ability to hang on until it reaches the breakeven point.

In addition, inventory requirements must be considered. For a production-oriented business, the desirable initial inventory is estimated by soliciting suggestions from prospective suppliers of merchandise and verifying these estimates against the typical ratio of inventory to sales for the same business. It is crucial not to exceed the determined maximum dollar figure for inventory.

## 2. Framework for analyzing financial viability

A complete financial analysis has four components:<sup>1</sup>

1. Estimate of start-up capital needs--This includes a list (with costs) of equipment, promotion, overhead and other start-up expenses that will be incurred before the enterprise begins to bring in revenue.

<sup>1</sup>An example of each component is included in Appendix 1 - Case Study.

2. Income statement--sometimes call "statement of operations" or "profit-loss statement"--This shows monthly, quarterly, or annual revenue, expenses, and net income or net loss. It is used by bankers and other investors to judge the long-term viability of the enterprise. A new enterprise may show a net loss for several months or even a few years and still be able to obtain financing, if the lender believes that after this initial period there will be net income. The statement is usually prepared for as many years as the enterprise believes it will take to reach the breakeven point or for the term of the loan request.
3. Cash flow statement--This shows monthly, quarterly or annual revenue and expenses, but differs from the income statement in that it accounts only for those dollars actually received and spent by the enterprise in a given month. For example, it shows the lump sum actually spent for start-up equipment as an expense in the first month, while the income statement shows depreciation on equipment over several years. The cash flow statement is also used by investors to judge viability, because it shows the enterprise's ability to pay its obligations each month, and indicates how this ability would be affected by unforeseen changes in revenue or expenses. For example, it shows whether the enterprise would have enough cash reserve to make its loan payments if sales suddenly dropped for one month.
4. Balance sheets--for the first day and end of the year-- These show the assets and liabilities of the enterprise, and are used to measure growth and to judge the enterprise's ability to get a loan (i.e. the greater its assets, the more easily it can get a loan).

How can Prime Sponsors use this information to gauge the

enterprise's potential for success? For new enterprises, each financial statement will involve predictions--predictions of productivity, revenue, operating expenses, etc. For expanding enterprises, the figures will be based on the past history of the business, but will still entail predictions. The assumptions underlying these predictions should be carefully examined to evaluate the enterprise's claim that it will attain viability.

For enterprises which have not yet obtained a loan, one of the most crucial predictions relates to the grants and loans for which it has applied. Since viability depends substantially on financing, Prime Sponsors should only approve such projects contingent upon acquisition of capital.

Some of the important questions to ask are:

1. Estimates of start-up capital

- a. If the enterprise intends to sell in the open market, has enough start-up capital been allocated for advertising?
- b. Has enough money been allowed for training staff, taking into account the skill level of the CETA target population?
- c. Is enough equipment included to reach the production levels implied by the expected revenue figures? Are the projected costs of this equipment realistic?
- d. Has money been allocated for such start-up expenses as legal, accounting and incorporation fees?

2. Income statement

- a. How were sales and revenue predicted? Is the figure realistic, based on the market and the enterprise's expected productivity?
- b. How was materials' cost predicted? Is the cost and volume of materials realistic? Is the materials' inventory adequate but not excessive? (Consulting with managers of similar enterprises or trade journals can help answer these questions.)

- c. Have any overhead costs been left out?
  - d. How were sales expenses calculated? Are they adequate, given the market?
  - e. Are administrative costs adequate to support the enterprise? Or have they been overestimated?
  - f. Is the number of employees reasonable? The CETA subsidy makes it easy to overhire during the first year, but will the enterprise be able to retain all of its employees in years to come?
  - g. Does the enterprise break even in the second year?
3. Cash flow statement--These figures will correspond in large part to those on the previous two statements. However, the cash flow statement is the place where working capital needs are reflected.
- a. Is the timing of expenses and revenue realistic?
    - Is enough money allowed for training and other start-up activities before revenue is predicted to come in?
    - Projects will experience a one-month delay in receiving Title VI payments. Has the project included this in its working capital requirements?
  - b. Is a reserve allowed for possible losses, unexpected drops in revenue, or other emergencies?
4. Balance sheet
- a. Does the CETA subsidy have the effect of creating a large cash surplus at the end of the year? If so, how will it be used in years two and three? For expansion? Debt consolidation? Wage increases?
  - b. Is the investment in equipment so high that it may burden the enterprise during periods of falling prices or low sales? (Compare current assets to current liabilities.)

These questions can guide Prime Sponsors in evaluating the viability of a proposed enterprise. As well as evaluating via-

bility from the perspective of an investor, however, Prime Sponsors should also consider whether the enterprise needs the Title VI subsidy from the perspective of a public grantor. This question is discussed in the next chapter.

## V. Evidence of Need for the Subsidy

After determining that a proposed project has acceptable employment impact and potential for viability, the Prime Sponsor should evaluate whether it needs the CETA subsidy. Ideally, CETA Job Creation should subsidize only those enterprises which 1- would not start up<sup>1</sup> without the wage subsidy, or 2- would start up<sup>1</sup> but would not employ the target population; otherwise CETA funds will provide "windfall" to enterprises which do not need the subsidy.

1- Enterprise would not start up without subsidy. This situation is most likely to occur with labor-intensive enterprises. For a new business, the types of financing most difficult to obtain are equity (which must be found before the enterprise can obtain any loans) and long-term loans (needed to cover fixed assets and other start-up costs.) Although the Title VI subsidy cannot meet either of these needs, it can help an enterprise get off the ground in two ways--by reducing its need for long-term loans, and by reducing the amount of working capital that it must borrow.

The need for long-term loans can be reduced if the CETA subsidy gives the enterprise a surplus during its first year which enables it to finance and repay most of its start-up expenses with short-term loans. This will occur primarily in enterprises with low start-up costs (labor-intensive businesses) because enterprises with high start-up costs need so much capital in the first year that the wage subsidy will not create a surplus.

The reduction of working capital needs will also be most significant for labor-intensive enterprises. Working capital is the bulk of start-up costs for such enterprises; furthermore, they are often considered high risks by lending institutions because they have few fixed assets with which to secure a

<sup>1</sup>Or expand, in the case of existing enterprises.

loan. Consequently, a working capital subsidy which allows the business to break-even within one year, rather than one and one-half or two years, could make the difference in a bank's decision to make a short-term loan and hence enable the enterprise to start up. A capital intensive industry, on the other hand, has a major obstacle to overcome in obtaining capital for equipment and other fixed assets. If it can obtain these, working capital loans are relatively easy to find. Consequently, it is unlikely that a CETA wage (working capital) subsidy would be a significant factor in the creation of such an enterprise.

Prime Sponsors can get an indication of whether the subsidy is needed from the financial statements described in Section IV, Part C. Has the enterprise obtained a one-year loan which it intends to repay with a surplus created by the CETA subsidy? Or does the surplus enable the enterprise to get a working capital loan by decreasing its apparent riskiness? These questions can best be answered with the help of the institutions to which the enterprise has applied for loans.

2- Enterprise would not employ the target population. In this case, Title VI funds enable a new enterprise to employ members of the target population who would not otherwise be hired. Ordinarily, an enterprise has to operate as efficiently as possible during its first year while it struggles to build its market and break even. It cannot afford to keep a worker on the payroll who needs training or time to learn the trade; in some cases, this may preclude the hiring of Title VI target population members. The wage subsidy gives the new enterprise some leeway to operate at below peak efficiency during the first year, which allows more time for on-the-job training and therefore permits the hiring of less-skilled workers.

It is important to note, however, that while members of the Title VI population are unemployed, they are not necessarily unskilled workers. In evaluating a project's need for the subsidy,

Prime Sponsors should examine the amount and type of training planned to see whether it does in fact take advantage of the subsidy to employ target population members who could not otherwise be hired. Prime Sponsors might also want to get a formal commitment from the project to insure that it will hire workers who need training.

PART THREE - APPENDICES

APPENDIX 1: Case Study---Winterization Enterprise

The purpose of this case study is twofold:

- to give an example of a type of project that may be the suitable recipient of CETA Job Creation funds.
- to show how some of the steps outlined in the text of the handbook can be applied by the Prime Sponsor in evaluating project proposals.

The case study consists of a hypothetical proposal to a Prime Sponsor from a CAP agency for CETA Job Creation money to start a weatherization project. The second part of the case study represents the Prime Sponsor's response to the proposal, in which the major weaknesses and strengths of the proposal are outlined. It must be noted that this case study is not comprehensive; rather it is meant to emphasize the major components of a proposal and evaluation. In actually evaluating proposals, the Prime Sponsor will often seek assistance from local bankers and business people to adequately assess the financial strength and market potential of each proposed project.

Note: the employment requirements, material and equipment costs are for illustrative purposes only. Although many of the figures are based on estimates from people who wetherize homes, this case study can make no claims of being technically or financially correct.

To: Coldburg CETA Prime Sponsor  
From: Coldburg CAP  
Re: Proposal for CETA Job Creation Project Funding

A. Introduction

The Coldburg CAP agency has for the past two years operated a home weatherization program for low income families. Using materials provided by CSA, overhead provided by the CAP and CETA labor, we do insulation, weatherstripping, and other energy saving improvements at no cost to low income residents.

We propose to turn over our low income weatherization program to a new non-profit corporation consisting of two parts: a low income weatherization service which will continue to depend on CSA, CETA, and CAP subsidies, and a middle income service, Coldwinter, Inc. which will charge market rates for weatherization and will receive CETA Job Creation Project subsidies for the first year only. The two parts of the enterprise will share some overhead costs (space, some equipment, and possibly a truck) but will keep separate financial records.

Coldwinter, Inc. will provide a valuable service to middle income households as well as providing good jobs and training in a growing field to CETA workers. Energy conservation through weatherization provides two types of economic benefits to the community: a direct benefit to the weatherization workers in the form of jobs and an indirect benefit of keeping money in the community, because every dollar not spent on fuel is a potential contribution to the local economy.

As our market and financial analysis indicate, Coldwinter, Inc. is designed to meet a growing demand, and it can reach the financial break-even point and end reliance on CETA subsidies after one year.

If there is a market demand, why do we need CITA subsidies at all? There are two reasons. First, we are dedicated to the concept of hiring and training low income people, women and minorities. There are plenty of unemployed carpenters in Coldburg who will jump at the chance to start a weatherization business, especially when federal incentives to homeowners further stimulate demand. In their scurry to make a profit, however, they will seek to hire experienced labor. For Coldwinter, Inc. the hiring and training of unskilled people is as important as our product (i.e. the weatherization itself). In order to compensate for the extra training costs imposed by this public purpose, we need a subsidy for the first year.

Furthermore, private weatherization enterprises are usually begun with small capital investments and only two or three employees. It would take a long time for them to expand to eight or more employees. By enabling us to make a larger initial capital investment and pay off our debt in one year, the subsidy will allow us to employ 11 people from the outset. The expected rate of return in the weatherization industry is not high enough to attract much capital from the private market.

#### B. Nature of the Business

Coldwinter, Inc. will make home repairs and energy saving improvements to minimize heat loss and improve thermal efficiency, including weatherstripping, repairing broken windows, patching roofs and walls, insulating attics and walls, insulating attics and walls, installing storm windows and doors. Our proposed method for insulating homes is to blow cellulose into walls and into attics. Although blown insulation requires a greater capital investment than rolled fiberglass, it is quicker to install and hence more cost effective.

Prior to making any repairs or energy saving improvements, estimates

will be made for all interested households of the annual potential savings which will result from the recommended weatherization services.

Coldwinter, Inc. will be a not-for-profit enterprise providing services to homeowners in the Coldburg metropolitan area who can afford to pay for the market-priced services.

Energy conservation is becoming a very high priority on the national and state levels and is becoming increasingly important to individual consumers. As the cost of energy continues to escalate there will be an increase in demand for the type of services we propose to provide.

#### C. Employment Requirements

One of the main objectives of the project is to create permanent "good jobs" for low income residents, especially women and minorities who have been unemployed a long time and who would otherwise probably not find employment.

The project will employ a staff of eleven people:

1 Operations Manager/Administrator: General supervision; Sales; Estimates and design of installations; Purchasing; Scheduling; Book keeping; Billing; Clerical Work.

Must have experience in supervision and sales and background in energy conservation. \$12,000

2 Carpenters: Sales; Estimates and design of installation; Part-time supervision of installers; Carpentry repairs

Must have general construction skills.

Will be trained in areas of energy conservation, sales, and management. (\$12,000 each) \$24,000

8 Installers/Laborers

Will be trained to insulate homes, install windows, weather-stripping etc. (\$8000 each) \$64,000

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TOTAL PAYROLL FIRST YEAR OF OPERATIONS \$100,000

During the first year, CETA will pay the full salaries of the installers and \$10,000 for each of the three employees salaried at \$12,000. CETA will also pay for each employee's fringe benefits.

After the staff is hired there will be two weeks of intensive training and orientation. The Operations manager/administrator will coordinate the training program. The staff people from the Colburg CAP's winterization program for low income households, in existence for almost two years now, will conduct most of the training sessions.

#### D. Market Analysis

The market for winterization services is growing rapidly. Rising fuel prices combined with the government's increasing reliance on energy conservation will serve to increase the demand for winterization services. The market will expand further when consumers begin to realize the substantial savings they can expect in their utility bill as a result of winterizing their homes.

Fortunately, it is rather easy to show potential customers how they will benefit in terms of dollar savings. It has been estimated that one can expect to save between 20¢ and 65¢ per square foot per year of heated space for an investment of between 75¢ and \$1150 per square foot. As utility bills swallow an increasingly larger percentage of households' incomes, consumers will become more eager to learn about the benefits of winterization.

Our potential customers will be middle income homeowners in the Colburg metropolitan area. The 1970 Census showed that of the 240,000 households in the metropolitan area, 120,000 owned their own home, and that 90,000

of the homeowners households can be considered at least middle income. Almost half of the housing in the metropolitan area was built prior to 1929, and most of the homes built after 1929 were built within ten years of the end of World War II. Older homes tend to be less energy efficient and stand to gain the most from winterization services. Since there were only 100 single housing starts between 1960 and 1970, we can safely assume that at least 80% of the middle income homeowners households could benefit substantially from winterization, leaving a market of 72,000 households.

Existing and future competitors will reduce the size of our market.

Our competitors, as listed in the Yellow Pages, are the following:

- 6 Heating Consultants
- 16 Insulation Contractors
- 12 Storm Window and Door Dealers

Comparing this list to last year's Yellow Pages, one storm window dealer has gone out of business or left the market area while two heating consultants, six insulation contractors and two storm window dealers have entered the market. This is a strong indication that the market is growing.

Most insulation contracting enterprises employ four or less installers. If the sixteen insulation contractors can each complete a maximum of twenty jobs per month and an average of fifteen per month, 2,880 homes can be insulated each year by the existing competition. However, since some of the contractors will be winterizing businesses, schools, etc., the number of homes that are insulated annually by the existing competition is actually much lower.

As indicated in our financial analysis, the maximum number of jobs we can complete is forty per month. During the first few months, productivity will be lower, and during the summer we will not be able to do as many jobs

due to the heat. By the end of year one we must complete 350 jobs. The average two day winterization job, requiring four people-days, will consist of one day of blowing insulation and one day of repairs, caulking, weather-stripping and installing storm windows. The average selling price for such a job will be \$700, which is a competitive price for the area. From the four most comparable competitors, we found that prices ranged from \$650 - \$900.

#### E. Marketing Plan

Advertising will be done through the Yellow Pages, local newspapers, local radio stations, and targeted mailings.

This project will have an advantage over some of its competitors because:

- Coldwinter, Inc. will offer comprehensive winterization services.
- Coldwinter, Inc. will employ three people who will spend part of their time doing sales work. Most competitors have only one person doing sales work part-time.
- Coldwinter, Inc. will benefit from the good reputation that the CAP agency has earned for its low income winterization program.

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In order for a homeowner to benefit substantially from winterization services, the investment should be paid back from savings within four to seven years.

START-UP CAPITAL NEEDS

45

## Equipment and Tools:

1 Van (a second to be provided by one of the carpenters). -	\$ 6,500	
2 Cellulose insulation blowers @ \$2,000 -	4,000	
Power tools:		
8 Drills @ \$50-	\$400	
2 Table saws @ \$300-	600	
2 Sawsalls @ \$150-	<u>300</u>	
	1,300	
8 Ladders @ \$150-	1,200	
Hand tools -	500	
Office equipment -	<u>500</u>	
Total:		\$14,000

## Labor:

Administrative staff: 3 persons employed for one month before CETA wages arrive and before any homes are winterized, @ \$1,000 per mo. + \$150 benefits.	\$ 3,450	
Direct labor: 8 persons employed for 4 weeks before CETA wages arrive and before any homes are winterized, @ \$160 per week + \$24 per week benefits.	5,888	
Total:		\$ 9,388

## Other Start-up Costs:

Initial advertising and marketing:	\$ 1,000	
Lawyer, CPA:	\$ <u>1,000</u>	
Total		\$ <u>2,000</u>
Total Start-up Capital Needs:		\$25,388

Estimates are based on the experience of the Coldburg CAP's low income weatherization project and information from private contractors in the area.

COLDWINTER ANTICIPATED INCOME

STATEMENT

	<u>YEAR 1</u>	<u>YEAR 2</u>
NET SALES: year 1, 350 units, year 2, 410 units @ \$700 avg.)	\$245,000	\$285,600
COST OF GOODS SOLD:		
<u>Direct Materials</u>		
Inventory, beginning of year:	000	2,000
Materials purchased @ \$250/job:	89,000	102,000
Materials available for use:	<u>89,000</u>	<u>104,000</u>
Less inventory, end of year:	<u>2,000</u>	<u>2,000</u>
Cost of materials used:	\$ 87,000	\$102,000
<u>Direct Labor</u>	\$ 76,500	\$ 32,700
(3 Laborers @ \$160/wk. + 15% benefits + 3% in second year)		
<u>Transportation</u>	\$ 3,300	\$ 4,500
(15¢/mile x 6 round-trips/job x 12 miles/ avg. trip = \$11/job)		
<u>Overhead</u>		
Indierect Labor:	27,600	29,800
(2 Foremen @ \$12,00/yr+15% + 8% in second year)		
Rent & Utilities:	6,000	6,000
Supplies:	3,000	3,000
Insurance and Taxes (@ % of sales):	3,000	3,000
Depreciation (5 yr. straight line):	<u>2,300</u>	<u>2,800</u>
Total.....	\$ 42,400	\$ 44,600
TOTAL COST OF GOODS:	<u>\$209,700</u>	<u>\$233,300</u>
GROSS MARGIN:	\$ 33,900	\$ 51,800

	<u>YEAR 1</u>	<u>YEAR 2</u>
GROSS MARGIN:	\$ 33,000	\$ 51,000
SELLING AND ADMINISTRATIVE EXPENSES:		
<u>Selling Expense</u>		
Sales salaries (included in manager and foremen salaries)	0	0
Advertising:	<u>7,000</u>	<u>6,000</u>
Total:	7,000	6,000
<u>Administrative Expense</u>		
Salaries: (1 manager @ \$12,000/ year + 15% + 8% raise in second year)	13,800	14,900
Miscellaneous Expenses:	<u>6,000</u>	<u>4,000</u>
Total:	\$ 19,800	\$ 18,900
NON-CAPITAL START-UP EXPENSES: (and all interest)	\$ <u>13,388</u>	\$ <u>0</u>
TOTAL EXPENSES:	<u>\$ 40,188</u>	<u>\$ 24,900</u>
NET OPERATING INCOME:	\$ (6,288)	\$ 26,900
CETA FUNDS: (\$123,260 wage subsidy + \$11,790 op.)	<u>\$133,050</u>	<u>\$ 0</u>
NET INCOME:	\$128,672	\$ 26,900

NOTES to accompany the Income Statement

Sales estimates are based on CAP experience with low income weatherization and the experience of private contractors.

Direct Materials costs are estimated by multiplying the materials needed for an "average" weatherization job by the sales projections. Average needs are estimated as follows:

2 Windows @ 15.00	=	\$ 30.00
40 Bags of cellulose @ \$4.00 a bag	=	160.00
2 Pieces of rolled insulation @ \$8.50	=	17.00
2 Packages of weatherstripping @ \$1.40	=	2.80
Nails, screws, sandpaper, wood, plaster, paint, etc.		<u>5.00</u>
Total est.		214.80
Plus 20% margin		<u>35.20</u>
BUDGETED CCST:		\$ 250.00

Rent and Utilities are expected to cost \$500 a month based on sharing the cost of the 2,000 sq. ft. space now used exclusively by the low income weatherization program. The rent includes utilities and is 50¢ per square foot per month.  $\frac{1}{2} \times .50 \times 2000 = 500$ .

Supplies includes stationery, telephone, minor construction materials for shelves, etc., and postage.

Advertising costs are based on the experience of other insulation enterprises.

- CASH FLOW PROJECTION

	1	2	3	4	5	6
	AUGUST 1971	SEPT 1971	OCT 1971	NOV 1971	DEC 1971	JAN 1972
SALES (PROJECTED)	25388-	7388-	7530-	21,000-	21,000-	24500-
Operating Costs		00-	5135-	10270-	10270-	10270-
Operating Profit			11790-			
Bank Loan	25388-	15220-				
<b>TOTAL REVENUE</b>	<b>25388-</b>	<b>22220-</b>	<b>34425</b>	<b>31270</b>	<b>31270-</b>	<b>34770-</b>
FINANCIAL EXPENSES	00-	577-	577-	577-	577-	577-
MANAGE EXPENSES	00-	10510-	6525-	7200-	7200-	7200-
DIRECT LABOR	00-	6375-	6375-	6375-	6375-	6375-
<b>TOTAL</b>	<b>00-</b>	<b>14720-</b>	<b>12670-</b>	<b>19975-</b>	<b>19975-</b>	<b>21280-</b>
Loan payments (prin.)	00-	00-	19800-	2000-	2000-	2000-
Interest (8.9%)		200-	300-	165-	150-	135-
Contingency fund	00-	500-	500-	500-	500-	500-
Equipment Depreciation	14000-					
Operating Expenses	11338-					
<b>TOTAL EXPENSES</b>	<b>25388-</b>	<b>15420-</b>	<b>38270-</b>	<b>22640-</b>	<b>22625-</b>	<b>23915-</b>
<b>NET FLOW</b>	<b>00-</b>	<b>6800-</b>	<b>(4045-)</b>	<b>8630-</b>	<b>8645-</b>	<b>10855-</b>
DEBT	25388-	40608-	21808-	19808-	17808-	15808-
<b>NET</b>	<b>(25388-)</b>	<b>(33808-)</b>	<b>(19053-)</b>	<b>(8423-)</b>	<b>2222-</b>	<b>15077-</b>

W.D. WINTER, INC.

CASH FLOW

1955-56

	1	2	3	4	5	6
REVENUE						
Cost of Sales	29100-	24100-	24100-	24100-	24100-	24100-
COSTA 1000 Equity	10270-	10270-	10270-	10270-	10270-	10270-
TOTAL REVENUE	38270-	38270-	38270-	34770-	31270-	24270-
FIXED OPERATING EXPENSES	5770-	5770-	5770-	5770-	5770-	5770-
VARIABLE EXPENSES	10270-	10270-	10270-	8135-	7200-	5120-
DIRECT LABOR	6375-	6375-	6375-	6375-	6375-	6375-
TOTAL	22585-	22585-	22585-	21280-	19975-	17365-
LOAN PAYMENTS	2000-	2000-	2000-	2000-	2000-	2000-
Interest	120-	105-	90-	75-	60-	45-
Contingencies	500-	500-	500-	500-	500-	500-
TOTAL EXPENSES	25205-	25190-	25175-	23855-	22535-	19910-
NET FLOW	13065-	13080-	13095-	10915-	8735-	4360-
FIXED ASSETS	43920-	57000-	70095-	81010-	89745-	94105-
DEBT	13808-	11808-	9808-	7808-	5808-	3808-
NET	30112-	45192-	60286-	73202-	83937-	90297-

CASH FLOW

	1	2	3	4	5	6
SALES	10500 -	17000 -	24500 -	28000 -	28000 -	28000 -
CEM wage credit	10270 -	10270 -	0 -	00 -	0 -	0 -
TOTAL REVENUE	20770 -	27770 -	24500 -	28000 -	28000 -	28000 -
FIXED OPERATING EXPENSES	5775 -	5795 -	5795 -	5795 -	5795 -	5795 -
TRAVEL EXPENSES	3715 -	6525 -	9135 -	10775 -	10775 -	10775 -
DIRECT LABOR	6375 -	6892 -	6892 -	6892 -	6892 -	6892 -
TOTAL	15065 -	19212 -	21822 -	23627 -	23627 -	23627 -
Loan Payments	2000 -	1808 -				
Interest	3850	1350				
Contingencies	500 -	500 -	500 -	500 -	500 -	500 -
TOTAL EXPENSES	17598.50	21533.50	21822 -	23627 -	23627 -	23627 -
NET FLOW	3171.50	6236.50	2678 -	4373 -	4373 -	4373 -
DEBT	1808 -	00 -	00 -	00 -	00 -	00 -
NET	95468.50	113513 -	106191 -	110564 -	114937 -	119310 -

CASH FLOW

5

	1	2	3	4	5	6
1925 (9)	28000-	28000-	28000-	28000-	21000-	14000-
CETA	00-	00-	00-	00-	00-	00-
TOTAL REVENUE	28000	28000	28000	28000	21000-	14000
FIXED OPERATING	5795-	5795-	5795-	5795-	5795-	5795-
EXPENSES	10690-	10690-	10690-	10690-	10690-	10690-
DIRECT LABOR	6892-	6892-	6892-	6892-	6892-	6892-
TOTAL	23127-	23127-	23127-	23127-	20617-	17907-
Contingencies	500-	500-	500-	500-	500-	500-
TOTAL EXPENSES	23627-	23627-	23627-	23627-	20517-	18407-
NET FLOW	4373-	4373-	4373-	4373-	483-	(4407-)
123683-	128056-	132429-	136802-	137285-	132878-	
DEBT	00-	00-	00-	00-	00-	00-
NET	123683-	128056-	132429-	136802-	137285-	132878-

CASH FLOW

	1	2	3	4	5	6
	AUGUST 1977	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY 1980
UNITS COMPLETED	15	25	35	40	40	40
SALES	10500 -	17500 -	24500 -	28000 -	28000 -	28000 -
TOTAL REVENUE	10500 -	17500 -	24500 -	28000 -	28000 -	28000 -
FIXED OR. EXP.	5795 -	5795 -	5795 -	5795 -	5795 -	5795 -
VARIABLE	3915 -	6525 -	9135 -	10440 -	10440 -	10440 -
DIRECT LABOR	6392 -	6892 -	6892 -	6892 -	6892 -	6892 -
TOTAL	16602 -	19212 -	21382 -	23127 -	23127 -	23127 -
Contingencies	500 -	500 -	500 -	500 -	500 -	500 -
TOTAL EXPENSES	17102 -	19712 -	21882 -	23627 -	23627 -	23627 -
NET FLOW	(6602 -)	(2212 -)	2618 -	4373 -	4373 -	4373 -
CUMULATIVE BALANCE	126275 -	124157 -	126772 -	131445 -	135518 -	139891 -
NET	126275 -	124154 -	126772 -	131445 -	135518 -	139891 -

NOTES to accompany the Cash Flow projection

Revenues

- Line 1, Units Completed is based on CAP experience and that of private contractors.
- Line 3, Sales are based on an average selling price of \$700.00 per unit. This contrasts with an expected cost of \$512.00 per unit, and a general sales range of \$650- \$900.00 in the area.
- Lines 6&7, CETA subsidies are based on one-time, one year grants of \$8,000 per installer for wages plus 15% fringe benefits; and \$10,000 per foreman and manager plus fringes. Job Creation funds may also be spent on other costs, so we have asked for almost \$12,000 in operation costs to be paid for by CETA. This is under the limit of 10% of the total allocation.
- Line 9, Bank Loan. We expect to obtain standard commercial loans for a total of about \$40,000.
- Line 12, Total Revenue is the sum of all sources of cash and credit received during a given month.

Expenses

- Line 16, Fixed Operating Expenses are the unchanging costs the firm faces distributed evenly across the year. These costs are Overhead, Selling, and Administrative Expenses. For more detail, see the income statement.
- Line 17, Variable Operating Expenses includes the cost of transportation and Direct Materials.
- Line 18, Direct Labor is the cost of wages and fringe benefits for the installers.
- Line 20, Total is the sum of lines 16, 17, and 18. This represents the real expected costs of running the business without taking into account financing problems, etc.
- Line 22, Loan Payments (Principal) shows the payment schedule we favor for financing start-up. We have shown a large one-time payment in October to be paid with September sales revenue and the CETA operating subsidy and monthly payments of \$2,000 for the rest of the year.
- Line 23, Interest is based on the assumption of monthly payments on the outstanding debt of a 9% commercial loan.
- Line 24, Contingencies Fund is a cushion for absorbing unexpected expenses such as repair bills, temporary rentals while equipment is not functioning properly, etc.
- Line 26, Equipment Purchase refers to those articles described in

Capital Start-Up Needs.

Line 28, Other Start-Up Expenses are those described in the Capital Start-Up Needs Statement.

Line 31, Total Expenses is the sum of lines 20 to 28, and reflects the monthly demand on the enterprise's liquid assets.

Income

Line 33, Net Flow shows how much money came into (or left) the firm over the month.

Line 36, Liquid Assets is the accumulation of each month's Net Flow. It includes cash on hand and accounts receivable.

Line 38, Debt is the total debt outstanding during that month.

Line 41, Net is line 36 minus line 38, that is Liquid Assets minus Debt Outstanding for a given month. The Net does not correspond exactly to Net Worth since it does not include the value of fixed assets, nor to net income since capital expenses are absorbed during the course of the first year, but amortized over five. The Net is best indicator of the enterprise's short-term financial status.

COLDWINTER, INC.

ANTICIPATED BALANCE SHEET

1 Sept. 1977 1 Sept. 1978 1 Sept.

Assets

1. Current Assets

a. Cash	\$ 0	[ \$97,276.50 ] <sup>1</sup>	\$126,175
b. Accounts Receivable	0		
c. Inventory	0	2,000.00	2,000

2. Fixed Assets

a. Equipment and Tools <sup>2</sup>	14,000	14,000.00	14,000
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3. Other Assets

	<u>0</u>	<u>0.00</u>	<u>0</u>
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Total:	\$ 14,000	\$113,276.50	\$142,175
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Liabilities

1. Current Liabilities

a. Loans Outstanding	\$ 25,388	\$ 1808.00	\$ 0
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2. Long-term Liabilities

	0	0	0
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3. Equity or Net Worth

	<u>(11,388)</u>	<u>\$111,468.50</u>	<u>142,175</u>
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Total:	\$ 14,000	\$113,276.50	\$ 142,175
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Notes

1. Due to the uncertainty of present federal loan guarantee proposals, we do not know how much financing we will be engaged in. Our cash-flow projections suggest enough of a cushion that the distinction between cash on hand and accounts receivable is unimportant for our purposes.

2. We assume that depreciation allowances will be used to maintain a constant level of investment in fixed capital assets.

To: Coldburg CAF  
From: Coldburg CETA Prime Sponsor  
Re: Response to Proposal for CETA Job Creation Money for Weatherization Project.

The proposed weatherization project for middle income households seems to be basically sound. Before making a decision we plan to discuss your financial projections and market analysis with a local banker and a representative from the Small Business Administration. We will not decide which projects to fund until we receive their comments. We will be notifying you of our decision within three weeks. In the meantime, we hope you will consider our reactions to your proposal carefully. If you make modifications or additions to your proposal please forward them to this office as quickly as possible.

For your convenience we have organized our comments into the same categories which you used in your proposal.

#### Employment Impact

Will this project displace other workers?

Is the market large enough that Coldwinter, Inc. will not be displacing installers working for already existing weatherization enterprises? Although this is difficult to predict we must be very cautious in "creating" jobs which have the potential for displacing other people.

Who gets the jobs?

If Coldwinter is justifying its request for a subsidy partly on the grounds that it is committed to hiring women and minorities for the new jobs, what do you plan to do to insure that they will get some of the jobs? What will your search methods be? The dis-

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advantaged target population may be particularly deficient in certain basic skills that you're assuming everyone has. How do you expect to cope with this kind of problem? Additional training beyond the planned training session and on job training period may be necessary.

It is very unlikely that you will be able to find a CETA eligible applicant for the operations manager job who possesses the requisite skills and experience (the ability to do estimates, design installations, manage, and do sales). Because these projects must become self-sustaining it is crucial that the operations manager be very well qualified. Maybe Coldwinter should consider hiring a non-CETA person for this position using the non-wage portion of CETA funds or sales revenue instead of the wage subsidy to pay her or him.

Will the jobs be of good quality?

The jobs you have described seem to be basically "good" jobs in that they will provide the workers with training and experience in a growing field, thus enhancing worker mobility. To further this mobility we suggest that the laborer/installers also be trained to detect heat loss, design installations, and to do sales. Your plan to help the carpenters develop sales and managerial skills is commendable. We would hope that as the installer/laborers begin to learn those skills which are not part of their present job description the work will be reorganized such that all of the employees share in the various tasks.

Another positive aspect of the new jobs is that it seems as

though employees will be encouraged to work cooperatively together. There is more potential for individual initiative in work and for collective input to the decision making process than we have come to expect from CETA job opportunities.

We hope that wages will continue to increase so that after a few years installers will be paid higher wages commensurate with their experience. If your performance is as good as you project we hope you'll be generous.

Our final question concerning job quality pertains to the seasonality of the work. Given that there are slow seasons, what will happen to some of the workers in the second year when there are no wage subsidies and business is slow.<sup>2</sup> Are there other productive activities they could be engaged in over the summer (e.g. training other people to do installation, disseminating information on energy conservation, or expanding into a new weatherization market)? What guarantee can you give us that they won't be laid off seasonally and become a burden to the unemployment insurance system?

### Market Analysis

In estimating the number of potential consumers, it would be useful to look at the population and income trends rather than just taking a static view. For example, if the population's spendable income has been decreasing over the past ten years, your projections of the number of potential customers in Coldburg may be inflated. This decrease seems to have occurred.

It might be useful to have information on the average size of the housing units here in order to better estimate the time needed

to complete a job. You could use census information on the number of bedrooms in local units, and information from the Assessor's Office and the Building Permitt Commission to obtain some estimates.

Your proposal does not include any discussion about how difficult or easy it will be for homeowners to get loans to finance the weatherization. It is not at all clear to us that homeowners will be willing or able to lay out such a large sum of money. In spite of proposed tax credits and loan guarantees from the federal government, you may find that people are so confused about the details of these programs that they put off making any commitments for as long as possible.

Finally, we are skeptical about your ability to contract for 400 units a year when you estimate that the existing competition is already completing about 3000 units a year. Although we expect the demand for insulation services to grow in the next few years, you may find it hard to capture such a large share of the market this quickly. We suggest that you investigate doing winterization work on public buildings such as schools and also that you try to get contracts from government agencies and community organizations.

Financial Analysis

As we have already mentioned, your sales projections seem too optimistic. Consequently your revenue projections may also be unrealistically high. We suspect that the lack of sufficient demand combined with scheduling problems involved with the sharing of equipment and dealing with equipment breakdown and other unanticipated problems will result in sales significantly lower than you have projected. If this in fact turns out to be the case,

we don't see how you will be able to avoid laying off employees once the CETA wage subsidy ends. We are committed to creating permanent jobs and find this to be a very serious problem since there are other places that our money can be invested. You might find that large scale lay-offs very disruptive to business. It might be more appropriate to start off with half as many employees and to expand as demand warrants it.

Assuming that we authorize a subsidy it appears quite likely that you will be able to get short term credit for capital and other start-up costs because your projections indicate that you could meet all of your financial obligations even if your first year sales were to fall as much as 50% behind your projections. We, however, will not authorize a subsidy until a financial institution indicates its commitment to give you the necessary loans conditional upon our approval of a subsidy. We cannot consider your application seriously without this commitment since it is clear that the entire plan depends on an adequate supply of fixed and start-up capital.

On the other hand, we must also consider whether you really need the CETA subsidy in order to succeed. It seems quite clear that without Job Creation money you would need much more start-up working capital, that you would have to be much deeper debt for a much longer period of time, and that start-up would hence become next to impossible because banks would not extend credit under such conditions without some sort of direct government guarantee. Thus, in spite of your high income projections we think you need the subsidy.

Turning to more specific matters, we are concerned about your projected operating losses of about \$13,000 projected for the summers once the CETA wage subsidy has ended. Even though the projected income for the year 1979 is \$16,000, an estimated seasonal loss of such magnitude may indicate a serious threat to the viability of the enterprise since we find your sales figures generally too optimistic.

Further, you project an average inventory on hand of only \$2,000 worth of insulation materials. This is about one week's worth of insulation material. This strikes us as unreasonably low. We think a more reasonable amount is some figure around one month's supply, or \$10,000. The fact that your cash flow statement doesn't reflect this expense means that about \$10,000 of expenses that may have to be met in the first few months of operation are unaccounted for.

Lastly, looking at your balance sheet, we are concerned about your projections of a \$140,000 net worth at the end of the second year. Although we suspect that this is very much an upper limit rather than an expected value, we remain very interested about your plans to utilize your surpluses. You haven't indicated plans for expansion and you don't need it for consolidation of existing debt. A precondition for funding must be a satisfactory agreement about the disposition of operating income.

Lest our criticisms seem too pessimistic, we repeat that we find the project to be basically sound in conception. Again we would be more than happy to receive additional material from you on these topics.

## Appendix 2 - Sources of Capital and Technical Assistance

### A. Sources of Debt and Equity Capital

Sources of both debt and equity (grant) capital available to non-profit small businesses desiring Title VI wage subsidy are limited. However, public and private bodies are both potential sources of capital. An excellent guide to capital resources is Sources of Capital for Community Economic Development, a handbook compiled for the Center for Community Economic Development.

#### Debt:

Commercial banks and commercial credit companies are the major private sources of debt for both working and fixed asset capital. It is important to establish a working relationship with a banker before a loan is actually requested; banks can serve as an important technical assistance resource in preparing financial statements and business plans and in providing continued assistance after start-up. Commercial credit companies do accounts receivable financing that a commercial bank will not, but charge a higher rate of interest for the increased risk.

An existing business seeking debt capital for expansion has the advantages of both a "track record" to support long-term loan requests and a possible established relationship with a bank from which it can obtain funds.

Public debt sources are included in the Sources of Capital listing below.

#### Equity:

Federal and state grant sources are listed by program in the Sources of Capital listing in this appendix.

In addition, grants from the Department of Community Affairs (DCA) and the to-be-created state non-profit Job Creation Corporation (expected to be operational within six months)

may be available for combination with Title VI monies. DCA has applied for a \$600,000 grant from the Community Services Administration (CSA) to participate in job creation efforts in Massachusetts. If approved, the program will operate from August 1, 1977 to July 31, 1979. Eligible applicants are non-profit, "public purpose" corporations which focus their activities on the causes or conditions of poverty.

DCA money is available only after approval has been obtained from the state Job Creation Corporation. The grants are considered an incentive to create jobs that are relatively capital intensive; they are, therefore, for fixed asset investment rather than working capital. Additional information can be obtained from Bill Benish at DCA.

The following Sources of Capital listing includes federal, state, and local programs from which grants and/or loans may be obtained by non-profit businesses. Each listing includes the name of the program and its administering agency, the program's legislative authorization, the type of assistance, eligibility requirements, terms or conditions of the assistance, and the funding level and cycle when applicable.

Program: Community Economic Development (special impact)

Agency: Community Services Administration, Office of Economic Development. Region I office: Room E-400, JFK Building, Boston, Massachusetts, 02203.

Contact Person: Larry Faye  
223-0975

Legal Authority: Economic Opportunity Act of 1964, as amended by the Community Services Act of 1974, Title VII Sections 701, et.seq., Public Law 93-644; 42 U.S.C. 298 1 b.

Objectives: To promote community based economic development as a means of: (1) making a measurable impact in arresting tendencies toward dependency, chronic unemployment and community deterioration in urban and rural areas having concentrations on substantial numbers of low income persons (2) holding forth the prospect of continuing to have such impact after the termination of financial assistance, and (3) providing financial or other assistance to start expand or locate enterprises in or near the area served so as to provide employment and ownership opportunities for the residents of such areas.

Type of Assistance: Project grants

Eligible Activities: To fund a limited number of projects designed to test whether locally controlled community organizations in partnership with established business can produce effective programs in economic development in poverty areas. This would provide funds for a variety of investment ventures which will create jobs for poverty area residents and for the creation of opportunities for poverty area residents to participate in the ownership and management of community development corporations. No grants are made directly by CSA to individuals or individual businesses. However, corporations funded by CSA may elect to provide such assistance or to make loans for business purposes.

Eligible Applicants: Non-profit community development corporations in the area where development is to take place which are capable of fulfilling the objectives of the program.

Terms and Conditions: Bonding is required for principal officers. The community organization must provide at least 10% of the total grant in non-Federal share, either in cash contributions or in-kind.

Funding Cycles: Contact CSA

Application Procedures: To obtain funding for a CDC, contact the office of Economic Development of CSA.

Program: FmHA Guaranteed Business and Industrial Loans

Agency: Farmers Home Administration (FmHA)

New England Regional Office  
Box 588  
141 Main Street  
Montpelier, VT 05602

Contact Person: Richard Angney or Carol Spilak  
(802) 223-2371

Also, local offices in Acton, Bourne, Hadley, Holden,  
Gardner, Pittsfield, and Raynham.

Legal Authority: 7 U.S.C. 1989, 7 CFR Part 1980-E

Objectives: To enable public, private, or cooperative organizations, Indian tribes, or individuals in rural areas to obtain loans for the purpose of improving the economic environment climate in rural communities.

Type of Assistance: Guaranteed loans (up to 90% of principal and interest) to all types of businesses and industries in defined rural areas.

Eligible Activities: Business and industrial (B & I) acquisitions; construction, enlargement, repair, modernization; purchase of land, machinery and equipment, furniture and fixtures; processing and marketing facilities; start-up and working capital; pollution control.

Eligible Applicants: B & I loans may be made in any area outside the boundary of a city of 50,000 or more and its immediately adjacent urbanized areas with population density of more than 100 persons per sq. mile. Priority is given to applications for projects in open country, rural communities, and towns of 25,000 and smaller.

An applicant may be a cooperative, corporation, partnership, trust, or other legal entity operated on a profit or non-profit basis; a municipality or county; an Indian tribe; or an individual. An applicant must be engaged in or proposing to engage in improving, developing, or financing business, industry, and employment and improving the economic and environmental climate in rural areas, including pollution abatement and control.

Terms and Conditions: FmHA will guarantee loans by private lenders to qualifying applicants. FmHA contractors to reimburse the lender for a percentage (up to 90%) of any loss sustained on such loans. FmHA advises potential borrowers who want loans of \$500,000 or less to apply to S.B.A., because the processing time is shorter than that of FmHA.

Maximum maturities for business and industrial loans may be up to 30 years on land, buildings, and permanent fixtures; up to 15 years on machinery and equipment (depending on useful life of equipment); up to seven years for working capital.

The interest rates are determined between lender and borrower consistent with the market rate. The guarantee fee is 1% of the principal amount multiplied by the percentage of the FmHA guarantee. The fee is paid by the lender, who may pass it on to the borrower.

Normally, a 10% equity investment is required. However, for new ventures and non-profit ventures (which FmHA believe may have less continuity of management than private businesses), as much as 30% equity may be required.

Funding Level: Massachusetts was allocated \$3,130,000 in 1976; however, only one loan was made for \$975,000. Other loans are still being processed. There seems to be ample money.

Funding Cycle: No deadlines

Application Procedure: Local FmHA office will supply application materials on request.

CETA Job Creation Example: A non-profit organization could apply to FmHA for a loan for land, buildings, machinery, equipment, or working capital.

This program is useful for enterprises that could not get credit from local banks without a federal guarantee. However, the interest rate may be prohibitively high, since it depends entirely on the credit market.

Program: FmHA Industrial Development Grants

Agency: Farmers Home Administration (FmHA)

New England Regional Office  
Box 588  
141 Main Street  
Montpelier, Vt. 05602

Contact Person: Richard Angney or Carol Spilak  
(802) 223-2371

Legal Authority: 7 U.S.C. 1989, 7 CFR Part 1980-E

Objectives: To facilitate the development of business, industry and related employment for improving the economy in rural communities.

Type of Assistance: Grants to public bodies.

Eligible Activities: Development of industrial sites, including the acquisition and development of land and the construction, conversion, enlargement, repair or modernization of buildings, plants, machinery, equipment, access streets and roads, utility extensions, water supply, waste disposal facilities, pollution control, etc.

Eligible Applicants: Public bodies such as towns, authorities, and Indian tribes serving rural areas, outside cities of 50,000 or more (see the definition under FmHA Guaranteed Business and Industrial Loans).

Terms and Conditions: Evidence of legal capacity, economic feasibility, and financial responsibility is required.

Funding Level: This is a small program -- only \$10 million was allocated nationwide in 1976. This year, about \$100,000 is available in Massachusetts. FmHA hopes to fund two or three projects in Massachusetts.

Funding Cycle: No deadlines

Application Procedure: Application is made through the local FmHA offices (for locations, see Business and Industrial Loan Program).

CETA Job Creation Example: A town could use an FmHA grant to purchase and convert or modernize a warehouse or factory, which it would then lease to a non-profit enterprise.

Program: FmHA Community Facility Loans

Agency: Farmers Home Administration (FmHA)

New England Regional Office  
Box 588  
141 Main Street  
Montpelier, VT. 05602

Contact Person: Richard Angney or Corl Spilak  
(802) 223-2371

Legal Authority: 7 U.S.C. 1989, 7 CFR Part 1980-E

Objectives: To construct, enlarge, extend, or otherwise improve community facilities providing essential services to rural residents.

Eligible Activities: Funds must be used for public facilities — to "construct, enlarge, extend, or improve water, sewer, and solid waste disposal systems, fire stations, libraries, hospitals, clinics, community buildings, industrial parks (for lease to private industry) recreation and transportation to related projects, or toher community facilities."

Eligible Applicants: Loans may be made in rural areas and towns of less than 10,000 people.

Applicants are usually public bodies, but may also be non-profit corporations wishing to develop community facilities for public use.

Terms and conditions: Loans carry a 5% interest rate, with a maximum term of 40 years. Security in the form of bonds or notes pledging taxes, assessments, or revenues is required. The applicant must be unable to obtain needed funds from other sources at reasonable rates and terms and must be financially sound and able to organize and manage the facility effeciently.

Funding Level: In 1976 there was about \$1.9 million available in Massachusetts. The average loan is about \$400,000; the range in Mas: husetts last year was between \$40,000 and \$1 million

Funding Cycle: No deadlines

Application Procedure: Application is made through local FmHA offices (for locations, see the Business and Industrial Loan Program.)

CETA Job Creation Example: This program is better suited to one-shot public works projects than to self-sustaining enterprises. It could, however, be used to build a public recreation or health facility in which space could than be leased to a non-profit enterprise.

Program: Public Works and Development Facilities Program  
Agency: Economic Development Administration, U.S. Department of Commerce

Massachusetts Office: 441 Stuart Street  
Boston, MA

Contact Person: William Fitzhenry or  
Margo Blu  
223-6468

Legal Authority: Titles I & II of the Public Works and Economic Development Act of 1965, 42 U.S.C.ss.3131 et seq., and regulations at 13 CFR 305

Objectives: To eliminate substantial unemployment and underemployment in economically distressed areas.

Type of Assistance: Grants of from 50-100% of project cost depending on local (eg. 60%-70% in poverty areas, 80% in disaster areas, 100% in municipalities which have demonstrably exhausted their taxing and borrowing capacity). Loans of up to 100% of project cost are also authorized by the Act, but are much less common than grants.

Eligible Activities: Acquisition, development, or expansion of public works facilities including water and sewer systems, site improvements for industrial parks, factories and port facilities, where such facilities will further the establishment or expansion of industrial or commercial enterprises or will otherwise create long-term employment opportunities.

Eligible Applicants: States, municipalities, special authorities, and public or private non-profit organizations representing EDA-designated "redevelopment areas". Projects must also be located within either redevelopment areas or "centers" in economic development districts. Virtually all of Massachusetts qualifies under the Act; however, in order to apply for grants or loans, an area must have an approved overall Economic Development Program (OEDP). The following areas have OEDP on file with EDA:

Barnstable Co.	Glocester	Palmer area	Taunton area
Boston	Greenfield area	Pittsfield area	Dukes Co. area
Brockton area	Lawrence/Haverill	Plymouth area	Ware area
Chelsea	area	Quincy	Worcester area
Fall River area	Lowell area	Lynn/Salem area	
Fitchburg/Leominster	Milford area	Southbridge/Webster	
area	New Bedford area	area	
Gardner area	Newburyport area	Springfield area	
	North Adams area		

Terms and Conditions: Grants -- see "type of assistance" above.  
Loans ++ for 100% of project cost, up to 40 years,  
at a low interest rate 1/2% above the current U.S.  
Treasury borrowing rate. Funds cannot be used for  
acquisition of land, but can be used for facilities  
located on land owned by public or non-profit entities.  
Projects must conform with the OEDP.

Funding Level: EDA is not interested in making grants for less than  
\$500,000. The average grant is \$1 to \$2 million; the  
largest grant in Massachusetts last year was \$4 million.  
Decisions are made at the regional level (Philadelphia  
office), so Massachusetts applications compete with  
applicatons from all over the Northeast. Last year, 4  
grants were awarded in Massachusetts.

Funding Cycle: No deadlines

Application Procedure: Eligible applicant, acting within its overall  
Economic Development Program, for application with local  
office.

CETA Job Creation Example: An eligible applicant could apply for a  
grant to improve or expand an industrial park, or  
park facility, which could then accommodate a non-  
profit enterprise.

Program: Community Development Block Grants (CDBG)

Agency: Department of Housing and Urban Development  
Boston Area Office (covers Massachusetts): 15 New Chardon Street  
Boston, MA 02114

Contact Person: Bob Pacquin  
223-4114

Legal Authority: Housing and Community Development Act of 1974,  
Public Law 93-383,  
42 U.S.C. 5301-5317

Objectives: To develop viable urban communities including decent housing and a suitable living environment and expand economic opportunities, principally for persons of low and moderate income.

Type of Assistance: Entitlement grants are based on formula that includes the factors of population, density, level of poverty, and past federal funding experience. Entitlements can be used by communities for either grants or loans. Discretionary grants are project grants made either from the Secretary's fund, from the transition fund for urgent community development needs, or from the general purpose funds for metropolitan and nonmetropolitan areas.

Eligible Activities: The Block Grant Program consolidates seven former community development-type categorical programs, including urban Renewal, Model cities, Neighborhood facilities, Open space land, Historical Preservation, Urban Beautification, the Basic Water and Sewer Facilities Program, Public Facilities Loans, Rehabilitation Loans. Generally most activities previously eligible under the consolidated categorical programs are able to be performed under this program, i.e. acquisition, construction of certain public works, facilities and improvement, clearance, housing rehabilitation. Code enforcement, relocation payments, and assistance, administrative expenses, and completing existing urban renewal projects are all eligible activities.

Grants may also be used to improve neighborhood public service facilities including those concerned with employment and economic development needs of persons residing within the recipient community. Discretionary grants will be made through the Secretary's fund for innovative community development projects. Communities may not construct or rehabilitate public facilities for the general conduct of government or city-wide use, nor may they underwrite the cost of constructing new housing or provide housing allowances or other income maintenance-type payments.

Eligible Applicants: States, municipalities, or other units of local government such as counties.

Terms and Conditions: Cities in SMSA's with populations in excess of 50,000, "urban counties" as defined in the Act, and cities with populations under 50,000 which are central cities in SMSA's are all entitled to receive amounts of funds determined by a statutory formula. In addition, localities which received grants under the urban renewal and model cities programs will receive "hold harmless" grants based on their level of prior participation in those programs. Applicants may be eligible for grants from one or more sources of discretionary funds:

1. General Purpose Funds: Funds remaining after entitlement and hold harmless obligations are met.
2. Secretary's Fund: Two percent of the total funds each year is set aside in a national discretionary fund for grants to communities; to assist "new communities," to carry out area-wide housing and community development programs; to carry out innovative projects; to meet emergency community development needs caused by federally recognized disasters; and to correct inequities arising from the formula allocation.
3. Urgent Needs Fund: a special fund intended to help in bridging the gaps between old categorical programs and new block grants.

Funding Level: In Massachusetts, approximately \$100,000,000 of funds are available to the 39 entitlement communities; \$5 million is available for non-entitlement communities.

Funding Cycle: There is a deadline each year for applications (generally is in the spring).

Application Procedure: For entitlement funding localities file HUD form 7015 containing: (1) a summary of a three-year community development plan, (2) a one-year community development program, (3) a budget, (4) a housing assistance plan.

Program: Business Development Loans

Agency: Economic Development Administration, U.S. Department of  
Commerce

Massachusetts Office. 441 Stuart Street  
Boston, Massachusetts

Contact Person: William Fitzhenry or Margo Blue  
223-6468

Legal Authority: Section 202 of the Public Works and Economic Development  
Act of 1965, 43 U.S.C. s. 3142  
13 C.F.R. s. 306

Objectives; To eliminate substantial unemployment and underemployment in  
economically distressed areas.

Type of Assistance: Loans -- EDA will lend up to 65% of project cost. A  
local development corp. or state agency usually participates  
to the extent of 5%. Of the remaining 30%, 10% must be in  
the form of applicant's equity, and the balance from a  
conventional lender.

Loan guarantees -- EDA will guarantee up to 90% of the  
unpaid balance of loans for the acquisition of fixed assets  
or for working capital; and up to 90% for the rental payments  
required by a guaranteed lease.

Eligible Activities: Acquisition of fixed assets, including land, building,  
equipment, machinery, land preparation, and building rehabilita-  
tion, for industrial or commercial enterprises; working capital  
loans for industrial or commercial enterprises.

Eligible Applicants: Any public or private entity, including non-profit  
corporations, for-profit corporations, sole proprietorships,  
and partnerships. (Hence, unlike other EDA programs, poten-  
tially includes cooperatives). (Virtually all loans have  
been made to for-profit business in the past.) Projects  
must be located in EDA-designated redevelopment areas or  
certain section of economic development districts, which  
have approved OEDP's (see Public Works and Development  
Facilities Program for a list of eligible areas).

Terms and Conditions: Maximum fixed asset loan term is 25 years or the  
weighted average of the useful life of the assets financed,  
whichever is less. Maximum working capital loan term is  
five years. Interest on direct loans is at a rate set by  
the Secretary of the Treasury based upon current U.S. borrowing  
rates, plus an additional charge for working capital loans  
reflecting their higher risk. Interest on guaranteed loans  
is at the prevailing bank interest rate. Liens on fixed assets  
and/or receivables and inventory are required as collateral,  
but EDA will take a subordinate position as necessary to  
encourage participation by lending institutions in fixed asset  
loans. Personal guarantees are frequently required.

Program: EDA Supplemental Funds (304)

Agency: Economic Development Administration

Massachusetts office: 441 Stuart Street  
Boston, MA

Contact Person: William Fitzhenry or Margo Blu  
223-6468

Office of State Planning ( Commonwealth of Massachusetts)  
Room 2101, John N. McCormack Building  
One Ashburton Place  
Boston, MA 02108

Contact Person: John Judge  
727-8990

Department of Community Affairs  
Room 1613, John W. McCormack Building  
One Ashburton Place  
Boston, MA 02108

Contact Person: Rick Austin  
727-7005

Office of the Lieutenant Governor  
Room 259, The State House  
Boston, MA 02133

Contact Person: Othello Mahone or John Dorfman  
727-7206

Legal Authority: Section 304 of the Public Works and Economic Development Act of 1965, 42 U.S.C. \_\_\_\_, 13 CFR 312

Type of Assistance: Grants or loans

Eligible Activities: Projects otherwise eligible under Titles I, II, and VI of the Act, except that grants to profit-making entities are excluded. Includes public works grants and loans, business loans, planning by redevelopment areas.

Eligible Applicants: Funds are allocated to states proportionately to other EDA funding. States may distribute to states, municipalities, EDA redevelopment areas and districts, non-profit enterprises.

Terms and Conditions: State must supply 25% share of 304 assistance to each project. May not use local or private contributions to make up the 25% share.

Program: New England Regional Commission Demonstration and Training Program

Agency: New England Regional Commission  
55 Court Street  
Boston, MA

Contact Person: Economic Development: Irene McInnis  
Geogr Sahady

Energy: Bob Keating  
J. L Vitka

Transportation: vid Stein  
617-223-6380

Office of the Lieutenant Governor  
Room 259, The State House  
Boston, MA 02133

Contact Person: Sam Vitale  
617-727-7206

Legal Authority: Public Works and Economic Development Act of 1965,  
Sec. 505 (a) (2). 42 U.S.C. 3188a

Objectives: To promote regional development .

Type of Assistance: Grants and contracts, no loans.

Eligible Activities: Innovative projects in the areas of energy, trans-  
portation, and economic development. Proposals for grants  
for \$10,000 or less should be presented to Economic Develop-  
ment Project Committee for Governors discretionary NERCOM  
funds.

Eligible Applicants: States, subdivisions, non-profit agencies

Terms and Conditions: 100% federal assistance.

Funding Level: \$3-5 million, which varies from year to year. Transportation  
takes largest share.

Funding Cycle: Annual Congressional appropriation. No deadlines.

Application Procedure: Application should be made in coordination with  
Lieutenant Governor's Office. Governors meet quarterly to  
review proposals and allocate funds based on regional impact  
or prototype value.

CETA Job Creation Example: NERCOM has made grants to community development  
corporations for innovative enterprises.

Funding Level: Accumulated total available as of 5/1/77 is \$1.2 million.  
Future appropriations are uncertain.

Funding Cycle: See application Procedure

Application Procedure: Office of State Planning has solicited proposals due in May, 1977 for public works-economic development activities in certain older communities. Department of Community Affairs is designing a process to solicit proposals for community economic development projects. Office of the Lieutenant Governor will be involved in reviewing proposals. Final funding decisions will be made by the Governors Development Cabinet and must be approved by EDA.

CETA Job Creation Example: EDA 304 funds granted through the Department of Community Affairs could be used together with CETA to initiate a non-profit community-based enterprise.

Program: New England Regional Commission Governor's Discretionary Funds

Agency: Economic Development Project Committee  
c/o Office of State Planning  
John W. McCormack Building, Room 0110  
One Ashburton Place  
Boston, MA 02108

Contact Person: Susan Houston  
617-727-5068

Legal Authority: Sec \_\_\_\_\_ of Public Works and Economic Development Act of 1965, 42 USC \_\_\_\_.

Type of Assistance: Grants, generally under \$100,000

Eligible Activities: Public works or enterprises leading to job creation and community economic development.

Eligible Applicants: Units of local governments, nonprofit corporations.

Terms and Conditions: 100% grants

Funding Level: Varies from year to year with Congressional appropriations to NERCOM and allocations by Governor. Generally, \$50,000-100,000 per year.

Funding Cycle: No deadlines

Application Procedure: Submit proposal to Economic Development Project Committee, c/o Susan Houston, Chairman, at Office of State Planning.

CETA Job Creation Example: Governor's Discretionary NERCOM funds have been used to purchase equipment and pay expenses for community-based enterprises.

Program/Agency: Massachusetts Industrial Mortgage Insurance Agency (MIMIA)

Legal Authority: MGL Chapter 23A Sections 29-35

Objectives: To meet the financing needs of small industrial enterprises.

Type of Assistance: Mortgage loan insurance

Eligible Activities: The acquisition, construction, or alternation of "industrial development facilities" e.g. buildings, docks, wharves, land, rights in land, water rights, machinery, equipment, et.

Eligible Applicants: Generally directed towards smaller "industrial enterprises, including otherwise eligible non-profit corporations.

Terms and Conditions: MIMIA insures loans made by banks or other institutions, charging a premium commensurate with the apparent risk. The loan is to be secured by a first mortgage of real or personal property. The project must be of such size and scope as to provide a definite benefit to the economy. The employment created by the project to the economy must be substantially primary employment, i.e. permanent full-time, with minimum hourly wage equal to 150% of non-manufacturing minimum wage defined in Chapter 149 (i.e. approximately \$3/hr. minimum). The principal amount of the loan may not exceed 90% of the cost of the machinery and equipment. A desirable but not necessarily required aspect of a project is that it be located in an area of high unemployment to provide employment opportunities to the residents of that area.

Funding Level: Initial funding of \$2 million has been appropriated by the Massachusetts Legislature. MIMIA can insure approximately \$18 million in mortgages of industrial land, plant, and equipment.

Funding Cycle: No deadline

Application Procedure: Contact MIMIA's Boston office.

CETA Job Creation Example: MIMIA could guarantee a loan for land, buildings, and equipment for a non-profit fish packing plant.

Program/Agency: Massachusetts Business Development Corporation

Contact Person: Thomas Rivers, Executive Vice-President  
One Boston Place  
Boston, MA 02108  
723-7515

Legal Authority: C. 671 of the Massachusetts Acts of 1953

Objectives: To foster industrial growth within the state.

Type of Assistance: Purchase or construction of fixed business assets (land, plant, equipment); working capital loans where secured by fixed assets.

Eligible Applicants: Any private for--profit firm, including corporations, partnerships, cooperatives, etc., which are Massachusetts based; non-profit firms are eligible, but to date most loan recipients have been for-profit firms.

Terms and Conditions: MBDC was formed as a private corporation under special charter by the Massachusetts banking community. Loans must contribute to employment expansion in Massachusetts, must make economic sense, and are available only to borrowers who are not able to obtain financing from conventional lenders. Loan terms resemble conventional loans, except that MBDC allows for floating interest rates and longer-term loans (as much as 20-25 years on a pay-out basis) depending upon the borrower's needs and cash flow, and offers 100% loans for real estate. MBDC loans are normally in a secondary position to other financing. MBDC will frequently take the initiative in participating a portion of the loan to a bank or, if the situation warrants, in securing an FmHA or SBA guarantee for the loan.

Funding Level: Estimated \$4,000,000 -- \$6,000,000

Funding Cycle: No deadlines

Application Procedure: Contact the office in Boston

CETA Job Creation Example: MBDC could lend money to a non-profit enterprise for the purchase of equipment to complement CETA wage stipends.

Program/Agency: Massachusetts Community Development Finance Corporation  
(CDFC)

Massachusetts Department of Commerce and Development  
100 Cambridge Street  
Boston, MA 02202

Contact Person: Don Worth  
727-3216

Legal Authority: MGLA c.40F (Chapter 866 of the Acts of 1975)

Objectives: To stimulate private investment in the re-development of economically depressed areas, by providing capital to CDC's and small businesses in such areas.

Type of Assistance: Equity and debt capital

Eligible Activities: Any commercial, industrial, or other economic development activity undertaken in a target area, which meets the following general criteria: (more detailed criteria are currently being developed)

- contributes to "primary employment" (wages must be at least 1 1/2 times the minimum wage and job cannot be seasonal or part-time);
- contributes to redevelopment of the target area;
- has a reasonable expectation of financial viability
- cannot meet its capital needs through the private market, because capital is either unavailable or available at credit terms which preclude the success of the venture.

Eligible Applicants: All projects must be controlled by Community Development Corporations (CDC's). For purposes of the Act, a CDC is a public-purpose, non-profit corporation organized under MGLA c. 180, which meets the following criteria:

- organized within a specific geographic area, coincident with existing political boundaries, with a population of less than 115,000;
- located in a "target area", i.e. a blighted area as defined by MGLA c. 121A, with average household income of \$11,291 or below (i.e. 15% below the mean income of the Boston SMSA.) Over 100 cities and towns meet the income criterion.
- membership open to all residents of the area over 18 years of age;
- majority of the board of directors elected by the full membership, with the remaining directors appointed by local or state government officials or other non-profit organizations. The CDFO Act suggests various ways a project can be organized to allow CDC control, including joint ventures between CDC's and private entrepreneurs (in which the CDC has no financial

investment, but has a controlling vote and may receive some return on CDFC's capital investment). For purposes of LEAP, however, only non-profit enterprises are eligible; consequently, all projects will probably have to be sponsored totally by CDC's or their subsidiaries.

Terms and Conditions: Negotiated individually with the CDFC. Terms will generally be somewhat more liberal than private market terms. CDFC cannot contribute more than 49% of the capital to an enterprise, no more than 20% of CDFC's funds can be committed to a single enterprise.

Funding Level: The legislature has authorized the sale of \$10 million worth of general obligation bonds. With the proceeds from the sale the state will purchase all one million shares of CDFC common stock of \$10 per share. Part of this investment must purchase various government and corporate securities from which CDFC will derive its operating revenues.

Funding Cycle: No deadlines

Application Procedure: Applications must be made to CDFC in the form prescribing CDFC.

CETA Job Creation Example: CDFC could invest in a non-profit enterprise operated directly or controlled by a CDC.

Program: Industrial Development Finance Authorities (IDFA's) and Economic Development Industrial Commissions (EDIC's)

Agency: Programs are run by the above-named local corporations, but IDFA's are also supervised by the Department of Commerce and Development, and bond issues must be approved by the State Industrial Finance Board.

IDFA Contact Person: William Sugrue  
 Department of Commerce and  
 Development  
 100 Cambridge Street; 13 Floor  
 Boston, MA  
 727-3331

Legal Authority: IDFA's: MGLA c. 40D  
 EDIC's: MGLA c. 121C

Objectives: IDFA's: to foster industrial development within the state.  
 EDIC's: to carry out economic development projects within economic development areas pursuant to an economic development plan.

Type of Assistance: Primarily revenue bonding. The IDFA or EDIC can issue revenue bonds and use the proceeds to construct facilities which it then leases or sells to industrial occupants. IDFA's and EDIC's may also issue general obligation bonds backed by the full faith and credit of the municipality, upon special vote of the municipality. Legislative amendments are pending to delete this latter power from IDFA's.

Eligible Activities: Acquisition or construction of facilities for industrial, manufacturing, or research and development enterprises, including facilities such as buildings, docks, wharves, utilities, and pollution abatement equipment, and machinery and equipment in general. EDIC's in addition, have the power to construct such facilities speculatively (without a particular occupant already committed), and to take land by eminent domain for such projects.

Eligible Applicants: Any municipality which determines that it has high unemployment may form an IDFA. Municipalities certified as having "substantial unemployment" may form EDIC's. "Industrial occupants" are defined as any person operating an industrial enterprise in the facilities described above, and, while traditionally consisting of private corporations, could conceivably include cooperatives, other business firms, or nonprofit groups.

Terms and Conditions: Because project revenues must be sufficient to assure repayment of the bonds (GO bonds have never been used by municipalities under these programs), IDFA's have primarily financed facilities for large private firms with well-established credit ratings.

Funding Level: \$200,000 is the minimum amount for a bond issue.

Funding Cycle: No deadline

Application Procedure: Eligible municipalities may issue bonds after approved by State Industrial Finance Board.

CETA Job Creation Example: Municipality could issue bonds to construct a building and purchase equipment for the use of a non-profit enterprise. The enterprise must be extremely *cred<sup>+</sup>* worthy, or the municipality must back the bonds with its own credit.