

LENDING

Equity Investment in Businesses

Use these standards for an organization's equity investment program that invests money in a business in exchange for partial ownership.

Level 1: Project Feasibility Assessment

These criteria are the basic minimum foundation needed for a investing in a successful, operating business or project. The focus is on the organizational readiness of the investing organization and financial readiness of the business that requires equity.

1. NEED

- a. Community Need
 - i. The business serves a need in the community for the service or goods it provides.
- b. Market Study
 - i. The study confirms the need for, and viability of the business.
 - ii. The business owner(s) is informed about competition, demographics of target customers, and barriers to entry.
- c. Local Support
 - i. Neighbors and local community members support the business.
 - ii. The business is compatible with local land use.
 - iii. The business is in alignment with local city, county, state and/or federal development and transportation goal(s).
 - iv. The business is not located in an area with a moratorium or interim control ordinance that cannot be bypassed.

2. ORGANIZATIONAL READINESS

- a. The organization is willing and able to invest equity in the business.
- b. The equity investment is in alignment with the mission of the organization.
- c. The Board of Directors embraces a CED strategy and/or embraces the program as a part of the CED strategy.
- d. The organization and/or its partners have a track record of participating in similar equity investments.
- e. The organization has the financial and operational capacity to undertake the proposed equity investment.
 - i. The organization has qualified staff that can undertake the equity investment.

3. FINANCIAL FEASIBILITY

- a. Program cost
 - i. The equity investment is affordable to the organization, and the projected cost is appropriate to the business.
 - ii. The operator or staff providing the cost estimates is qualified and experienced with the type of business requiring equity.
- b. Funding sources
 - i. There are enough sources of funding for the uses.
 - ii. The business owner has endeavored to secure all available competitive and noncompetitive funding sources for which the business qualifies.
 - iii. The actual disbursement of each source is timely and in sync with the needs of the business.
 - iv. The business owner is aware of the compliance implications of each source.
- c. Cash flow
 - i. The business produces enough cash flow to support the proposed debt structure (if any).
 - ii. The business minimally pays for itself over time. It has a sustainable cash flow.
- d. Business Owner & Business Credibility/History
 - i. The business owner's personal financial documents are reviewed and satisfactory.
 - ii. The business operator is invested financially and personally in the business.
 - iii. The business' balance sheets, profit and loss statements, operating budget, and historical cash flow are reviewed and satisfactory.

Level 2: Practical Considerations

These criteria are essential for investing in a successful, operating business.

1. MARKET BARRIERS
 - a. The business understands why past business have failed and instead addresses prior issues in innovative and alternative ways.
2. DEVELOPMENT TEAM & PARTNERSHIPS
 - a. The business owner has assembled the best team, including vendors, employees, and management staff.
 - b. The business is supported by public sector, private sector, and community partners.
 - c. Through an open dialogue with the community, the business owner has sought and incorporated community participation in the program.
3. SITE CHARACTERISTICS
 - a. The area which is served by the business makes sense.
 - b. The business is located near or adjacent to transit.
4. BUSINESS DESIGN & OPERATION
 - a. The business is run in the appropriate language(s) for the targeted customers in the area.
 - b. The business is culturally appropriate to the targeted customers in the area.
 - c. The business is tailored to the specific geography of the targeted customers in the area.
5. BASIC BUSINESS DOCUMENTS
 - a. The Business Plan is a realistic handbook that dictates how the business will operate.
 - b. The business' Marketing Plan is detailed and provides a realistic strategy for marketing the business.

Level 3: From Feasible to Exemplary

These criteria elevate an equity investment to an exemplary business investment.

1. FUNDING & FUNDING REQUIREMENTS
 - a. The business uses a funding program or funding source that is new and innovative.
 - b. Each funding source was heavily leveraged to gain further resources.
 - c. Certain features of the business were adapted to capture funding, but the program was not completely changed in order to capture one particular funding source.
 - d. There are multiple stakeholders providing funding, and this mix of funding sources maximizes the feasibility of the business.
2. FUTURE PROJECTS
 - a. The equity investment strengthens the position (financial, political, capacity, experience) of the organization.
 - b. Through the investment, the reputation of the organization was enhanced. Issues that the staff faced were dealt with in a diplomatic manner, enabling future investments.
 - c. The success of the business will enable future funding on other businesses.
 - d. The community is happy with the project and will participate in more/similar equity investments in the future.
 - e. The community is more knowledgeable about equity investments.
3. ENVIRONMENTAL IMPACT
 - a. The business has less environmental impact than traditional businesses during construction and during operation.
 - b. The business meets green building standards such as adaptive reuse or LEED certification.
 - c. The business conserves energy and water.
 - d. The business has an effective recycling program.
 - e. The business fulfills the triple bottom line.
 - f. The project stimulates green job creation.
4. ECONOMIC IMPACT
 - a. The equity investment will increase the independence of the recipients.
 - b. The equity investment creates jobs.
 - i. Jobs created provide a living wage.

- ii. Jobs created are for local hires.
- iii. Jobs created are for low and moderate income individuals.
- iv. Jobs created provide life skills.
- v. Jobs created provide health benefits.
- vi. Jobs created have potential for upward mobility.
- vii. Jobs created require less funding per job created.

5. COMPREHENSIVENESS

- a. The organization provides or connects to other programs that provide multiple services e.g. business development, business TA, marketing, technology, access to markets, economic literacy, etc.

6. DIVERSITY

- a. The business serves a mixed income clientele.
- b. The business encourages mixed age, gender, ethnic, etc. participation.
- c. The business is a minority business.

7. PUBLIC BENEFITS

- a. The business provides a service or product that is needed by the community but is currently lacking.
- b. The business stimulates long-term job creation.
- c. The business removes blight with an active storefront or office.
- d. The business improves the security of the area.
- e. The business results in other positive physical impacts.
- f. The business results in other positive economic impacts.
- g. The business results in other positive social impacts.

8. EVALUATION

- a. The organization reevaluates its programs periodically and adapts to the changing needs of the community.
- b. The program tracks its participants during and following the program.

9. REPLICABLE/SCALABLE

- a. This program can be replicated in other communities, regions, and/or states.