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Community ReInvestment

COMMUNITY AFFAIRS DEPARTMENT

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Equity for Rural America: Community Development Venture Capital

for Business Entrepreneurs, Community Leaders, Bankers, Community and Economic Development Practitioners & Other Curious People

How is venture capital money different from other money?

How can small businesses in isolated locations get access to venture capital?

What's needed to form a venture capital organization?

What role can community leaders and bankers and government officials play?

What are the keys to success for a community development venture capital fund?

What are the keys to success for the businesses in which they invest?

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Money Is Money—Isn't It?

Money just isn't what it used to be. We once held a nickel that we could trade for candy, but now we listen to talk about credit, mezzanine loans, sub-debt, equity capital, risk capital, seed capital, venture capital—the list goes on and on. Even business entrepreneurs and stock market investors often have confused understandings of venture capital. So what is it, and what does it have to do with rural America—and with you and me?

In simple terms, venture capital is money that is invested instead of loaned. Like all equity investors, you take a risk when buy a share of a business. There's no guarantee your investment will be returned, but if the business does well, you may be able to sell your share of ownership and get your money back and then some. If it doesn't do well, you're out of luck, and out of pocket.

Friends and family have always been a major source of capital for new business, but it was not until after World War II that the first venture capital fund was created in the United States. In *Venture Capital at the Crossroads*, authors William D. Bygrave and Jeffry A. Timmons give credit to Ralph Flanders, a former president of the Federal Reserve Bank of Boston, for developing the concept, out of his concern about the lack of institutional sources of capital to support formation of new companies. Since the first venture capital fund was organized in 1946 with $5 million, the industry has evolved into a multi-billion-dollar industry. Research confirms that venture capital acts as a catalyst for economic growth and encourages entrepreneurial activity, as entrepreneurs with venture capital develop new products that spur large corporations to compete by developing their own innovative products.

Venture capital can help a business take the next step toward productivity and stability.

Venture capital can help a business take the next step toward productivity and stability, and help it qualify for loans that leverage its capacity. When businesses are doing well they need money, and often assistance, for production and marketing and expansion. If they're struggling, they also need money and assistance—to help them get on track and tide them over. The goal of venture capital investors is to nurture a company's early growth to a point of prosperity when they can "harvest" their investment, get their money back, and, hopefully, make a substantial profit.

Venture capital money usually comes in bigger chunks than seed capital, which is typically used for marketing and start-up costs of companies that don't yet have a track record. Venture capital also goes beyond the angel money invested in companies by individual wealthy investors. Traditional venture capital investment in a business is often well above $5 million, and while some nontraditional venture capital investors make investments of only a few thousand dollars, they generally aim for at least $100,000.

A key element of venture capital funds is their involvement in the businesses in their investment portfolio.

A key element of venture capital funds is their involvement in the businesses in their investment portfolio. In addition to their financial expertise in structuring a deal, that involvement may mean serving on the board of directors, or providing advice and perspective to management. It can also mean working full-time at the business as director of finance, or marketing, or production. If a company is in serious trouble, a venture fund may take over its management in an effort to turn the business around and salvage their financial investment.

With their substantial stake in the success of portfolio businesses, venture capital funds rely on their own experience and skills to protect and enhance their investments. Traditional venture capital funds often hope that within three to seven years a portfolio business will be ready to "go public," raising cash by selling stock to the public in an initial public offering, or IPO.

Because of their active involvement with their portfolio businesses, venture capital investors look for businesses they can travel to within two or three hours. Because venture funds are primarily in urban areas and on the east and west coasts, businesses in other parts of the country—especially in rural communities—may have a difficult time finding investment capital. Rural businesses are often small, and may grow more slowly than their urban counterparts, and rural entrepreneurs can be even more reluctant than urban business owners to give up control of a part of their business to investors.

So should businesses simply move to cities, where capital is more easily accessible? For this issue of *Community Reinvestment*, we visited nontraditional venture capital organizations that are committed to making capital accessible to rural businesses, and their answer is a resounding "No!" Business provides jobs, access to goods and services, and revenue for public infrastructure and services in small towns. Access to capital for business, in good times and bad, is essential to the survival of any community. The real question about access to venture capital for businesses in small rural towns is a question about the survival of rural America.

Access to capital for business . . . is essential to the survival of any community.

Unlike the Wall Street (or Boston or California) venture capital funds, which focus on financial returns, those venture funds that invest in rural businesses often have a "double bottom line." They, too, are determined to make money, but their second bottom line is a commitment to returns in social capital for the communities in which they work. They can be broadly categorized as "community development venture capital funds" (CDVCs), which invest in businesses that may not have the potentially fast growth and fast profits that traditional venture capitalists seek, but that will help rural communities survive. They look for ways to create jobs and other benefits for the community, and they can offer "patient money" from investors who support their goals.

Some of us may never become personally involved with venture capital, but understanding where it fits in the economy gives us more ability to make good choices for ourselves and for the communities in which we live. This issue of *Community Reinvestment* should be especially useful to entrepreneurs who have been wondering how venture capital investment might work for their businesses, and to bankers and community leaders who have wondered about ways to make venture capital more accessible in their communities. It includes information about the issues that any community development venture capital organization must address, and stories about some of the best community development venture capital people and organizations in the country.

While examples can be useful, experienced CDVC leaders emphasize that the unique characteristics of any community make replication difficult, if not impossible. We can learn about what has and hasn't worked for others, but the tougher part is learning how to apply those lessons to meet our own community's venture capital needs. Successful venture capital investing—and the successful business entrepreneurship that attracts venture capital—can't be learned from a textbook. As with any art, the most effective learning comes through experience and apprenticeship.

Successful venture capital investing . . . can't be learned from a textbook.

Some of us still look for ways to see and touch that nickel. In this *Community Reinvestment* issue, you can read about people who want to see—and influence—the impact of that nickel in the communities of rural America. ■

Rural Venture Capital: People, Organizations and Issues

The Business Entrepreneurs

Entrepreneurs are the key to successful business and to successful venture capital investment. They leverage resources, whether they own and control them or not. They have vision, expertise, energy and commitment. They like the challenge of figuring out how to make things work. They pull together resources to create something new, and the process of doing that may be more important to them than a specific product.

Successful entrepreneurs know they need cash in order for their business to succeed, but for many the money is merely a tool and a side benefit of their ability to conquer obstacles and fit together the pieces of a puzzle. Their work is also play, and their real joy is in finding new ways to solve problems. We observed that entrepreneurs tend not to have fancy offices.

The entrepreneurs whose businesses attract investment from community development venture capital organizations also have a personal philosophy that supports the goals of the communities in which they are located. They find new ways to use local resources, or they develop a product that is environmentally friendly, or they employ people who have potential but who need training and experience for the job.

In some communities, entrepreneurship is a tradition, while in others it is a culture that must be learned.

Some places attract entrepreneurs because of the combination of environmental and social values. And in some communities, entrepreneurship is a tradition, while in others it is a culture that must be learned. "Maine has lots of 'social entrepreneurs,'" said Nat Henshaw, president of CEI Ventures, Inc. in Portland, Maine. "Sometimes we turn down deals that would be good financially but not socially. We get an early feel for the entrepreneurs, whether they're open to our way of doing business. It's almost based on chemistry, an organic kind of thing. People here have a concern about quality of life and doing good. Finances are often not the number one factor."

Making It Work: Business Entrepreneurs

Successful business entrepreneurs are people who…

- Enjoy challenges,
- Have vision,
- Are flexible,
- See problems as opportunities,
- Take risks,
- Leverage capital and other resources,
- Understand venture investment,
- Are creative,
- Develop a good business plan,
- Shop for incentives,
- Are energetic,
- Explore alternatives,
- Think strategically,
- Know their market,
- Provide incentives for employees,
- Face change positively,
- Look for innovative solutions,
- Have technical expertise,
- Rely on others with technical expertise,
- Build networks,
- Work with partners,
- Are open with their investors, and
- Like adventure.

Turning Waste Into Dollars

"There wasn't much to do on an island," said former banker Carlos Quijano. He had retired early and moved to Maine, where his grandparents had a summer place that he had visited all his life. There, Quijano worked as a filmmaker, as vice president of operations and finance for a small import company, and then started a composting business.

"It was my dream to settle here, but I got restless," said Quijano. "I got involved with composting as a favor to a friend of my brother's who was in the mussel processing business. Like everybody else, he had a problem with waste disposal." Several cottage businesses around the state of Maine processed waste into compost, but Quijano saw an opportunity to do it on a more substantial scale.

"I had to be an entrepreneur as a banker," said Quijano. "I started as a 21 year old with Chase Bank, and ended up managing a branch bank in Europe at a very early age. I was with them for 24 years, mostly opening and running commercial banking franchises in Asia and Europe. Having to operate independently and figure out how to do things with the resources at hand was good experience for what I'm doing now."

He applied to Coastal Enterprises, Inc. (CEI), a nonprofit economic development corporation in Wiscasset, Maine, for a small grant to do market research. Although his goals fit CEI's criteria for contributing to an environmentally sound project, he didn't receive the grant. With encouragement from the state of Maine's planning office, however, Quijano did get collaborative funding for a much bigger project. With a rural business enterprise grant of $30,000 through the Eastern Maine Development Corporation and a $35,000 line of credit from CEI for working capital, he ran a pilot project that involved developing compost recipes, designing a bag, and doing market research.

Coast of Maine Organic Products was initially capitalized with $100,000 from CEI Ventures, Inc., the venture capital fund created by Coastal Enterprises, Inc., and $100,000 of Quijano's own money. We've been able to develop the best compost on the market," said Quijano, "and we couldn't have

"We needed their knowledge of the marine resource industry more than we needed the money."

CEI Ventures, Inc. of Maine

The Organization: CEI Ventures, Inc. in Portland, Maine (population 65,000) is a for-profit subsidiary of Coastal Enterprises, Inc., a nonprofit community economic development corporation in Wiscasset, Maine (population 5,000).

History: Formed in 1994, after parent organization experimenting and moving toward formation of a venture capital fund since 1990. Coastal Enterprises, Inc. was formed in 1977.

Board: A nine-member board includes several business owners, two staff from CEI, two bankers and several social services representatives. They function as both a policy and a working board, with board members serving on portfolio business boards of directors and providing technical assistance.

Staff: Nat Henshaw is president. Other staff include Vice President Mark Kaplan, an administrative assistant, plus collaboration with Coastal Enterprises, Inc. staff.

Deal Flow: Focus is on environmentally and socially responsible companies. Prefer to invest in small companies that can provide one to 40-plus jobs. Goal is to have a small percentage of ownership in 20 to 30 broadly diverse companies. All investments are under $1 million. They are typically under $500,000, and the average investment is $184,000. CEI Ventures occasionally co-invests with others. Typically ownership in companies ranges from 1 to 30 percent.

Sources of Capital: $5.5 million capitalization from foundations, social investors, mutual funds, banks, corporations, and a trust fund.

Exit Strategies: Employee stock ownership plans, acquisitions, initial public offerings and management buyouts.

Community Issues: CEI Ventures does not invest in seasonal or tourist-oriented businesses. They require businesses in which they invest to sign a contract to make a good-faith effort to hire welfare recipients and others who have not been in the job market. They work with their parent company, Coastal Enterprises, Inc., on training and work force education.

Other: The credibility, contacts and business support activities of Coastal Enterprises, Inc. have been invaluable for this relatively new venture capital fund.

done it without Coastal Enterprises. We needed their knowledge of the marine resource industry more than we needed the money, but their investment meant that when an opportunity for acquisition of equipment was there we could act on it."

He leased a two-acre site for processing the compost in Washington County in far northern Maine, at an affordable cost made possible by a Community Development Block Grant of $187,000 to the county. "Right now, we're employing the equivalent of five full-time employees," said Quijano. "We've created work for people like John Ingersoll, who's not an engineer but performs like one. He can just look at things and figure out how to make them work."

"We're located where people generate a surplus of salmon waste, sawdust, and blueberry processing waste," said Quijano. "What we've done is take those waste products and turn them into a resource. Our products are sold in top-line garden supply stores all over the East Coast. Our organic potting soil is in the Bread & Circus and the Smith & Hawken stores, and people from all over the country are ordering Coast of Maine products through our Internet site.

"Next, we're going after a $50,000 investment, and if we get it we'll expand staff and create a showcase operation," said Quijano. "We're aiming for a 10 percent share of the soils market in the Northeast. We want to create a lot of equity in our brand reputation and become widely known for offering an environmentally responsible product. I'd like to add to the product line, and eventually replicate what we're doing in Maine in other parts of the country.

"We may look at doing an initial public offering of stock over the Internet," Quijano said. "There's extraordinary interest out there—lots of people say, 'I love what you're doing.'"

Value in Feathers and Lists

"Feathers and mailing lists look like intangible assets if you're not in the mail order industry," said Chris Bradley, president and CEO of the Cuddledown of Maine company in Portland, Maine. "When we bought this business, it was difficult for banks to understand that lists were an asset, but those lists are the lifeblood of the catalog industry. We had 60,000 people on the mailing list then, and we have 400,000 now.

Bradley had looked around for a business to buy in Maine, where he had family living, and settled on this mail order company that sold down comforters and bed linens. "We've really struggled to turn Cuddledown around," he said. "What I had

learned in business school helped, and having been in the bond trading business also helped. Cuddledown was a small company with some success, but in 1985, it had been bought by the wrong owner. The company went from steep growth to near bankruptcy, and it was available at an affordable price. We had family investors, and used some conventional financing to buy the business."

"We went to Coastal Enterprises in 1996 when we needed better bank financing," said Bradley.

"The time to raise equity is when you don't need the money."

"We worked out a deal with four pieces in it: We got a loan from Atlantic Bank, a direct loan from the Financial Authority of Maine (FAME), a subordinated loan through the Small Business Development Center at Coastal Enterprises, and equity investment from CEI Ventures, Inc. CEI was very reasonable with closing costs and legal costs—raising between $1.2 and $1.6 million cost us $1,400 in expenses.

"Coastal owns 4 percent of the company at this point," Bradley said. "If they hadn't been there, we would not have gotten capital when we did. The time to raise equity is when you don't need the money. With the investment from CEI, we were able to repay the loan from FAME, which was intrusive and, more importantly, the most expensive money we were borrowing.

Coastal has a mission that is consistent with what I believe in," said Bradley. "It's been really helpful to have Nat Henshaw, the president of CEI Ventures, on our board. He has a vested interest in the business, but not an emotional tie. He's conservative, and he doesn't know the industry—and that adds value.

"We had 12 employees when we bought Cuddledown, and we have 90 now," Bradley said. "As part of our agreement with CEI, we've worked with training people coming off welfare. It makes good business sense, and provides great satisfaction for everybody.

"Our exit strategy is a good-faith effort to sell the company to the employees, using an employee stock ownership plan (ESOP)," said Bradley. "That is possible, but it will be difficult in this competitive industry to stop reinvesting our cash flow in keeping the business healthy, and instead use the cash to pay down the debt of a leveraged ESOP. That could make us vulnerable to more aggressive competitors."

Floating to Success

John Sturgill moved to the hills of eastern Kentucky to create a business to build top-of-the-line custom houseboats—the kind that sell for between a quarter- and a half-million dollars, depending on just how big they are and whether customers want their faucets plated in chrome or gold. Before coming to Kentucky, he had been a mortician and owned a chain of funeral homes in Virginia.

"As an entrepreneur, I started shopping states for a location."

"Starting Fantasy Custom Yachts was a lifetime dream," said Sturgill. "As an entrepreneur, I started

Kentucky Highlands Investment Corporation

The Organization: Kentucky Highland's mission is to encourage economic development and job creation through starting and growing businesses in nine counties in southeastern Kentucky. It is exempt from taxation under the provision of Section 501(c)(4) of the Internal Revenue Code, and has created for-profit and not-for-profit subsidiaries to provide consulting, a Small Business Investment Corporation, real estate services, research and development, and more. Offices are located in London, Kentucky (population 7,045).

History: Kentucky Highlands was founded in 1968 by 10 community action agencies to stimulate economic growth, create jobs and reduce poverty. Their first venture capital investments were in 1972.

Board: Policy board, with 17 members from diverse backgrounds.

Staff: 17. Jerry Rickett is president, with a background in community development; Ray Moncrief is executive vice president, with a background in business and finance.

Deal Flow: From its beginning, Kentucky Highlands has worked to create businesses. They have started businesses, worked to attract new businesses, and worked to support and expand existing businesses. A research and development corporation subsidiary identifies and develops businesses around new and emerging technologies. Their emphasis is in manufacturing, and they do not invest in retail businesses. They see greater opportunity to expand existing businesses than to bring in or start new ones. Deals range from a few thousand dollars to more than $5 million.

Sources of Capital: Initial funding was federal grants through Office of Economic Opportunity programs. The organization continues to use grants for its work, but since the early 1980s has been economically self-sufficient. Sources of capital include grants and program-related investments from foundations, federal funds including $13 million in an Empowerment Zone grant, and funds from repayment of investments and loans.

Exit Strategies: Employee stock ownership plans, purchase of stock by business owners, mergers.

Community Issues: Work force skills and experience are issues. Kentucky Highlands has established a program through which industrial real estate can be made quickly available to companies. They offer assistance in preparing business plans.

Other: Kentucky Highlands takes an entrepreneurial approach to business development. They impose few social restrictions on businesses, believing that the jobs those businesses create have enough value in themselves, and that other requirements can hold already-fragile new businesses back.

shopping states for a location. I found that some states can offer more incentives than Kentucky, which has a high small business tax rate. But I decided to come here for the market location, the availability of supplies, and because of the help from Kentucky Highlands Investment Corporation.

"I knew there were people in this area who knew how to build houseboats, and knew the supplies were here," said Sturgill. "Someone told me about Kentucky Highlands, but I thought, 'No one ever gets those government loans.' I went to them with my business plan anyway, and told them what my ideas were. I had no manufacturing experience, but the economy was good and the boat business was booming.

"I needed $2 million to go into operation," Sturgill said. "I had $500,000 from selling my business in Virginia and $1 million in bank funding, but I was $500,000 short. Four months after my initial contact with Kentucky Highlands I got a loan of approximately $500,000 from them.

"We've expanded three times in three years," Sturgill said. "We have 130 employees, and gross sales of $10 million in 1999. I probably won't try to make this business any bigger—but we've broken ground on the adjoining 10-acre site to build 50,000 square feet of manufacturing area, and I've been thinking about building a fiberglass high-speed houseboat.

"Kentucky Highlands provided advice and assistance, which they have the capacity to do more than a bank does," said Sturgill. "They're here to help you succeed, not just to give you the money. After the first six months I was in the black, but if I had had problems, Kentucky Highlands would have helped out."

Jack of All Trades

The new company took possession of its manufacturing facility on February 1, 1997, and three days later the roof fell in. It was an unusually heavy snowfall in eastern Kentucky that created the disaster, but it was merely one more challenge in a series for entrepreneur Jack Mills. Insurance was in place, equipment was salvaged, the roof was rebuilt, and Sports Products, Inc. was moving toward being the largest manufacturer of products in its sports niche category.

Mills is a flexible entrepreneur whose job is to temporarily manage companies and develop other staff who can eventually take over.

Mills is a flexible entrepreneur whose job is to temporarily manage companies and develop other staff who can eventually take over. Along with being chairman and CEO of Sports Products, Inc. in Monticello, Kentucky, he is chairman and CEO of Highlands Industries, Inc. This subsidiary of Kentucky Highlands Investment Corporation was created to identify and develop new businesses around emerging technologies. They had also started the company that was a predecessor of Sports Products, Inc., which closed because of the corporate problems of the company that bought its parent company.

Kentucky Highlands was left with an empty building and an unemployed work force in an area with already-high unemployment. They created Sports Products, Inc. to continue manufacturing products. "This is a simple but high tech business," said Mills. "It creates a range of jobs, for sewing and assembly, operating plastic injection equipment, artwork, and packing and shipping."

At one side of the plant, a complementary small business leases space. And in a small room in the back corner, Highland Enterprises has reserved space for a prototype model of a machine that turns old tires into carbon black and other marketable products. "We'll need $8 to $10 million to build a full-size unit," said Mills. "With the problems in the United States and around the world with disposal of old tires, this invention could solve a big problem and generate a profit." When it's time, Jack Mills will be ready to take on the next challenge.

Durant, Oklahoma's Entrepreneurial Banking

The Organization: A Small Business Investment Corporation (SBIC) created by First Union Bank and Trust Company in Durant, Oklahoma (population 13,000).

History: SBIC application filed with the Small Business Administration in 1996; approved in 1998.

Board: Three-member board of directors with two members who also serve on the bank board of directors.

Staff: Greg Massey, president and chief operating officer of First United, plus one loan officer and support staff at the bank.

Deal Flow: Focus is on businesses located in Durant, Oklahoma. Generating enough deal flow to support overhead is not an issue because staff and overhead are already covered by the bank.

Sources of Capital: $2.5 million investment from the bank, which is the 5 percent deal allowed by SBA. SBA guarantee and other sources available when initial capitalization is used up.

Exit Strategies: Open, intend to let entrepreneur buy out. Deal is structured with mostly preferred stock, some common stock, five-year payback at 12 percent.

Community Issues: Focus is on creating jobs in the Durant community in southeastern Oklahoma.

Other: Greg Massey and his father, John Massey, have been active in community economic development efforts regionally, statewide, and nationally.

High Tech Vision

Bobby Story grew up in the cable television industry. He started working as an installer in his father's business in Durant, Oklahoma, when he was 14 years old, and later became a service technician. "I remember going with Dad to cable television trade shows in the early 1970s," Story said. "Most vendors set up their displays on folding card tables, and not many people came. Cable systems with the capacity to run six or 12 channels had trouble finding enough programming to fill them up. Now, conventions are huge, and cable television has the capacity to use cutting edge technology to distribute hundreds of channels of programming."

"I needed venture capital to get the business started."

After Story completed college, he managed the family business for several years, then created his own management consulting company, and built a car wash. In 1998, he decided to return to the cable television business. "I found a small company serving rural areas around Tulsa, Oklahoma. Since we purchased the systems the market for cable television subscribers has turned around and we have seen a significant increase in the demand for systems, and subscriber prices are at a premium," he said. "It was the right buy at the right time.

"I needed venture capital to get the business started," Story said. "When I bought the systems, monthly revenue was around $58,000 per month. Eighteen months later, our revenue is over $72,000 per month. We recently purchased another system, with 1,200 homes and 72 miles of cable, that had gone dark for two years. To build this much cable plant new, you would spend at least $700,000, and we bought it for $20,000. We're upgrading the system now and we'll begin marketing very soon. Most of the labor for upgrading will be done by our local, in-house technicians. It will move at a slower pace than if we used outside contractors, but we'll keep costs down and know that it's done right.

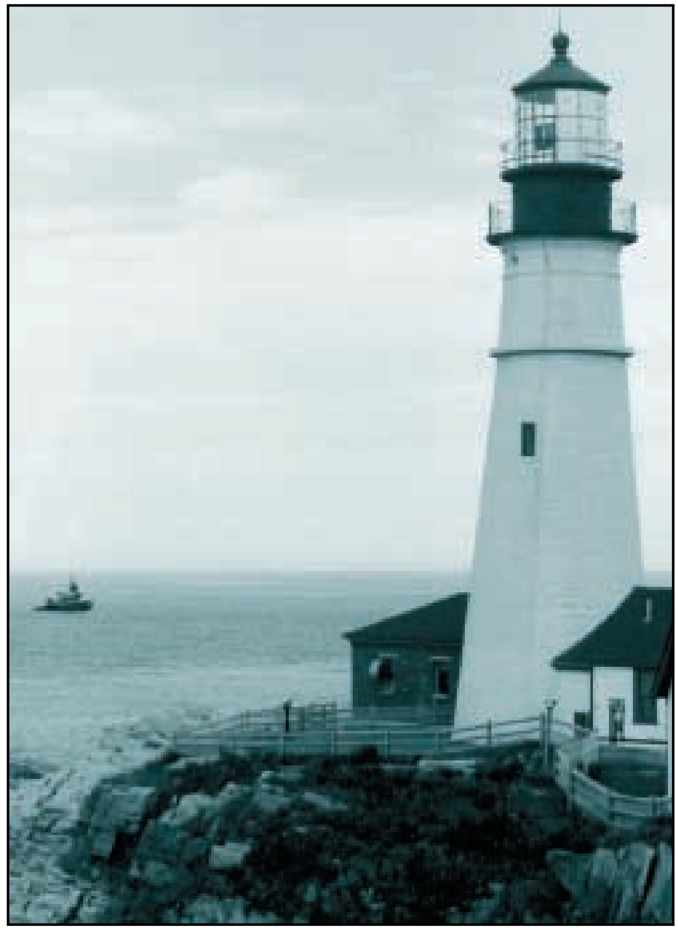
Venture capital investment in Story Communications, LLC, has been through a Small Business Investment Corporation created by First United Bank and Trust Company in Durant. "My experience with venture capital has been very positive," said Story. "I feel like I can talk with the folks at First United about anything. We have a casual, comfortable relationship that isn't stuffy like it is with a lot of banking institutions. I studied the use of venture capital thoroughly before committing to this. Given my experience with First United, I'm sure now that this was the best way for me to do the deal.

"Our plans are to grow the company to 10,000 subscribers over the next four to five years through acquisitions and internal growth," said Story. I want to stay within easy driving distance of Durant, no more than three hours away in any direction if possible. In addition to hard-wire cable systems, we have also looked at providing private cable for hotels, motels and apartment complexes. As the cost of equipment comes down for services like

"We're focused on areas that just don't interest the big companies now."

High-speed Internet and telephony, we will be looking at adding theses services. We're going to need more capital in the future to continue our growth, to buy additional systems, to extend our present systems to reach new subscribers, and to add new services.

"We're just a small company, a "Mom and Pop" deal," said Story, "and I like it that way. We're focused on areas that just don't interest the big companies now. High-speed Internet service requires new technology that takes expensive new equipment, but when the big companies buy it new, their old equipment can be bought and refurbished by a smaller company like ours. It may not be the very latest available, but it works well for us.



"My family has been in Durant since 1900," Story said. "Sometimes I think about moving to Tulsa. There would be some advantages to that, but we really like it here in Durant. It's hard to beat as a good, safe place to raise children, the people are friendly—and it's kind of nice knowing just about everyone in town."

Lifestyle Challenges

"We bought a publishing company that was run largely as a lifestyle," said Michael Payson, who is director of finance and circulation for Navigator Publishing, LLC, in Portland, Maine. "Now, I manage the circulation and finances side of things, and my partner, Alex Agnew, handles the advertising sales and editorial. We collaborate on several areas of management, and it's been a good partnership."

Agnew—who was off covering an annual sailboat race in the Bahamas for the *American Yacht*

Review magazine during our visit—was a cofounder of the original publishing company and had been a 26 percent owner. "We used to play squash together, but hadn't seen each other for several years," said Payson. "I ran into Alex at a meeting sponsored by the Financial Authority of Maine. He and his partner, who owned 70 percent, had increasingly diverse views on how to run the business. Alex asked if I would help, and I came in and mediated discussions. I ended up helping to raise money to put a deal together, and what we eventually did was form a partnership that bought

"Money comes with some strings attached, and some benefits."

out the ownership of the original majority partner. He is still involved, but at a level that works well for him and for us.

"Alex and I didn't have enough capital between us to do the deal," said Payson. "We needed roughly $3 million, and we raised $2 million in equity, a half million in debt and another half million dollars in what amounts to seller paper. It's fairly low leverage relative to the cash flow, and the idea behind keeping it low was to provide a cushion in the event we wanted to grow and needed cash.

"CEI Ventures, Inc. has 5 percent ownership, with $100,000 in the deal," said Payson. "They got involved because we had a relationship with Nat Henshaw, and informal discussions with him. People know and respect Nat, and we wanted his advice. He has a wonderful, common sense investor's view and is an advisor you can rely on.

"There's a lot of capital out there for good businesses," Payson said. "Alex and I are both reasonably connected through personal networks, and he knows people who love sailing and want to be part of a magazine. CEI's money comes with some strings attached, and some benefits. We could have found other capital, but we welcomed Coastal—first, because Nat is very helpful as a partner. Second, CEI Ventures is very reasonable with their requirements, and we are philosophically attuned with what they're trying to do.

"CEI looks for the ability of a company to provide jobs, and that was an issue for us," said Payson. "Before they will invest in a company, they require the owner to sign an agreement that they will make an effort to hire and train people who are economically disadvantaged. As a buyout company with uncertain plans on hiring, we didn't know what kind of commitment we could make. We were told there are two ways to succeed: as a good deal with a decent return, or by hiring a lot of good people. We need to hire people with specialized skills, and they understand that. If the relationship becomes uncomfortable there's a way out of it, but if we make a best effort at meeting requirements, that is okay for now. In our own way, we do make contributions to CEI's objectives and programs.

"I did a bunch of things before, but I didn't know anything about publishing, or about the topics of the special interest magazines we publish," said Payson. He had worked for a management consultant company, started a real estate business, and was the chief financial officer of a small venture capital-backed company. The magazines produced by Navigator Publishing are ***Professional Mariner***, *America Tugboat Review*, and *Ocean Navigator* and *American Ship Review* for professional mariners; and *Ocean Voyager* and *American*

"We've spent our first year figuring out what we've got."

Yacht Review for serious recreational sailors. "We've spent our first year figuring out what we've got. One of the questions is whether we want to be in the magazine publishing business, or in the marine industry information service industry, sponsoring workshops and other activities.

"It's no longer explicitly a lifestyle business," said Payson. "But that's still some of the reason we're all here. We have an independent, self-motivated staff of 14 people who want to get the job done. I took a 75 percent cut in pay to move back to Maine, where I grew up. I've chosen a lifestyle, but for me, an important part of my lifestyle is having a challenging business." ■

Boards of Directors

The board of directors of a venture capital fund is legally responsible for what the organization does. Board members set policies, focus on the vision and direction of the venture fund, and make decisions about investments and major issues. They are a primary connection to the communities in which an organization works. Usually they are selected by other board members, and they serve long terms that help give a venture capital fund continuity. Beyond those basic functions, roles of board members vary from organization to organization.

A characteristic that board members have in common, however, is their enthusiasm about serving on the board of community development venture capital organizations. They talked about how satisfying it is to play a part in improving their communities, and about how their participation has expanded their own perspectives and helped them understand how to run their own businesses more effectively.

Making a Difference

"I'd rather spend my time with Kentucky Highlands than any other way," said Wayne Stewart, who is chairman of the Kentucky Highlands Investment Corporation board of directors and has served on that board for 24 years. "We have a committed board, with lots of diversity. There's a range of educational and income levels. One person has 13 children and comes to board meetings in overalls.

"Money is easier to come by than people."

Another is an economic geography professor, who spends his time teaching economic theory. Here, the theories become real.

"We look for people who fit in the community and can contribute to the board," said Stewart. "It's valuable to have low-income members, and people who see different aspects of an issue. There are no factions on our board, and no race and no gender issues. The reward for board members is that after every board meeting, you go home feeling good. You know that you're making a difference, helping people have opportunities for a better life.

"The hardest thing for the organization is in finding staff," said Stewart. "Money is easier to come by than people. Our staff is tops—they're sincere, they work for hours on end, they love the job, they love the area. I never interfere with our CEO in hiring staff. That doesn't mean he does it alone, but we respect each other."

Hometown Venture

"We started out to grow this town, and companies like Wal-Mart aren't going to do that," said Jim Miller of the McAlester Investor Group (MIG) in McAlester, Oklahoma. "We need more than retail jobs that pay $5.00 an hour. We can't just keep circulating our own money, we need new money from outside."

The McAlester Investor Group was incorporated in 1992 by a group of business leaders concerned about their community. It is an informal venture fund that functions much like a band of angel investors, with a priority of community development. "We wanted to generate jobs, and we've done that," said Miller. "But maybe we should have added 'and make a profit'—or maybe we should have put that first. We've had a lot of fun, but we haven't made much money. Our members are

Making It Work: The Board

Strong board members…

- Care about their communities,
- Have good community contacts,
- Are committed to the organization and its goals,
- Are knowledgeable about business,
- Support appropriate risk-taking,
- Enjoy working with diverse people,
- Appreciate challenges, and
- Respect and do not interfere with staff.

people for whom life is going to go on whether we make a profit on our investments or not, but we've made two bad investments in which we lost a sizable amount. We expected to do better than this.

"On the other hand, we were the spark plug that kicked off an economic boom in this community," Miller said. "The economic development agency estimated that MIG's efforts have helped create 1,400 jobs. When the Webcoat Products building here in McAlester burned, we were able to get on the phone and buy a 40,000 square foot replacement building for them in half an hour. We invested in renovation of the old Aldrich Hotel, which is now senior citizen apartments.

"We've made a difference in this community, but our appetite is waning because of our losses," said Miller. "And one of our mistakes was that we didn't develop an exit strategy for group members on the front end. We're still struggling with that."

"If we liquidated our assets, we'd probably come out about even," said MIG president Jim Mills. He sold a chain of funeral homes in southeastern Oklahoma and moved to McAlester 30 years ago. "I love the casual atmosphere here, and being able to do business on a handshake," Mills said. "In a town this size you can do things without having to have a lawyer and an accountant, and you don't have to have a cashier's check."

"I love the casual atmosphere here, and being able to do business on a handshake. . . . You can do things without having to have a lawyer and an accountant, and you don't have to have a cashier's check."

McAlester Investor Group, Inc. (MIG) of Oklahoma

The Organization: McAlester Investor Group was created as an informal venture capital network to provide seed capital to help new ventures get started in the community of McAlester, Oklahoma (population 16,500).

History: Formed in 1989, incorporated in 1992.

Board: Eight currently active members; originally 10 but one person has died and one is inactive.

Staff: Part-time secretarial assistance.

Deal Flow: Have invested in six deals to date. Requirements include 51 percent ownership and control of the portfolio company for three to five years.

Sources of Capital: Individual investment by board members, usually in equal amounts.

Exit Strategies: "We needed to have worked out exit strategies a lot sooner. It's a problem."

Community Issues: McAlester is a community of approximately 19,000 in southeastern Oklahoma. MIG has formed partnerships with banks and others to support business in the community, and is credited with helping to create 1,400 jobs.

Other: The need to have enough capital to do follow-up investments in portfolio businesses, whether they were succeeding or failing, became apparent with experience. Members of the group found themselves drawn into investing more money than they initially intended.

A part-time secretary handles some of the paperwork and logistics for MIG, but the bulk of the work is done by board members. The fact that many of them own their own businesses, have flexibility with their time, or are retired or semi-retired makes it possible to manage the organization without staff. The board usually meets weekly over breakfast to discuss what is going on and what they need to do.

"We started by putting in $20,000 to $30,000 each," said Jim Miller's brother, Noble Miller. "We've acted as equals, but some have deeper pockets than others, and some are willing and able to take greater risks than others. What we should have done is sold stock in the McAlester Investment Group, and we should have maintained more hands-on involvement and control. One of our problems has been that we have all tended to go along with one another. Sometimes people don't participate in a deal, which is the way it should be, but generally we've each thought that if the others were willing to invest, the deal must be all right.

"We never anticipated we would need the

amount of capital we did," Noble Miller said. "Once you get behind a deal, every time you put a dollar in it takes that and another one before you can move forward. Most of us made our money a little at a time. We've got the owner of a construction company and flooring company, another construction company owner and rancher, a retired military person, a ranch and oil well owner, the owner of a car dealership, and a retired funeral home owner. Our age range is from the 40s to the 80s. We were never short on technical expertise, or on people knowing business. We were short on knowing how to do due diligence, and knowing how to handle the money.

"We were featured in a cover article in *Forbes* magazine in 1995," said Miller, "and that impressed us. We didn't realize how many tough lessons we had yet to learn."

Board Service as a Two-Way Street

"We do very good work in the community, helping businesses get started and succeed," said Halcyon Blake, who owns the Halcyon Yarn catalog company in Bath, Maine. Blake is a member of the boards of CEI Ventures, Inc. and Coastal Enterprises, Inc. Like others, she has found that serving on a board provides opportunities both to offer expertise based on her own experience as a business entrepreneur, and to learn from and enjoy working with business owners, CDVC staff, and other board members.

> ***"Serving on a board provides opportunities both to offer expertise . . . and to learn from and enjoy working with business owners."***

"The diversity of the CEI boards is fascinating," said Blake. "The venture capital board has a strong banking presence, yet an active small business voice. We meet every other month to look at business opportunities that Nat Henshaw, our president, brings in. We trust him to a great extent. He earns the trust and doesn't want to hear us say, 'We paid you to bring this?'

"It's a leap for most small businesses to go to equity funding," Blake said. "Many are reluctant to

give up personal ownership. It can feel like a big risk to get involved in equity financing. There's a lack of understanding by small business regarding what equity financing is about, and it's helpful to have outside perspective.

"We have an investment advisory committee composed of investment experts, so the CEI Ventures board doesn't see the details of every deal," said Blake. "In the final stages the whole board does participate actively in discussions, and we look hard at the social side of every deal, which forms a screen. If a company doesn't meet basic goals in terms of employment and environment, or can't show how they're working on them, they're not considered. If a business makes it past those criteria, we look at the numbers. The social part is weighed more heavily, but if the deal doesn't make the numbers, it doesn't go. We have turned down some good deals.

"We try hard to make people aware of Maine," said Blake, "and hope to attract small businesses that will employ 25 to 40 people. People say if you're going to move to Maine that you better bring your job with you. We're at the end of the geographic pipeline, we're rural, and we don't have enough value-added businesses. It would be nice if our country's population didn't keep gravitating toward the four or five population centers of the nation.

"Serving on these boards has been useful for me personally as a business owner."

"Serving on these boards has been useful for me personally as a business owner," Blake said. "We have opportunities to see what other businesses do, to understand compensation issues, and to be involved with others in the process of developing a business. It's like an ongoing university experience, talking with and learning from other people."

Blake's own business experience gives her a valued perspective as a board member. After receiving a master's degree in business administration from Stanford University in the late 1960s she opened a weaving store in Denver. She brought her business to Maine in 1981, when she moved with her husband back to the East Coast where he was from, and has made the adjustments of being a business owner in a small town. Her business has changed from being 20 percent mail order when she was in Denver to 80 percent mail order in Bath.

"The Internet will dramatically affect rural America," said Blake. "I received a request via the Internet for 300 tons of polyester fiber to go to Alexandria, Egypt. That's beyond our ability, but when there's an information connection, things start fermenting. Almost half the requests I get for more information come from the Internet, while in the past it was through niche magazines."

"I'd like my business to grow larger," Blake said. "If it doesn't, I'll have a problem with succession. My kids are interested in puppetry, astrophysics, and economic research, not the yarn business. In the long term I'd like to sell, but the business needs more income to make in sellable. I employ 15 people, and I want to preserve those jobs.

"What this business has given me is lifestyle flexibility," said Blake, "with time to have lunch with my kids and participate in community activities. People who own businesses in small towns don't just count success in terms of how many dollars you can rack up." ■

Someone said...

"Managing for profit and for the common good—it works."

—Tom Chappell, President
Tom's of Maine

Community Development Venture Capital Staff

Business is not the only place where entrepreneurs are found. A community development venture capital fund needs staff with a unique combination of business, financial and communication skills, plus integrity and a commitment to the communities in which the organization works.

The president of a venture capital fund usually serves as a general partner in a limited liability corporation that has been created to invest funds, with the investors as limited partners. The president and other staff look for businesses for potential investment, screen businesses, assess entrepreneurs' ability, serve on the boards of directors of companies in the investment portfolio, and may serve temporarily as CEO or financial officer or director of marketing for a business.

They help persuade investors to invest in the venture fund, take care of legal and administrative requirements, and build relationships with community partners. When eligible deals are scarce, they may start a business or work with entrepreneurs to help a business grow to where it's ready for venture capital investment.

The boards of CDVCs with experienced staff know they need to do what's necessary to keep them, since they regularly receive other job offers, often for substantially more money. Choices about lifestyle, commitment to helping people, and loyalty to a place help keep them at a community development venture capital fund. However, financial compensation that lets them know their work is valued and appreciated is important, as is feeling that they are not making significant financial sacrifices for themselves or their families.

> *Developing other staff is an integral part of the job of most CDVC managers.*

Developing other staff is an integral part of the job of most CDVC managers. Staff training and networking opportunities are available through national associations of community development venture capital organizations. The Kauffman Fellows Program places young entrepreneurs at venture capital organizations where they can learn about seed and early-stage investing, and organizations such as the Community Development Venture Capital Alliance, the National Association of State Venture Funds, National Association of Small Business Investment Company Venture Capital Institute, and the National Community Capital Association regularly sponsor conferences, training, and other opportunities for people in this new and growing field to compare notes and learn from one another.

Bears, Boats and Children

"I answered a newspaper ad for a job at Coastal Enterprises, Inc. in 1988," said CEI Ventures, Inc. president Nat Henshaw. "I had worked for Chemical Bank Venture Capital Corporation in New York. I went back to school at Duke University for a master's degree in business administration, and worked for two venture capital funds in North Carolina where I raised funds, wrote business plans, and learned that you could go to nontraditional spots for venture capital.

Making It Work: Staff

Effective staff…

- Understands venture capital,
- Knows about business and business management,
- Thinks strategically,
- Leverages resources,
- Communicates well,
- Has strong financial skills,
- Understands marketing,
- Helps others develop venture capital skills,
- Is committed to communities,
- Risks making mistakes,
- Keeps board members informed,
- Is flexible, and
- Has integrity.

"At CEI, I learned business lending from the bottom up. I had never made a loan, and I made 23 in my first year there." As a loan and investment officer for CEI, Henshaw loaned and invested social investment capital in over 122 projects totaling over $8 million in industries such as environmental cleanup, child care, electronic instruments, publishing, marine products, medical equipment and computer service industries. He raised over $1 million in additional funds for CEI revolving loan fund pools.

He also initiated and managed an MBA summer intern program. "In 1990 we hired an MBA intern to do research on how banks could fit into the need for economic development and venture capital," said Henshaw. "We wrote grant proposals to the Ford Foundation, and got program-related investment funds from them. That gave us $640,000, which we used for eight deals over a period of a year and a half."

"We couldn't handle the number of investments we have without active board member involvement."

"We needed experience," said Henshaw. "CEI wanted to include venture capital in its program, but didn't have the expertise. In 1994 I left CEI and we formed a nine-member advisory board to create CEI Ventures, Inc. as a subsidiary. The Financial Authority of Maine (FAME) did a comprehensive study on venture capital, and the Maine Capital Commission also did a study. That helped us get a $50,000 grant from the Betterment Fund (a Maine foundation) to lay out the legal process and write an investment fund offering.

"Board members and other staff and I are all involved with the businesses we invest in," said Henshaw. "With our small staff, we couldn't handle the number of investments we have without active board member involvement. We sit on company boards, monitor needs, and provide technical assistance. When a deal is harvested 80 percent goes to the limited partners (which is the standard in the venture capital field) and 20 percent is evenly split between the staff and Coastal Enterprises, Inc.

"Sure, I could make more money working for a traditional venture capital firm," said Henshaw. "But if I did that, would a due diligence meeting be interrupted to watch two bear cubs climbing a tree outside the window? In Maine, I can grow organic food in my garden to feed my family and friends. I can dig clams with my kids on the weekend. I can wade through eelgrass to go clean my boat. It's a place where I can let my seven-year-old son and three-year-old daughter come face to face with life."

Letting the Mop Flop

"Part of what I do is dream," said Jerry Rickett, president of the Kentucky Highlands Investment Corporation. "Our mission is to create sustainable employment, and I try to look down the road a few years to see what we need to be doing to carry out that mission. Residents in a community need to be able to grow into jobs. They need to be dealt with as human beings, with dignity.

"The most critical job I have here is board relations," Rickett said. "You need the right chemistry between the board and the staff. Staff is going to make mistakes, and may lose hundreds of thousands of dollars. Board and staff have to be congruent. You have to have a good relationship with the board when the bad news comes. You let the mop flop, and don't soft-pedal it. You have to face grim reality together—and it may just be the third lap of a 100-lap race. We always share information. If we know it, they know it.

"You need someone who understands venture capital. . . . If a company goes belly up, you need to be able to find someone with the skills to fix it."

"On the staff, you need someone who understands venture capital," said Rickett. "You have to figure out the structure, whether you're going to be an IRS 501(c)(3) or 501(c)(4) organization, have a subsidiary organization, or what. If a company goes belly up, you need to be able to find someone with the skills to fix it. Ray [Moncrief, executive vice president of Kentucky Highlands] has commercial skills, and I have a background in urban planning and community economic development. We can have dreadful fights, and at the end of the day still be friends. Our staff genuinely likes each other, which makes for a strong team.

"You need a well-thought-out business strategy," said Rickett. "We do a business plan once a year, and staff spends a day with each of the people on the board, looking at the local community and at how our mission and goals fit.

"I enjoy what I do, and get compensated for doing it," Rickett said. "My dad said, when he turned down an offer for a job which would have paid him much more than he made as a 4-H agent, 'There are more things in life than money.' I didn't want to be an administrator moving paper. What I've chosen is a life with a different value and mission.

"I've chosen . . . a life with a different value and mission."

"One thing that is really satisfying is watching young people grow," said Rickett. "We work with young staff, doing training. It takes about seven years to gain the knowledge and experience needed to just go out there and do community development venture capital, but it's a good process for all of us. It's important to get a return on your money so we can re-loan or re-invest it, but it takes a lot more than money to successfully support business growth in a community."

Learning to Swim

"What Kentucky Highlands does is sustainable economic development," said Ray Moncrief, executive vice president of Kentucky Highlands Investment Corporation. "We live on our own earnings, and we help business people create sustainable companies.

"We considered how to develop leadership, and decided that people could learn best by experience," said Moncrief. "We bring in the brightest student interns we can find, and when we're lucky, we hire them as full-time staff people when they graduate. One of our staff, who does magic with the computer, was a coal miner. We involve them in every step of the process of working with portfolio businesses and community leaders. As they learn, we give them more and more responsibility. It's a process that has worked great, and we have an excellent staff.

"People learn by observing, seeing mistakes, and making mistakes."

"People learn by observing, seeing mistakes, and making mistakes," said Moncrief. "Every deal thereafter, they know to watch for that mistake so they won't make it again. We have a cadre of beautiful, smart, young, top-of-the-class people from here. We pay them above average, work them hard. When they get afraid or don't know what to do next, they know they can come to us. We throw them in and let them learn to swim, from day one. I coach them. I say, 'You go ferret it out. You do due diligence, you structure a deal'—and they do.

"Training involves asking them, to take this company to another level, what's their spin, their take," said Moncrief. "We pay a premium on what they could earn elsewhere. Everyone works together, and everyone gets a percentage of every deal, depending on what their piece of it is. This fosters a sense of being a family, of being a team. With more time and more experience, those of us who have learned how to make this work through our own years of experience will be able to step back and know that the work is in good hands." ■

Deal Flow

One of the most difficult problems for most rural venture capital organizations is finding enough deals. Traditional venture capitalists look at hundreds of investment possibilities and select only a few. They invest most heavily in fast growth high-tech and biomedical businesses, and leverage resources and develop expertise by specializing in businesses at a particular stage of growth or in a specific industry sector.

"Our deal flow comes primarily from shareholder banks, regional and national financial institutions, accountants, attorneys and economic development staff," said Tom Blackburn of Kansas Venture Capital, Inc. (KVCI). "We also do dog and pony shows—venture capital is a nontraditional piece of financing, and when it's out of sight it's easy to let it be out of mind. We need to help educate folks on how we can help do deals, encourage them to move out of the box of their usual thinking.

The sources for deals that KVCI relies on are typical, and depend on relationships that are established over time. Nontraditional venture capital organizations that have worked in communities for many years usually have those relationships, but new organizations and others with limited contacts may need to work hard to expand awareness of what they offer.

Rural venture capital organizations do not have the number of deals from which traditional venture capitalists can select, and they often work with any promising business in their area. They may work extensively with small companies in a start-up stage, which is the riskiest and most time consuming business in which to invest—but which may also generate the highest return. If a fund has been created as a limited partnership, its termination date can push an organization to invest in what is at hand in order to maximize the potential return on the investment, rather than taking time to be more selective.

Geography is usually a determining factor for community development venture capital investment. The McAlester Investor Group looks for local businesses in which to invest, or ways to bring outside business to the community. Kansas Venture Capital, Inc. was formed to invest in businesses in Kansas, but when they reached a point at which they could repay the state, the state passed legislation that will allow them to expand beyond Kansas boundaries in the future.

The social goals of CDVCs also affect deal flow. CEI Ventures, Inc. does not invest in seasonal or tourist-oriented businesses, but looks instead for companies that will generate steady year-round jobs. Kentucky Highlands Investment Corporation does not invest in retail businesses, because they want jobs with more stability and higher wages. CDVCs do not invest in businesses that they believe do not provide a positive work setting or a positive impact in the community.

At organizations that do not need to cover overhead costs, deal flow may be less of an issue. The costs of the Small Business Investment Corporation created by First United Bank and Trust in Durant, Oklahoma, are absorbed by the bank, which would have offices and employ staff that works with the SBIC whether the venture fund was there or not. In McAlester, Oklahoma, investors in the fund handle most of the work as volunteers or with existing staff of businesses they own. Most rural capital funds, however, feel the pressure of generating deal flow, to cover expenses and to generate capital for reinvestment in more businesses.

For Kentucky Highlands, creating deals has been a priority since they were formed in 1968. The communities in which they work did not have a history of entrepreneurship, people with entrepreneurial skills, or access to capital. Along with

Making It Work: Deal Flow

Deal flow is facilitated by…

- Developing an entrepreneurial culture,
- Providing entrepreneurship training,
- Helping existing businesses grow,
- Exploring business recruitment possibilities,
- Creating staff expertise,
- Establishing contacts with bankers, lawyers, accountants, economic development agencies,
- Addressing transportation and communication issues of isolated locations, and
- Building community partnerships.

providing loans and equity, Kentucky Highlands has worked to develop entrepreneurship in the community through education and training.

In its early years, Kentucky Highlands' response to the lack of businesses and lack of entrepreneurs in their region was to start companies themselves to fill the need for jobs. While they had some success, they eventually decided they just didn't have the necessary business expertise to successfully manage businesses. They changed direction, and began working to bring in companies from other parts of the country, through advertising and workshops for entrepreneurs.

From this experience, Kentucky Highlands learned how difficult it can be to persuade entrepreneurs to move from one part of the country to another. They began working with businesses already in the area, which resulted in growing businesses—and growing expertise for Kentucky Highlands staff. They realized that while they may not have had the expertise before, through 10 years of providing support in finance, management, production and marketing to other businesses, they had developed the needed business skills.

Now, Kentucky Highlands continues to start new businesses, works with existing businesses, and works to attract selected branch businesses to their region. "We assume we'll make a return of 50 percent on 2 or 3 percent of our deals, 12 percent on 25 percent, break even on 25 percent, and will have losses on about 5 percent," said Executive Vice President Ray Moncrief.

The other business assistance organizations in the community are an important source of deals for nontraditional venture capital organizations, both in terms of contacts and referrals and because they help businesses reach a point at which they are ready for venture capital investment. ■

Kansas Venture Capital, Inc.

The Organization: Kansas Venture Capital, Inc. is a Small Business Investment Company formed "to provide equity capital, loans, and management assistance to businesses based in the Midwest region having potential for significant growth and long-term equity appreciation." KVCI is located in Overland Park, Kansas, which is a suburb of Kansas City (metropolitan area population 1.6 million).

History: KVCI was formed in the mid-1980s to make risk capital available to Kansas businesses. The Kansas Bankers Association raised $6.5 million, which was matched by the state legislature with $5 million.

Board: Eight bankers serve on KVCI board of 15 members, five businesses, and two venture capitalists. KVCI has seats on the boards of investment companies.

Staff: Five people, including three deal professionals and two support staff. One person works "from the cradle to the grave" on each deal, doing pricing, structuring, closing and monitoring, etc. The business originator also closes the deal, lives with it.

Deal Flow: Portfolio is deversified, with 15 percent of deals being early-stage investments; 35 percent turnaround situations with messy deals that need fix up; and 50 percent expansion financing, buyouts and acquisitions. Size is also diversified. Start-up to $50 million in sales, but flexible. Bread and butter is $2 to $20 million. State geographic area, 30 investments in last 11 years in 15 counties. A few have been urban investments, more are rural. Structure is flexible, looks more like mezzanine—more sub-debt. Primary deals—70 percent—are manufacturing firms. Some service, some high tech and retail.

"We do a lot of subordinated debt deals with equity kickers that potentially give us a share in profits, for two reasons," Tom Blackburn said. "One is that we want current returns, and the other is that tax laws make interest income preferable to dividends. If the deal can handle it, we do it that way. We do some syndicated deals, usually through a Small Business Investment Corporation with less than 50 percent participation. We've done 30 deals, with some form of participation or financing by banks in all but a couple."

Sources of Capital: Capitalization is approximately $12.5 million, with $6.5 million in company stock, $6 million in retained earnings. 315 shareholders, all of whom were originally from Kansas, but now 45 percent are non-Kansas financial institutions.

Exit Strategies: Sale to larger companies, sometimes IPOs. KVCI usually expects to sell the firm to a larger company, or sometimes to do an IPO. Ten of their 50 investments have successfully exited, 17 are currently on the books, and three have gone out of business. They usually define exit strategies in the initial deal, but generally negotiate that strategy later.

Community Issues: Issue in Kansas is shortage of skilled labor. More industries are outsourcing. There is some high tech, around universities.

Other: KVCI, pursuant to privatization, can invest nationally. They expect to continue to do a lot of deals in Kansas, but will have a more regional scope.

Sources of Capital

Where do venture capital funds get their capital? At least $5 to $10 million dollars in stable, long-term dollars is considered essential for starting a venture capital fund, and investors looking for maximum return, low risk and fast turnaround for their dollars invest in traditional venture capital funds. Those funds typically invest in telecommunications, biotechnology, and other high-tech businesses. Primary investors in traditional venture capital funds are pension funds, corporations and wealthy individuals.

Venture capital funds with a focus on community development may aspire to market rates of return for their investors, but have generally not been able to achieve them. They attract investors with "patient money," who will accept a lower rate of return because of their interest in benefits to communities. Such investors include foundations, faith-based organizations, community development corporations, local philanthropists, and federal, state and local government, as well as some banks, trust funds, corporations, insurance companies and pension funds that may also invest in traditional venture capital.

Venture capital funds with a focus on community development . . . attract investors with "patient money."

"We created CEI Ventures with a standard structure of a for-profit limited partnership and with a goal of getting people in communities into jobs," said Nat Henshaw, president of CEI Ventures, Inc. "We set it up with two staff people, who had responsibilities of lending money, managing the portfolio and raising the venture fund. With help from the Coastal Enterprises, Inc. staff and board in doing presentations, we raised $5.5 million for the fund. We went to banks, wealthy individuals, corporations, foundations, pension funds and government. Family groups, economic development groups and social groups are all in the investment fund on an equal basis.

"The banks were very receptive—more than I thought they would be, since mixing social and financial goals may be muddy waters for them," said Henshaw. "But the Community Reinvestment Act made it attractive to them, and Coastal Enterprises was already supporting their lending with subordinated debt. Venture capital investment creates customers for the banks, with very nice loans, a rich payoff, and a win-win-win situation. The community banks are significant investors in the fund. We have eight investor banks, five of them community banks.

"Wealthy individuals, on the other hand, were less interested than I thought they would be," said Henshaw. "We had only one family trust, and a commitment from a socially responsible mutual fund, the Calvert Group. If I were looking at what we might have done differently, I'd look for more individual money."

CEI Ventures has one government investor, the Community Development Financial Institution (CDFI), through a grant to Coastal Enterprises, Inc. Publicly funded activities such as the Small Business Development Center and job training initiatives at its parent company, Coastal Enterprises, Inc. also help support the investments of CEI Ventures.

Community development venture funds that do have government funds can find public dollars to

Making It Work: Sources of Capital

Community development venture capital funds get capital from…

- Banks,
- Community development corporations,
- Foundations,
- Government,
- Mutual funds,
- Corporations,
- Individuals,
- Trusts, and
- Faith-based organizations.

be a mixed benefit. Public funding may come with geographic restrictions on where funds can be used, and they can have unpredictable funding cycles as budgets run dry and political winds shift. Some organizations, such as the First Nations Development Institute, steer completely clear of federal grants and loans.

Others gladly accept the dollars, and build extra administrative costs created by public dollars into their budgets. The Kentucky Highlands Investment Corporation was formed in 1968 by six local community action agencies that were supported by federal funding. By 1981 Kentucky Highlands was self-sufficient and no longer dependent on federal funds, and from 1981 to 1987 they had no federal grants.

"The banks were very receptive—more than I thought they would be."

They do accept federal dollars now, with an emphasis on creative leveraging. "We were asked to participate in the creation of an Empowerment Zone (EZ), and we initially weren't very interested," said President Jerry Rickett. "The incentives for an EZ, such as tax credits, complement our core purpose, but they're not central to it. Then we realized that while there are restrictions on how the money that is loaned through us can be used, the loan repayments can be used for equity capital. While the EZ may sidetrack us strategically right now, in 10 years we'll be able to recirculate that $13 million as equity investment in businesses in eastern Kentucky."

"One of my biggest challenges," said Kentucky Highlands' chief financial officer Brenda McDaniel, "is that our sources of funding all have their own purpose. We have to be careful to comply with different agencies' regulations and reporting requirements, and with the IRS 501(c)(4) regulations. We decided long ago we didn't want to depend on federal programs, chasing money and doing whatever was in fashion. We keep staff level at a size we can sustain with interest income.

Public entities, in turn, wrestle with how to best support venture capital investment. Federal programs such as the U.S. Small Business Administration's Small Business Investment Corporations (SBICs) and the U.S. Treasury Department's Community Development Financial Institutions help meet local venture capital needs. Several states have invested in or provided incentives for venture capital investment within their states. Recent research initiated by the Rural Policy Research Institute has identified advantages and disadvantages to how public and private participation is structured. (See "Public Involvement in Venture Capital Funds: Lessons from Three Program Alternatives," under the Rural Policy Research Institute listing in the Resources section on page 40 and "Researching Equity Issues" on page 32.)

Kansas Venture Capital, Inc., an SBIC based in Overland Park, Kansas, was started with a combination of public and private dollars. The state legislature wanted to support access to venture capital in Kansas, and they committed $5 million for a venture fund that was complemented by $6.5 million raised by the Kansas Bankers Association. "The economic development story is that we've invested $23 million in businesses that have created 3,000 jobs, generated $50 million in taxes, spent $70 million in capital expenditures, and generated $400 million in payroll," said KVCI executive vice president Tom Blackburn.

"I'd look for more individual money."

When asked how they dealt with politics, Tom Blackburn replied, "Very carefully. Sure, occasionally we get political pressure to do a certain deal, from shareholders of local banks and from local legislators or officials. We have to have a strong backbone, and take the bullets if it is in the best interest of our shareholders."

The Kansas Legislature passed legislation in 1998 that allows Kansas Venture Capital, Inc. to buy back the state's preferred stock. "We completed the redemption in 1999 to privatize KVCI. It will probably take five years before we're completely private," Blackburn said. "Political pressure wasn't really the issue. It was the investment limits and geographic boundaries." ■

Banking on Venture Capital

"A community is just as strong as its bank," said one community development venture capital board member. "If the bank doesn't participate, all the community development venture capital organizations in the world can't pull a community out of trouble. Bank consolidation has good and bad aspects, and I think the good outweighs the bad. Fifteen years ago, no banks did revolving credit, but larger banks are good at packaging larger loans, and they're looking for that kind of business."

In another conversation, we heard a different perspective from a staff member at the same organization. "Banks are important to us," he said.

"A community is just as strong as its bank."

"They're integral to what we're doing. But bankers are no longer free thinkers in a free enterprise system, and that's devastating to small communities. It's very hard to package bank loans, but if we'll do the work, they'll participate from time to time." While there's agreement that banks are essential, perspectives about their role with venture capital differ with different individuals, banks and communities.

Banks have two fundamental roles in venture capital, as limited partner venture capital investors, and as participating lenders in deals that involve venture capital. They can receive credit for their investment when bank examiners assess their compliance with Community Reinvestment Act (CRA) criteria used to evaluate whether all potential customers in their service area have access to financial services.

In addition to direct roles in venture capital, bankers often serve on the boards of directors of CDVCs. We talked with bankers who are actively involved with community development venture capital, as lenders, as investors, and as board members.

It's a Wonderful Life

"I've always had an 'It's a Wonderful Life' approach to banking," said Michael Finnegan, who is Vice President and Northeast Manager of Community Development Finance for KeyBank N.A. "A lot of us in banking have moved beyond the Community Reinvestment Act statute. Community reinvestment is a strategy that makes a lot of sense. In a progressive democracy, community reinvestment creates housing and employment opportunities for disadvantaged people, which assure a continued expansion of the middle class. An expanded middle class is the bedrock of any democracy.

"Community reinvestment is a strategy that makes a lot of sense."

"If we didn't have CRA, we might not have developed the community development finance expertise that we have today," said Finnegan, who oversees community reinvestment activities in Maine, New Hampshire, Vermont and New York State. "At the same time, I like to think that the work would go on, especially in community banks that understand the wisdom of community reinvestment. I've been fortunate to have served for 15

Making It Work: Banking

Bankers whose involvement with community development venture capital has paid off…

- Are committed to communities,
- Take managed risks,
- Explore new ways to do things,
- Learn from others,
- Have a broad view of potential,
- Work with partners,
- Are entrepreneurs,
- Share their expertise,
- Understand regulations, and
- Are persistent.

years as chairman of the loan/investment committee for Coastal Enterprises, Inc. Our bank and many others have utilized their sub-debt lending funds to accomplish financing with clients who might be deficient in collateral or equity infusion/downpayment infusion on a particular project.

"For example, in a typical loan transaction, the bank generally expects to advance 75 to 80 percent on real estate and 50 to 60 percent on inventory and other assets. When a company needs more funding, i.e., a higher advance rate, that gap can

usually be addressed by an additional junior or subordinated loan extended to the borrower by a community development corporation.

"In rural markets, there's a real lack of equity capital to support small- and medium-sized enterprise development," Finnegan said. "As a steward of capital in a tough rural economy, CEI understood this need. We dabbled early in equity investments in Maine, and accumulated a portfolio of approximately $1.1 million. The duality of financial and social returns was the inspiration for us to establish a more formal venture capital fund, CEI Ventures, Inc. KeyBank and KeyBank Community Development Corporation jumped on early as a lead investor with a $1 million commitment, of which $750,000 has been funded to date. CEI then went to other banks and foundations and raised a total of $5.3 million.

"As bankers we sometimes underestimate the value of nonprofit development organizations in our marketplace," said Finnegan. "These organizations have the ability to focus on a continuum of needs and services, and they serve as community think tanks to devise strategies to help troubled

"As bankers we sometimes underestimate the value of nonprofit development organizations in our marketplace."

economic sectors or geographic areas. A banker who sits on a community development corporation board can look at a transaction from the perspective of financial return, and at the same time he or she will get a sense of the social return, which includes jobs created, housing units provided, or neighborhoods renewed. Bankers are just one important part of a collaborative circle of community reinvestment. We cannot and should not act alone in this process.

"Sometimes banks view not-for-profit lending organizations as competition," said Finnegan, who has served on the CEI board for 20 years. "Banks often want to do the whole deal themselves. But some loan deals are too far out on the risk curve for banks, and some transactions need more financial and technical assistance than we can provide. We make referrals to CEI, and we get referrals from them. With not-for-profits, we can build capacity in distressed communities. We can create synergistic financial partnerships between the private banking sector and not-for-profit development sector that give us leverage to promote economic growth. In the end, this just makes good banking sense."

Partners

"Banks are traditionally not equipped to deal with venture capital," said Harvey Hensley, area executive in London, Kentucky, for National City Bank of Kentucky. "Regulators and shareholders don't like it. Banks like collateral and equity in a deal. What National City Bank has done is work with the Kentucky Highlands Investment Corporation, making loans on deals. We've been very much impressed with staff there. They've sought out other people to get involved, and looked for partnerships. They're willing for someone else to make a little out of the deal, too.

"Some business owners don't want venture capital investment," Hensley said, "because they're scared that 'they want to own me.' That's not the goal of Kentucky Highlands. They want to get in on a minority basis, invest their money, and then help the business get to a point they can buy Highlands out. That kind of partnership can make everybody's money go further."

Banking Entrepreneurs

"SBA folks at a conference we went to in Washington said we ought to create a Small Business Investment Company (SBIC)," said Greg Massey, president and chief operating officer of First United Bank and Trust Company in Durant, Oklahoma. "I was there as president of Rural Enterprises, Inc. (REI), a not-for-profit community development corporation that supports business development in Oklahoma. It made more sense to do it through the bank than through REI, because we had the money, and could make it a subsidiary of the bank.

"Banks in rural America with less than $100 million in assets need a way to put some of their capital in business."

"Banks in rural America with less than $100 million in assets need a way to put some of their capital in business," Massey said. "Traditional venture capitalists don't want to invest in a trailer manufacturer in Hugo, Oklahoma, that employs 30 people. They want to put $15 million in an investment, and we need to be able to put $5,000 in. We need to be able to help people, and do it right. And if I'm going to take a high risk, I need to be paid for that risk.

"An SBIC is the next level up from a business incubator," said Massey. "It puts us in a position to be able to help growing businesses." The SBIC at First United was the first at a rural community bank, and the approval process was lengthy. "The regulators can be a problem," said Massey. "They want big deals, too, not small rural businesses."

"We're entrepreneurs who got into banking, not bankers who are dabbling in entrepreneurship."

"We're entrepreneurs who got into banking, not bankers who are dabbling in entrepreneurship," said John Massey, who is Greg Massey's father and is chairman and CEO of First United. Before becoming bankers, the family owned several hotels and started other businesses. The bank holding company has expanded rapidly, acquiring other banks that are now branches of First United located in 16 communities.

"I love our business," said Greg Massey. "It involves helping people get what they want, and you also get what you want." ■

Exit Strategies

One way or another, sooner or later, an entrepreneur's involvement in the company ends. Business owners can sell their businesses to another company or to their employees. They can leave the business for their children to inherit, auction it to their partners, or liquidate it and sell the assets. To keep ownership in the business while reaping some of the benefits of selling it, they can "go public" by having an initial public offering of stock, or they can shortcut some of the disadvantages of an IPO by buying another company that is already publicly traded in the stock market.

And one way or another, a venture capital fund's involvement with a business ends. Venture capitalists usually receive no financial return until an investment is "harvested." Then, they typically receive 80 percent of the profit, while the fund itself receives 20 percent, giving it resources to invest in the next deal and reward the fund manager. If the deal has been structured as a limited partnership, the tenure of the partnership may provide a deadline for exiting the deal. Deadline or not, traditional venture capital investors usually look for a payback in five years or less, which means they look for fast growing companies that are past the most difficult—and risky—early stages of growth.

Traditional venture capital investors usually look for a payback in five years or less.

Exit strategies for community development venture capital investors become more complicated, because in addition to financial profit, they want to ensure that the social capital a business brings to a community remains. If a business is failing, a traditional venture capitalist will liquidate the business as soon as possible to salvage whatever they can of their investment. Because of their concern about the damage to the community a business failure causes, a CDVC investor may hold on to an investment and continue to provide assistance to the company, hoping against odds that the business can be saved.

CDVCs have fewer options when they look only for exits that will ensure that the business remains in the community, which usually excludes purchase by companies located outside of the region. They look for ways to avoid situations such as the one that Kentucky Highlands faced when a successful local company that employed 90 people was closed because a distant corporation that owned the local company's parent company went bankrupt.

Exit strategies for community development venture capital investors become more complicated, because . . . they want to ensure that the social capital a business brings to a community remains.

Employee stock ownership plans can look attractive as an exit strategy for CDVCs. However, an ESOP requires substantial cash flow to fund the purchase of stock on behalf of employees, which means profits must remain liquid rather than being reinvested in growth or improvement of the business. Some CDVCs have had deals with successful ESOP exits, but while entrepreneurs we talked with

Making It Work: Exit Strategies

Exit strategies include…

- Initial public offerings (IPOs),
- Sales and mergers,
- Buyouts of controlling ownership, and
- Employee stock ownership plans (ESOPs)

liked the idea of an ESOP philosophically, some were edgy about the practical impact it would have on their businesses.

Initial public offerings are often considered the most desirable exit strategy, and for a substantial and fast growing company, an IPO can raise large amounts of money. The drawbacks include legal fees and regulatory requirements that make it an expensive and time-consuming process, and there is no guarantee that the public will buy the stock at a price that provides the capital a business is hoping for.

Initial public offerings are often considered the most desirable exit strategy.

When a community development venture capital fund structures investment through a not-for-profit corporation, rather than through a limited liability partnership (LLP), it no longer has the constraints, or the benefits, of a deadline. When an organization has long-term investments, however, it can have problems with liquidity and lack the capital to invest in new deals when as they emerge.

Because entrepreneurs and deals are harder to find in rural America, most CDVCs have a smaller number of total deals from which they will eventually exit. And in many of the deals in which they do invest, the potential of an IPO or of a viable buyout may simply not exist.

Community development venture capital organizations have successfully participated in a full range of exit strategies—and have learned some difficult lessons. Their concern about social capital affects their choice of strategy and their rate of return. Most CDVCs identify exit strategies when they enter into a deal, but many have not existed long enough to have experience with implementing those strategies. ■

Someone said...

"When community development venture capital funds lose money, they are probably not meeting their social goals."

*—**Kerwin Tesdell**, President*
Community Development Venture Capital Alliance

Communities: The Other Bottom Line

The benefits are easy to see: people with jobs have hope and pride and the ability to take care of themselves and their families. Communities with employed citizens have sources of revenue for roads and schools and water systems and libraries and parks and the other necessities and amenities that make a place comfortable and attractive.

Change isn't easy, however, even when it's a mostly positive change from lack of jobs to job opportunities. Bringing a new business to town, or expanding an existing business, rocks the boat. It creates competition for labor and drives up wages and salaries. It shifts the balance of power, forcing community leaders to reconcile personal interests and community needs. Leaders looking for ways to create access to venture capital find that the best intentions in the world run up against practical, financial, political and philosophical challenges.

> ***"In Manhattan, a job at $7.50 an hour might not be good, but here, where the cost of living is lower than in Manhattan, it can be a good job."***

"We debate passionately about what a 'good' job is," said Kentucky Highlands Investment Corporation president Jerry Rickett. "Sometimes the media beats us up, but you can't expect to have everybody earning $35,000 a year. In Manhattan, a job at $7.50 an hour might not be good, but here, where the cost of living is lower than in Manhattan, it can be a good job.

"Our mission is to create sustainable employment," Rickett continued. "Residents need to be able to grow into jobs. They need to be dealt with as human beings, with dignity. Having a job can give people a sense of belonging, and not having a job can lead to disintegration of family dignity.

"We supported bringing in a $40 million poultry processing company," said Rickett. "It has 900 employees now, and it's going to have 1,600. The big fight over bringing in that plant was one of the most interesting things I've ever participated in. Environmental groups banded together to fight the plant location, saying there would be blood in the creeks and feathers by the roads. There was a resounding voice in favor of it by the people without jobs—their voices *thundered* in favor of it.

> ***"We create some high-skill, high-wage jobs . . . but we also support bringing in jobs that fit the qualifications of our work force."***

"We have a good work force," Rickett said. "Second- and third-generation welfare recipients do need training, but most people want to work. Some residents don't want the community to change, and some existing businesses now have to compete for the work force."

Making It Work: Communities

Community strategies to support entrepreneurship include…

- Clarity about goals,
- Offering a range of financing options,
- Job training opportunities,
- Physical infrastructure (roads, utilities, etc.)
- Political infrastructure,
- Entrepreneurship education,
- Learning to accept change,
- Developing partnerships,
- Analyzing the effectiveness of incentives,
- Providing selected incentives,
- Coordinating programs, and
- Respecting different viewpoints.

"We create some high-skill, high-wage jobs," said Kentucky Highlands executive vice president Ray Moncrief, "but we also support bringing in jobs that fit the qualifications of our work force. It's people who have already made a comfortable amount of money, or who are from outside of the area, who think that jobs in a modern poultry processing plant are not wanted or needed. For inexperienced workers from families that may have been unemployed for generations, these are good jobs."

Staff at Kentucky Highlands work with colleges and other agencies to make job training available.

"When I paid more and offered more benefits, it drove wages up $2 per hour in the area."

With long-term unemployment, cultural education is sometimes needed along with job training to acclimate people to the work environment and a new lifestyle. "I had to buy one person an alarm clock and show him how to use it," said Moncrief.

Some community development venture capital organizations will invest in a company only if the business agrees to provide training in a welfare-to-work program, while others believe that providing jobs is the primary benefit and that companies should be encouraged to participate in training and benefit programs but not required to do so. Many community development venture capital organizations work with state and federal agencies and with local colleges to match employers and employees, and to provide training.

In southeastern Kentucky, a trained work force was one of the attractions for at least one business. "There were four other boat companies already in the area when I came," said John Sturgill, owner of Fantasy Custom Yachts in Monticello, Kentucky. "The work ethic is good. The average hourly wage is $9.40, and we pay a little higher, provide nice benefits, and try to treat people well. Finding skilled labor is always a problem, and we work with the vocational school and usually have interns. Our turnover rate is nowhere near what it is in other industries.

"I've hired the best people I could find," Sturgill said, "and when I paid more and offered more benefits, it drove wages up $2 per hour in the area. That's what an Empowerment Zone (EZ) is designed to do, and everyone has benefited. We've paid $2.4 million in wages, and with $10 million in sales, we pay a lot of taxes. Our boats sell for an average price of $275,000, and the buyers pay 6 to 8 percent in sales taxes, which is a boon to the

state. It's a win-win situation for everyone. I would have done the deal here even if the Empowerment Zone hadn't been here, but I think this is as good an example as you'll find of what an EZ can do. It made $20,000 available for me last year for training, and also made tax credits available."

At Coastal Enterprises, Inc., a network that provides support for jobs in the community was in place long before the community development venture capital fund was created. "From my perspective of working on the social side," said Kathleen Kearney, Senior Program Officer for Targeted Opportunities for Coastal Enterprises, Inc., "venture capital doesn't look different from our loan programs. We evaluate the current work force wage and progression, entry level wages, benefits, the environment for health and safety, the principals and how they value their employees, whether skills in the business are transferable, and training. We look at the resources in the community and what a business will bring to the community.

"We have primarily state funds for training, and we work with colleges to provide training services," said Kearney. "We work in tandem with a loan or investment officer at CEI, and try to find reasons to do the deal, not reasons to turn it down. Even if a company is not yet where we'd like to see it be, we'll work with them to see how they might add value. Sometimes we know that the jobs just may not be there yet, but they may emerge 12 months from now. We're looking primarily for jobs for people with entry level skills, and some companies just don't have those positions.

"We look at . . . what a business will bring to the community."

"The challenge is to find the resources to provide a quality of services that businesses will like," Kearney said. "In some areas of Maine, it's a challenge to find a labor pool. Another challenge is the working poor, who may have skills but are in dead-end, low-wage jobs. Our typical approach is to look at what exists and how we can bring resources together."

CEI also offers a range of loans and services for small businesses. "Not many microenterprises grow large enough for venture capital investment," said Ellen Golden, who is Senior Program Officer for Microenterprise and Women's Business Development at CEI. "Our goals with microenterprise loans are to create opportunities for people to generate income for themselves and their families, to provide a product or a service that meets a need in their communities and to develop assets that they could potentially sell.

"We're exploring how we can make equity financing available on a very small scale," said Golden. "To do that, we are trying to streamline the investment process, even the due diligence, and develop a mechanism for providing equity to

Social and political infrastructure in a community includes leadership . . . and people who are willing to risk changing the status quo.

microenterprises that aren't incorporated. Through our involvement with Trickle Up, an organization that provides conditional grants to low-income entrepreneurs, we have seen how even small amounts of money can make a difference. For example, $700 in equity can enable the owner of a residential cleaning business to buy a new vacuum cleaner and expand her business."

Entrepreneurs need financing to start or expand the businesses that provide jobs in a community. In addition, communities provide education and job training, health care, a political and legal structure that supports appropriate business development, and an environment and range of services that are often lumped together as "infrastructure."

Physical infrastructure includes roads, water, sewers, and telecommunications. Social and political infrastructure in a community includes leadership, an effective political system, and people who are willing to risk changing the status quo. ■

Communities and Rural Venture Capital Funds: Good Advice

Nat Henshaw, CEI Ventures, Inc.

"I think three factors are most important for community development venture capital to succeed," said Nat Henshaw, president of CEI Ventures, Inc. "First, venture capital experience is very important. It's easy to lose money in this business. We're fortunate to have some retired venture capitalists involved, and bankers—we have lots of people with individual experience. It's hard to hire an experienced venture capitalist, but we can hire retired people with experience, and others without experience but a strong desire to learn.

"Second, the social aspect is critical," Henshaw said. "While I personally think that pure venture capital can be very socially beneficial, as a community development venture capital fund we're not just doing venture capital. When we created CEI Ventures, our premise was that we would be working with good, socially responsible managers who would therefore have lower employee turnover and better company performance.

"Third, a community development venture capital organization has to be able to raise money, which means the organization and the people involved in it need a track record of some kind. CEI Ventures was fortunate to be able to build on a track record of 16 equity investments by Coastal Enterprises, Inc. prior to the launch of the venture fund."

Mike Finnegan, KeyBank, N.A.

"My advice to others thinking about undertaking community development venture capital investment is, first, that it's not for everybody," said Michael Finnegan, Vice President and Northeast Manager of Community Development Finance for KeyBank, N.A. and a member of the board of CEI Ventures, Inc. and Coastal Enterprises, Inc. "A not-for-profit organization that forms a venture capital fund needs to already be well versed in community development finance, and in particular in sub-debt lending, which is someplace between venture capital and conventional lending.

"The not-for-profit needs to have a culture in which people are familiar with the overall financing continuum in their marketplace," Finnegan said. "At the same time, it doesn't hurt to have a strong component of business technical assistance as part of the community development corporation structure. Trying to establish a stand-alone venture capital entity without this background sounds scary. You also need additional community development financial resources to partner and co-invest with in any new venture capital fund.

"An initial step to do would be a feasibility study and survey of the marketplace," said Finnegan. "You need to understand whether your market is better supported by a new community development venture capital fund, with lower financial returns and broader community returns, or if

"A not-for-profit organization that forms a venture capital fund needs to already be well versed in community development finance."

the market is better served by a traditional venture capital fund with higher average returns and higher ownership stakes. What is the history of equity placements in the local market? What is the interest in equity? Do other nonprofit development organizations see the need?

"There are also internal legal and structural issues that need to be considered," said Finnegan. "You need good, early legal counsel, and you need to understand the complexities of Securities Exchange Commission laws and their application in the fund formation process. Don't be amateurish in your approach.

"Cultural issues also have to be considered," said Finnegan. "Typically, venture capital funds have an image of high returns and high gains, which could be at odds with a traditional nonprofit development organization's structure and mission. Externally, a nonprofit's funders will need to understand the expanded social purpose of forming a community development venture capital fund.

"Another piece of advice would be to engage the banking community early on," said Finnegan.

"Bankers can bring valuable insight to the fund development process, and will play a role in reviewing investments once the fund is operational. They represent a substantial deal-flow network, and generally have a good sense of market demand for a venture fund. Bankers need to understand the critical role they can play in the provision of seed capital to fertilize their local economies and create a healthy future customer base. When bankers choose to invest in a fund, others are encouraged to follow.

"Community development finance partnerships and community development venture capital funds are strategies that will bring about economic change in local markets," Finnegan said. "Banks and nonprofit organizations need to take an entrepreneurial approach. They need to collaborate with all the other players in the field of community development to make sure good economic and social outcomes occur."

Wayne Stewart and Ray Moncrief, Kentucky Highlands Investment Corporation

Wayne Stewart's advice to other organizations, from his perspective of 24 years on the board of the Kentucky Highlands Investment Corporation, is to offer a range of financing for businesses. "It's necessary to provide debt as well as equity capital," he said. "You have to be able to do small as well as big deals. A lot of people resist equity in their companies, and some venture funds say they never want to own more than 39 percent of a company. We don't want to control or run someone else's company, but sometimes you need control to save the company. A venture fund needs insight regarding when to come in. If we're going to do something wrong, it is probably that we'll wait too long to do what needs to be done."

"A lot of people don't understand rural venture capital," said Ray Moncrief, executive vice president and chief operating officer of Kentucky Highlands. "I love to quote that venture capitalist from Wall Street who said, 'The only difference between urban and rural venture capital is that with rural venture capital, you have to take smaller airplanes to smaller airports.' He just didn't understand that we're investing in businesses in communities that are nowhere near an airport!

"There's a huge gulf in attitudes," said Moncrief. "Wall Street has the world to deal with, and they're not going to seek us out. Wall Street can't get down to Main Street in our small communities, but we can get up to Wall Street. We really believe and practice a Main Street up approach. I love capitalism, I think it's wonderful and it's THE model for the world. But it's not a contradiction to say we also need community development venture capital. We use venture capital techniques to do community development, and we're almost as concerned about the jobs as about the business. We need to break down the underwriting barriers. People understand the internal rate of return, but when we talk about job creation, they think, 'Uh oh, that social component means they're missionaries.'

"Judging the ability of the entrepreneur is the key to our effectiveness," said Moncrief. "We don't want to use our resources to run a business unless we feel it has to be done to save the company."

Greg Massey, First United Bank and Trust of Durant, Oklahoma

"My advice to others considering forming a community development venture capital fund is that you need financial expertise, people who are experts in the spreadsheet world, who have contacts in the community, and who are accountable," said Greg Massey, president and chief operating officer of First United in Durant, Oklahoma. "We have formal board meetings every month to monitor progress on our investments, and a loan doesn't have that kind of accountability.

"It's hard for a lender to get into equity," said Massey. "We have to be careful lending to a company we have investment in, but at this point the regulations have not been an issue. We want our investments to be small and to make sense. You also have to be careful about who you invest in. Ever since we have been on the Internet, we get a bunch of calls on Monday morning from all over the place, from people who have designed a better widget in their garage, need money, and need it fast. People who think they need venture capital often don't." ■

Researching Equity Issues

The stories of success and failure with rural venture capital are intriguing. Sometimes, however, the stories become larger than reality and we begin to assume that what has or hasn't worked in one place reflects what will or will not work someplace else. Confirming or overturning assumptions and analyzing the patterns of similarities and differences in rural venture funds are the work of a research team exploring issues of rural venture capital funds across the country.

"People in Washington were interested in putting some money into venture capital institutions to demonstrate how they can work," said Deborah Markley, who is with the Policy Research Group in Chapel Hill, North Carolina. "The Rural Policy Research Institute (RUPRI) had done research and written a paper about policy issues in rural financial markets. It got a lot of attention, and people wanted to follow up and do something." RUPRI is a coalition of universities that has brought together teams to provide objective analysis and facilitate dialogue concerning public policy impacts on rural people and places.

"We wanted to see if models exist, provide information . . . about what those models might be, and develop policy recommendations."

"We asked how you could do demonstrations when you don't have models for what works," said Markley. "We formed the Rural Equity Capital Initiative, and put together a proposal to do research and outreach to identify institutions doing innovative investing. We wanted to see if models exist, provide information at local levels about what those models might be, and develop policy recommendations on what is needed to make rural equity institutions work better." The team received a three-year grant for the project from the U.S. Department of Agriculture's Fund for Rural America, and began work in 1998.

"The biggest surprise was how few institutions are out there," said Markley. "We responded by broadening the definition of rural equity funds to include organizations that may not be strictly rural but do a significant amount of investing in rural areas.

"What we've found," said Markley, "is that there is no one 'model.' We can talk about types of institutions and the advantages and disadvantages of each, but there is no single framework that will work in every community. It depends on the community, on the goals for the venture fund, on the sources of capital, on the target businesses, etc.

"As people learned we were doing this work, we began getting more and more calls about Certified Capital Companies (CAPCOs), through which states allocate tax credits to encourage investment in private venture capital firms," said Markley. "Some people were saying, 'This is the worst thing in the world,' and others were saying, 'This is an important tool to help us accomplish our goals.' We realized it made more sense to include CAPCOs in our broader framework of public involvement in

"What we've found . . . is that there is no one 'model.'"

venture capital funds, and we expanded our research to include them."

A report was published by RUPRI in November 1999, which presents lessons learned from three program types: publicly funded and managed venture capital funds, publicly funded but privately managed funds, and public enabling legislation for CAPCOs. Other recently published research from the Rural Initiatives project includes an outline of the decision making process leaders can use as they consider the creation of a venture capital fund, and organizational models for venture investing. (See RUPRI under "Resources" on page 40.)

"What's sobering is how difficult it is to effectively do rural venture capital," Markley said. "Too many people are putting the cart before the horse, and not thinking through the steps of the process. What's been encouraging is the range of models that show equity investment can be done in rural America. We had no doubt there was a need, but it wasn't clear what could be done. We've been able to identify folks who are doing it well, and we hope to use their examples to help smooth the road for others later on." ■

Someone said…

"Being good in business is the most fascinating kind of art. Making money is art and working is art and good business is the best art."

—***Andy Warhol***, *quoted in* Forbes *Magazine*

Perspectives

By the Way

People here are creating a life, not just a living," said Bobby Ives. While we all create and choose the communities in which we live, not many of us are as purposeful about it as Bobby and Ruth Ives at The Carpenter's Boatshop in Pemaquid, Maine. The boatshop is a 20-year-old business with a double bottom line that tilts toward the social rather than the financial side of the scale. The sale and repair of boats sustain the boatshop financially, but success is measured not by the number of boats produced, but rather by how lives and communities are affected within and around the boatshop community.

Most of the boat builders are unpaid apprentices, who receive room and board for nine months, along with an education in boat building and life. They can be described as a "community development venture" organization, leaving out the

The boatshop is a 20-year-old business with a double bottom line.

"capital." The money it generates is necessary, but it is secondary to other values. When economists talk about utility, financial wealth is usually substituted as a measure for value, which is hard to measure in quantifiable terms. At the boatshop we were reminded that wealth can be measured in other ways.

First, the boatshop is valued as a learning community. Nine or 10 apprentices per year live and work with the Ives family for nine months to build traditional wooden boats. Amateurs from all walks of life and skilled wood crafters work together to build dories and skiffs and other boats that will be sold to customers from all over the country. An occasional apprentice moves on to a career related to boat building, but most participants simply learn and enhance skills that also apply to their lives in other ways.

Along with learning how to build boats, residents learn about world issues and expand their cultural awareness. Discussion around the dinner table revolves around current events, with lively debate about alternative actions and decisions. A laser pointer aimed at the map on the dining room ceiling helps those who need a refresher in geography to locate a city or country. After lunch each day, it is someone's turn to read aloud a chapter from a book, usually a novel but sometimes nonfiction. The reading brings yet another perspective to the table, and generates provocative discussion about actions and values.

A second value at the boatshop is in contributing to the larger community, in ways both small and large. Residents take regular turns helping to prepare and clean up after meals. Apprentices who come to learn to build boats also agree to spend one-half day per week doing community service. This might mean fixing an elderly person's roof, collecting donated clothing for the community center to distribute, or picking up the garbage at the local elementary school, which is then fed to the pigs that will be given to low-income families.

The boatshop measures wealth in terms of integrity.

Finally, the boatshop measures wealth in terms of integrity. After breakfast each morning, there is a discussion about personal values and how people can connect their beliefs and their actions. This is done not by prescription, but through stories, readings and conversation. The community has an underlying religious dimension, and Bobby Ives is an ordained Congregational minister who has made the boatshop his ministry. However, it is a community that is open to all beliefs that help people live lives of moral integrity.

Jim Austin is an alumnus of the boatshop, but not a typical one. He was a boat building instructor for 10 years, until 1998 when he left to have more time to help his 85-year-old mother-in-law in her bed and breakfast, give tours in the estuary in his restored 1950s tour boat that he runs on vegetable oil, and do volunteer tutoring.

"We're a self-sustaining community."

"My life's work is creating community and working for peace and justice," said Austin. He and his wife Darcy, who is a preschool teacher, live in the lighthouse cottage at Pemaquid, Maine. Before he began building boats, Jim Austin built furniture, and now he sometimes uses his woodworking skills to build a coffin when it's needed by family or friends.

"Sure, I could build lots of coffins, hire people to work with me, and make money at it," Austin said. "But that wouldn't leave me time to do the other things that are important to me." He once worked at a large stockbrokerage in Boston, and knows he could make more money than he lives on now. The people he respects most, however, are those who have chosen values that are not represented by money. He wasn't sure he wanted to be labeled an "entrepreneur," which for him had a connotation of a focus on dollars—but he does appreciate the entrepreneurial skill of finding new ways to solve problems.

Bobby and Ruth Ives are also entrepreneurs in their own way, focused on quality rather than quantity. "Another bottom line for us," said Bobby Ives, "is the quality of the boats we build. People's lives literally depend on our work—if we don't build a seaworthy boat, someone can drown." The Ives don't expand the boatshop because they want to keep the quality of the experience that can be created with a group of 12 or 13 people. "We're a self-sustaining community now," said Bobby. "And if we had more people, we wouldn't all be able to fit around the dining room table." ■

AfterWord

"Stick to your strengths," said Kansas Venture Capital, Inc.'s Tom Blackburn. "Do what you know how to do. Leverage off the backgrounds of partners. Never compromise your standards. Remember that the correlation of business success with management ability is close to perfect. Don't do deals that look too good to be true. When you make bad investments, ask what did you learn."

The words are Blackburn's but the message is consistent with what we heard everywhere we went. Over and over, we heard that it's the people who make the difference, you have to take risks, sometimes you'll fail, and you have to learn from those failures.

Other common threads, from Maine to Kansas, intrigued us. We found that place was a magnet, in very different parts of the country, for people who loved the line of a horizon, the curve of water against a shore, or the sense of connection in a place where family and friends have helped shape a community for years and sometimes for generations.

Practical issues of transportation, access to markets and efficiencies of scale are aspects of place, but it was clear that some aspects of life for these people just weren't tied to practicalities. Efficiency and human hankerings were separate from one another, with money a secondary concern. Place was an intangible value as well as a tangible issue. We saw commitment to place serving as an incentive for creative people to find ways to solve the problems of doing business in isolated rural communities.

"When you make bad investments, ask what did you learn."

We saw other intangible values. Thomas Miller, who is a former president of the Kentucky Highlands Investment Corporation, wrote in his 1994 manuscript, *Of These Hills*: "As is surprisingly often the case in public policy questions, but rarely stated explicitly, the larger questions do involve spirit, ethics and motivation. How do people react when left behind by economic and social forces outside of their control? Whether and how should their fellow citizens assist them? How and to whom are users of public resources to account?" Spiritual values were mentioned regularly by the people we interviewed. One banker talked about his work as part of his accountability to God, an entrepreneur talked admiringly about CDVC staff who lived out the religious values in which they believed, and another banker said his work in the community was in some ways the priesthood he had never had.

We found that place was a magnet, in very different parts of the country.

The written materials for one venture capital group include the church affiliations of board members. The founder of a community development organization has a degree in theology. The president of the venture capital fund recommends reading *The Soul of a Business* by Tom Chappell, a successful entrepreneur who is committed to running his business in a way that reflects his religious values. The boat building business in Maine is also a ministry. It may be that organizations with social goals of benefiting the community attract people concerned about religious values, or that communities in rural America remain close to roots of religious tradition, or both. For whatever reasons, we saw commitment that was often unabashedly expressed in spiritual terms.

Another, more curious thread in our interviews was the connection to the business of death. Two of the business entrepreneurs we talked with are former owners of funeral homes. Another sometimes builds coffins, and another occasionally conducts funerals. We wondered if having the courage to stand close to death is correlated to the courage to take risks in business—and then we found other connections.

In the introduction to his book, *Undertaking: the Dismal Trade* (which was a finalist for the 1997 National Book Award), poet and undertaker Thomas Lynch wrote about how his father debated between whether he wanted to be called an undertaker, a mortician or a funeral director:

"I had come to know that the undertaking that my father did had less to do with what was done to the dead and more to do with what the living did about the fact of life that people died…. In the mirror he saw an undertaker—someone who stood with the living confronted with death and pledged to do whatever could be done about it. The undertaking was nothing new. It was as old, he figured, as life itself…. Which undertaking is it … that does not seek to make some sense of life and living, dying and the dead?…. To undertake is to bind oneself to the performance of a task, to pledge or promise to get it done."

We thought that fit for entrepreneurs, for community development venture capitalists working to keep businesses and communities alive—and for the rest of us, too. And then we found in the dictionary that the root meaning of "entrepreneur" is from an Old French word that means, "to undertake."

We talked with people who are passionate about what they do, who love living where they live. Many of them have a strong streak of competitiveness. They like to win, but winning is defined in different ways. There's the win-win situation of keeping board members informed about everything that's going on, good, bad and indifferent. There's the win-win of involving a board member in turning around a business. There's the win-win of mentoring young staff, watching the understanding and expertise develop and knowing that your work will go on when you're out of town—or when you retire someday.

Sometimes it's a tough win, and someone has to lose. Telling the owner of a failing business that he needs to step aside if the business is going to have a chance to survive is difficult, and the few times that it happens fuel the fear that many small business owners have about getting involved with venture capitalists, even benevolent community development venture capitalists. Turning around that company and saving the jobs of 25 employees—and then watching the business expand to employ 100 people—makes the difficult tasks worthwhile.

They like to win, but winning is defined in different ways.

Some of the challenges are the same on Main Street and Wall Street: persuading investors to risk their money in a venture fund; scouting out potentially successful businesses; negotiating deals to trade money and expertise for a share in the success—or failure—of those businesses; participating in the struggle to make businesses succeed; negotiating exit strategies; doing all this simultaneously with several companies; and starting the cycle over with other businesses. People in venture capital firms have to be flexible, and willing to take risks. They like the personal challenge of honing their skills in a challenging marketplace.

The entrepreneurs we talked with—whether in business or the nonprofit sector—demonstrated that the "double bottom line" system of assessing utility and value can be useful for anyone, in any undertaking. ■

Resources

1stSource

A shortcut through the maze of federal resources for community and economic development is available on a new Internet site developed by the Federal Reserve Bank of Kansas City. Bank President Thomas M. Hoenig has announced development of the 1stSource Community Development Resource Guide designed to help people find information about government programs that support affordable housing, business development, and community infrastructure.

"The strength of 1stSource," said Hoenig, "is its simplicity. With dozens of federal programs available, it can be difficult to pinpoint what is needed for a project. This is the first time people have had one source to go to for community and economic development information. Providing decision makers with this kind of inexpensive and timely access to information is another way the Federal Reserve is promoting market efficiency. It will be especially useful to people interested in financing projects that benefit economically disadvantaged individuals, small businesses and small farms."

> ***"This is the first time people have had one source to go to for community and economic development information."***

1stSource users can describe their project by clicking on characteristics that fit, such as whether it is rural or urban, the type of financial or technical assistance needed, and the size of the development. 1stSource will then locate resources that fit those characteristics, and provide a brief one-page summary. If a program looks promising, users can contact the agency through the Internet link, telephone number, or address provided. At some agency sites, users can apply for programs using electronic forms on the Internet.

1stSource is a collaborative effort between the Community Affairs Department of the Federal Reserve Bank of Kansas City and the federal agencies that offer programs. It will also be made available to states for inclusion of their programs. For more information, see www.1stsource.kc.frb.org. ■

For More Information on Community Development Venture Capital...

***ACE*-Net.** The Access to Capital Electronic Network (ACE-*Net*) is an electronic venture capital network that provides angel and venture capital investors and entrepreneurs a vehicle for finding one another. Created by the Small Business Advocacy Office of the U.S. Small Business Administration. Contact at **http://ace-net.sr.uhn.edu/pub/**.

Business Access to Capital and Credit. Proceedings of the Federal Reserve System's research conference on business access to capital and credit, held in March 1999, are available at **http://www.frbchi.org/cedric/cedricpage2.html**. A limited number of paper copies are available by contacting the Federal Reserve Bank of Kansas City at 1-800-333-1010, extension 2687.

Center for the Study of Rural America. This new Center tracks shifts in the rural economy in a monthly newsletter entitled *The Main Street Economist*, publishes in-depth studies of changes in rural financial markets and economies in the Federal Reserve Bank of Kansas City's *Economic Review* and sponsors conferences on rural issues. Contact Director Mark Drabenstott at the Federal Reserve Bank of Kansas City, 925 Grand Boulevard, Kansas City, MO 64198-0001; 800-333-1010 ext. 2756 or 816-881-2756; 816-881-2135 (fax); **mark.drabenstott@kc.frb.org**; **http://www.kc.frb.org**.

Community Development Venture Capital Alliance. Promotes the use of the tools of venture capital to create jobs, entrepreneurial capacity, and wealth to advance the livelihoods of low-income people and the economies of distressed communities. Offers training, individualized consulting services. Contact: Kerwin Tesdell, President; 915 Broadway, Suite 1703, New York, NY 10010; 212-475-8104; 212-473-0357 (fax); **cdvca@cdvca.org**; **www.cdvca.org**.

Equity for Rural America: From Wall Street to Main Street. Proceedings from an October 1998 conference that explored equity capital options and capital market innovations in rural America. Contact: Federal Reserve Bank of Kansas City; 925 Grand Boulevard, Kansas City, MO 64198-0001; 800-333-1010 ext. 2687 or 816-881-2687; 816-881-2135 (fax); **http://www.kc.frb.org/BS&S/publicat/PDF/equity/equitymain.htm**.

First Nations Development Institute. Native American-led and run economic development organization that links grassroots efforts to national policy. Contact: Patrick Borunda, Director of Oweesta Program; 11917 Main Street, Fredericksburg, VA 22408; 540-371-5615; 540-371-3505 (fax); **pborunda@firstnations.org**; **www.firstnations.org**.

1stSource. Easy access to information about public programs for business development, affordable housing, and community infrastructure. Made available by the Federal Reserve Bank of Kansas City in partnership with federal agencies. Contact at **www.1stSource.kc.frb.org**.

Kauffman Center for Entrepreneurial Leadership. Promotes the growth of entrepreneurship in America through education, training and research initiatives. Web site includes extensive resources on venture capital. Contact at 4801 Rockhill Road, Kansas City, Missouri 64110; 816-932-1000; **www.EntreWorld.org/Content/GYB.cfm?Topic=FincVcap**.

National Association of State Venture Funds. An association of public agencies, state-sponsored private investors, and public/private partnerships concerned with leveraging risk capital resources. Contact at 301 N.W. 63rd Street, Suite 500, Oklahoma City, OK 73116; 405-842-3299; 405-848-8570 (fax); **admin@nasvf.org**; **www.nasvf.org**.

National Community Capital Association. A membership association of Community Development Financial Institutions (CDFIs) that provides capital, technical assistance, and development services to support revitalization of economically disadvantaged communities. Contact: Mark Pinsky, Executive Director; 924 Cherry Street, Second Floor, Philadelphia, PA 19107; 215-923-4754; 215-923-4755 (fax); **NCCA@communitycapital.org**; **http://www.communitycapital.org**.

Rural Policy Research Institute (RUPRI). Provides objective analyses and facilitates dialogue concerning public policy impacts on rural people and places. Publishes research findings on rural venture capital organizations, including the new "Public Involvement in Venture Capital Funds: Lessons from Three Program Alternatives." Contact RUPRI Office; University of Missouri; 200 Mumford Hall, Columbia, MO 65211; 573-882-0316; 573-884-5310 (fax); **office@rupri.org**; **www.rupri.org**.

Small Business Investment Corporations (SBICs). Assistance for small businesses from the SBA through licensed, privately owned SBICs can include equity capital, long-term loans; debt-equity investments and management consulting. Contact by writing to Associate Administrator for Investment; U.S. Small Business Administration; 409 Third Street, S.W., Washington, DC 20416; **http://www.sba.gov/INV/**. ■

Beyond Agriculture: New Policies for Rural America Conference

An upcoming conference will bring together the nation's economic experts, rural business and financial leaders, and public officials to discuss rural America's most pressing economic challenges and to explore a new framework for rural policy. The conference is sponsored by the Federal Reserve Bank of Kansas City's Center for the Study of Rural America, and will be held April 27–28, 2000 at the Westin Crown Center Hotel in Kansas City, Missouri.

Registration information for the conference will be mailed in January 2000. To confirm you will receive registration information, please contact Cindy Douglas at (800) 333-1010, extension 2798. For further information regarding the conference program, contact Kristin Mitchell at extension 2478. ■

Someone said...

"Real wealth is the ability to produce more with less—to generate a flow of goods and services without having to sacrifice something else of equal value."

*—**Lester Thurow**, "Building Wealth: The New Rules for Individuals, Companies, and Nations"*
Atlantic Monthly, *June 1999*

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Larry G. Meeker, Vice President and
Director of Community Affairs

John A. Wood
Assistant Vice President and
Community Affairs Officer

Sharon M. Blevins
Editor and
Community Affairs Coordinator

Photographs: Larry Meeker and Sharon Blevins