

Unlocking Success

An Analysis of the Financial Infrastructure of Toledo, Ohio



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A report prepared by GC Community Development in collaboration with Sheehan
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Executive Summary

This analysis is part of a broad examination of the strengths and weaknesses of Toledo, Ohio. For many decades Toledo has suffered declining population, respect and prestige in other parts of the state and county, and a weakening economic and business climate.



This initial analysis begins the process of looking at Toledo through the eyes of those who may wish to make the city home to a business. A critical element needed by any community in appealing to outsiders is community development which includes a strong economic development presence, but also other aspects of community development such as living conditions, quality of life, civic appeal and reputation, education, shopping and leisure activities, resources and assets and governmental services (taxes, regulation, crime, etc). Future analysis will deal with issues, other than business in Toledo.

This analysis does not address the efficacy or efficiencies of various economic development groups serving metro Toledo, it addresses the total economic and financial infrastructure needed to make these groups successful.

Each area of this analysis portrays the most current objective data, select subjective data, the author's opinion and the author's suggested action plan. This is a dynamic analysis and will be constantly updated with fresh data, sometimes corrected data (and resulting action plan) and eventually subjective data from others intimately involved with economic and community development. Updates are highlighted

and the reader should be certain he/she is reviewing the most current data (see contact information).

This analysis is divided into two parts. This first part describes the overall conditions in Toledo. The second section, written as a separate document, will take various types of business and address the findings of this report to each business segment. This will provide an even greater source of strengths and weaknesses in the financial infrastructure of Toledo.

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Introduction

Many times an entrepreneur has an idea, a dream or a business owner has thoughts of expansion into new markets. The excitement of such ventures with all the desires of success can be overpowering. The upside potential seems but dollars away. And for many, this becomes the roadblock to success or even the continuation of the dream. Capital does not always come easy to every venture or every operator.

Successful ventures are ones that not only celebrate the upside potential, but recognize the downside risks and match capital appropriately. The key to the successful business is to have the resources available. The key to any successful economic plan for a city/region is to have providers of these resources. The key to the successful resource providers is to know how to use and nurture successful businesses. I refer to this as the financial infrastructure.





Research Methodology

I first did an inventory of what financial resources are available and how strong they were. I then examined objective and select subjective data to determine how successful Toledo is, through its financial infrastructure, in providing adequate financial resources to business and whether the current structure is not only adequate but highly rated in luring and nurturing successful business.

Finally I looked at the resources that are available to businesses that find themselves in trouble looking for resources to assist them in turning their fortunes around.

The analysis was to determine whether Toledo has the resources to assist a business in every stage and business cycle.

These stages include:

- Venture planning (sometimes called seed stage)
- Start up phase
- Early stage
- Growth and development stages
- Established or expansion stage
- Decline stage (struggling or turnaround)
- Exit stage

The second part of this analysis will apply the inventory of financial resources to the different stages of business to determine the adequacy of Toledo's financial infrastructure. This analysis will be available at a later date, found under separate cover.

Research Criteria

This research focused exclusively on the city of Toledo. At times some of the data alludes to metropolitan Toledo which includes its suburbs, but it is NOT regionally centered and does not include research beyond Lucas County. Some data is centered on Toledo MSA data which will include metro Toledo. Every effort has been made to use Toledo proper data.

This research was done without the assistance or involvement of others so that “finding” these resources would be kin to someone either looking to locate in Toledo and looking for this data, or by someone residing in metro Toledo, who wishes to start, purchase or expand a business. I purposefully tried to see how easy or difficult it was to access the data and find the resources to help solve business needs.

The research is slanted more towards the needs of small to mid sized businesses and start-ups since these businesses appear to have the greatest needs, lack internal staffs to

handle many issues addressed and ultimately create the greatest employment opportunities in the metro area. This research looked at the following categories:

Primary Capital Providers - Debt

- Banking
- Nonbank lending

Secondary Capital Providers – Debt

- Community lending
- Micro lending
- Boutique

Primary Capital Providers – Equity

- Public Capital
- Private Capital

Secondary Capital Providers – Equity

- Community Equity

Participation in State and Federal Programs

Professional support

Business Development and Assistance.

Sources of Data

I used every available resource to uncover the data to come to proper analysis and reasonable conclusions. Information sources included local data in both Toledo and various comparison regions. State and regional data and national data (especially data supplied by The U.S. Census Bureau) and data from various banking regulation agencies were used. A list of data sources is included.


Primary Capital Providers - Debt Sources

Banking

Toledo has a wealth of commercial banks and credit unions. With the exception of the credit unions, none are locally owned or controlled. This is thanks to the national banking laws enacted first in the 80's followed in the early and late 90's allowing banks to move geographically across state lines, then permitting consolidation of banks into the holding companies and finally removing some of the restrictions imposed by Glass-Steagall.



While many of these changes in the law have benefited the banks, it is still a question as to whether the clients and communities served by the larger banks have benefited.



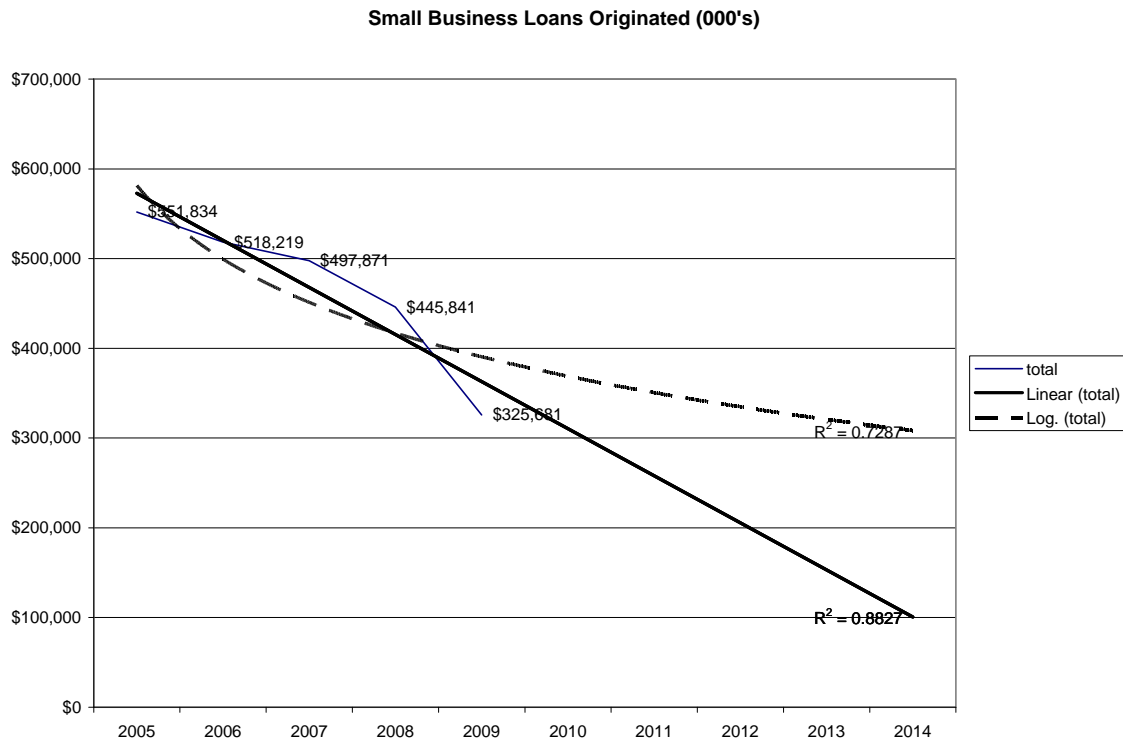
Three decades ago Toledo had a number of locally owned and locally controlled banks including Toledo Trust (now Key Bank), First National Bank (now Fifth Third Bank), Sky Bank (Bowling Green based with a strong Toledo presence - now Huntington Bank) and Ohio Citizens Bank (now PNC Bank). Does this make a difference in the local economy? Maybe, or maybe not; the data is not yet conclusive. One thing is known, decisions on bank philosophy, credit policy and direction are not made in Toledo, but in Cleveland, Cincinnati, Columbus, Pittsburgh, Akron and Providence.

What has happened nationally that has impacted Toledo and, for most part all the nation, are the changes in how banking is done, especially in commercial and business banking – the focus of this report. Where community controlled banks favored the relationship aspect with a much more personal style of lending, the new patterns reflects more of a transactional pattern, relying less on personal assessment and decision making.

Credit analysis and decision making at banks nationally and locally has changed radically, as consolidation of credit underwriting has been made along with the methods of credit decision making and documentation. Understanding and adapting to these changes are paramount to the business borrower. There is no certainty or evidence that these adjustments have been understood and adapted to by local business borrowers.

So how are our banks doing? Since each bank in Toledo is a branch of a holding company, reporting is not necessary in detail at the local level. Therefore obtaining commercial loan totals for Toledo banks is not possible, but researching Community Reinvestment Act (CRA) reports does reveal some trends – at least for small business lending. Furthermore the FDIC reports of deposits, like CRA reports, are by county – so all information is based on Lucas County data (versus Toledo specific). Deposit data reflects commercial as well as consumer deposits. Any added data detail will need to come directly from each local bank.

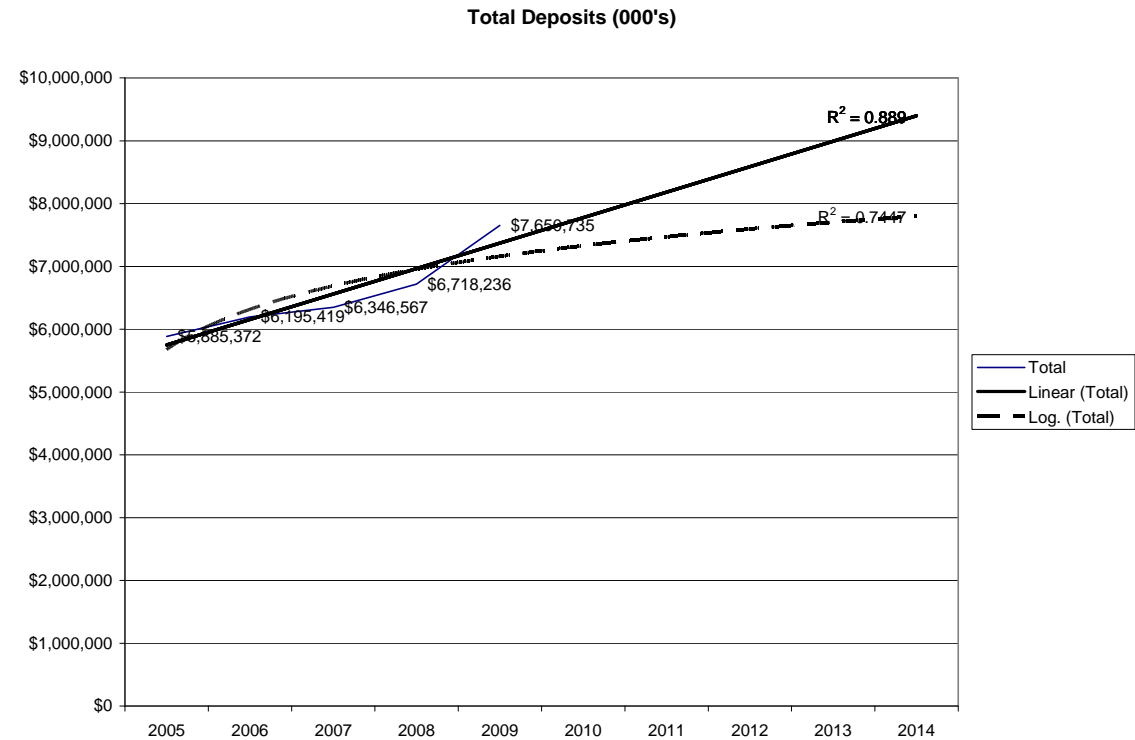
Details of small business lending and deposit trends for 2005-2009 are as follows:



Source: Federal Financial Institutions Examination Council – Community Reinvestment Act reports (2005 to 2009), Lucas County.

Analysis: Using five year data, I have added two different trend lines to determine the future trends. The r-square value (also known as the coefficient of determination – a statistical calculation) determines whether the trend line is a “good” indicator of the future. An r-squared value closer to 1 indicates the trend line is considered a good indicator of the future.

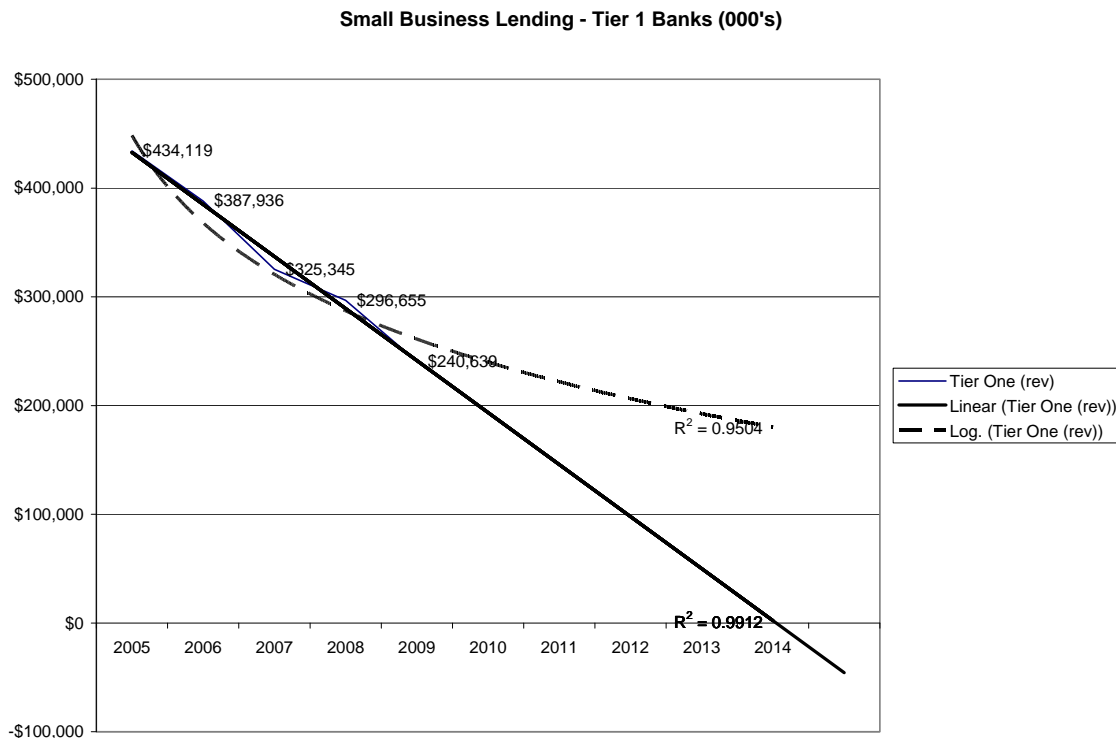
Conclusions: These r-squared values are significantly less than 1 and are not the best indicator of the exact future trend. While these are not good trends of the future, the lines are a good indicators of the past – that is small business loans have declined 41% over these five years.



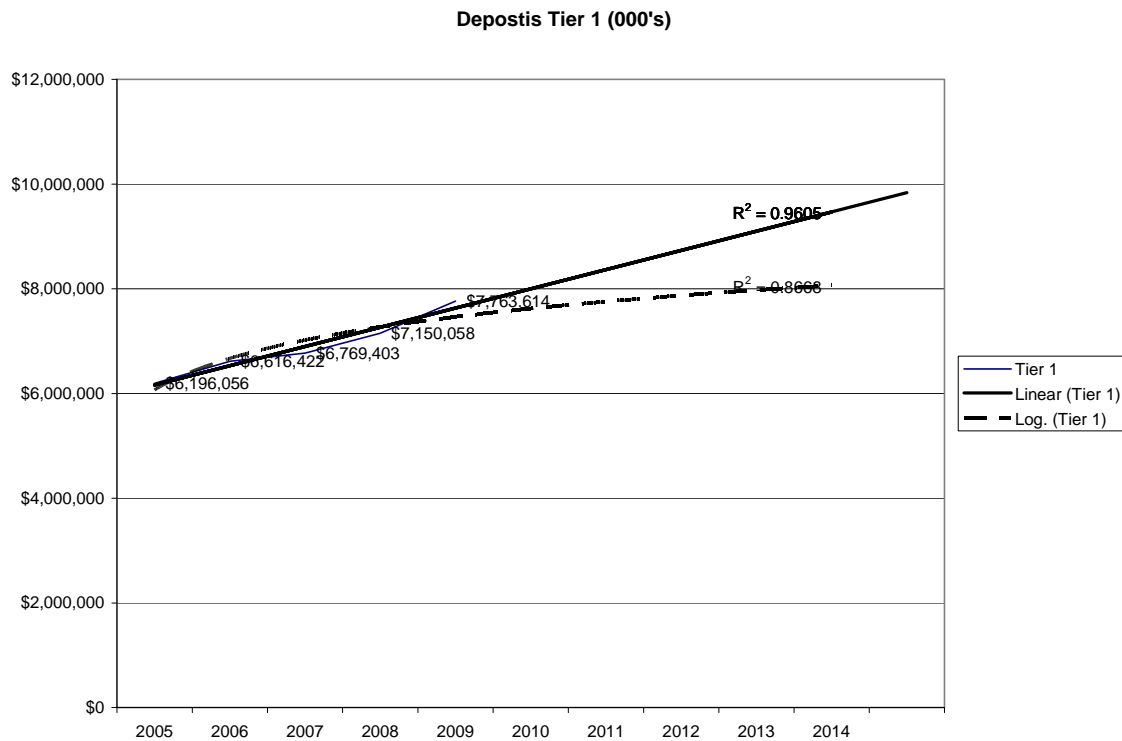
Source: FDIC (2005 to 2009) – Lucas County

Analysis: Like the previous graph the future trend line is not a very good fit, but the overall trend is evident and deposits continue to grow in Lucas County.

Looking to the trends of the Tier 1 banks (author title), that is the largest banks in terms of deposits and loans, the trend are nearly the same. Lending to small businesses declined 44% over five years. The Tier 1 banks used in this analysis are: Fifth Third Bank, Huntington/Sky Bank, Key Bank, and PNC/National City Bank.



Source: Federal Financial Institutions Examination Council – Community Reinvestment Act reports (2005 to 2009), Lucas County.




Source: FDIC (2005 to 2009) – Lucas County

Analysis: The trend lines for the Tier 1 banks both in terms of small business loans and deposits, unlike the totals, is quite accurate (r-squared values closer to 1) and does not point to a positive trend for Toledo. These graphs, while indicating a trend do not answer the question – why. There is not sufficient objective data to conclude that these banks are choosing NOT to lend in Toledo.

Key Finding: Small business lending in metro Toledo is declining and had been trending downward to several years- and is forecasted at this time to continue this trend downward.

Analysis: Only reviewing these graphs and related data, one could inaccurately conclude that the banks are increasing deposits and not lending (i.e. blame the bankers and their out of town management team for the lack of adequate lending). But there is not enough objective data to make this an accurate conclusion. This is not to say this is not the reason, there is just no data to substantiate this conclusion. Furthermore larger corporate and specialty



lending areas cannot be measured. Therefore total business lending in the Toledo market is not measurable.

If it were not an effort on the part of local or “out of town” management to reduce lending in Toledo, then the reasons can be found elsewhere – and are likely. Specifically the reasons for banks not to lend could be one of the following:

- There are not enough good qualified borrowers.
- The credit strength of those who wish to borrow is weak.
- The risk is too high for the lender to assume
- The returns on loans do not match the risks

There may be other reasons, and I suspect one to be added is that holding company management may look upon Toledo as a relatively weak market compared to others and is certainly not growing in a way to increase capital. In short, the increasing deposit levels create excess liquidity that a holding company’s other divisions can deploy in other markets more effectively and profitably.

As of this writing, the detailed lending activities of SBA and state supported bank lending programs were not completed. Some subjective sources indicated SBA activity, especially the 7a program, was up in the Toledo but this needs to be verified. Many of the larger bank holding companies with branches in Toledo are ranked high in terms of total SBA lending.

Lacking objective data at this time, I have had discussion with a few select bankers who have indicated there are reasons for this decline. These are the subjective data sources. These bankers concurred in varying degrees that all the issues listed above are the reasons for the decline in small business lending.

Conclusion: The bottom line is that lending in Toledo is declining and this is a critical issue for the community. The prime source of capital for most small businesses is the commercial bank. Without a lending source most businesses will not survive.

Opinion: Ideally, Toledo could and should be the home of at least one independent bank. There are a handful of independent banks in suburban

Toledo, but none in the city itself. Other major cities in Ohio (Cincinnati, Cleveland, Columbus) have at least one independent bank. A city the size and scope of Toledo needs an independent bank, but without the current support for such an entity, this is neither probable, nor likely desirable when examining the loan and deposit information above.

Action:

- Create sources of good stable credit worthy borrowers.
- Reduce credit risk to lenders
- Enhance credit standing of existing borrowers
- Improved communications with bankers to adapt to changing environments and customers.



Non-Bank Lending Sources


There are a number of businesses that either do not “fit” the traditional lending model or are such high risk that bank lending is not possible. For these businesses, non-bank sources of lending are needed to maintain liquidity to these enterprises. Non-bank lending includes finance companies, factoring companies, and specialty leasing companies.



A finance company is essentially an asset based lender versus a cash flow and character lender symbolic of a commercial bank. While a traditional bank will be very interested in collateral, it is a secondary source of repayment. Finance companies, on the other hand, rely heavily on collateral as the basis for lending. They are interested in cash flow and profitability only to the extent that each could impact whether closing a relationship is needed and collateral liquidated.

Asset monitoring is critical and fees and interest rates are considerably higher than commercial banks – in most cases 3 to 7 points above prime. Finance companies, while needing to be highly capitalized, rely on bank credit lines or lines from national credit companies or insurance companies to maintain liquidity. These relationships are highly scrutinized and monitored for compliance as loan losses can weigh heavily on future credit line renewals with lenders.

Factoring companies are in the accounts receivable business. For a discount, they purchase the accounts of a business to provide liquidity to the business. For some, this is the only source of cash. While started in the garment district in New York, factoring has spread nationwide and is generally considered an acceptable form of financing. This is a very expensive form of borrowing and businesses using these sources need very high profit margins.



Specialty leasing companies work to own/finance the fixed assets of a business freeing up cash resources needed for working capital funding. These leasing firms are well versed in asset values and either directly have auction capabilities or are closely related to an auction source. Rates and terms depend on the type of asset and its marketability to others. These firms greatly assist companies needing large or complex equipment with high cost and limited liquidity. Returns on investments are related to risk.

Key Finding: In Toledo, there are no finance companies and the banks do not have local asset based lenders (that is, those who are not in special assets or workout departments). While Toledo has some private factoring companies made up of individuals doing deals quietly and many times for business colleagues, I found only one publicly proclaimed factoring company – Northwest Capital, LLC. There are no known specialty leasing companies in Toledo.

Conclusion: Why is it important for Toledo to have such firms? Many startup firms do not qualify for bank loans due to lack of historical data and higher risks – risks too high for traditional lenders. These firms may have quality assets that would fit the business models of these non-banking firms.

The other critical need is when a business falls out of favor with its lender – likely due to financial struggles. Without a secondary source of lending that the banker could refer the business to, foreclosure and liquidation are the only options. None of these options are good for Toledo.

Action:

- One or two finance companies need to be created.
- One to three added factoring companies need to be created especially those with specialization
- At least one specialty leasing company needs to be created.

Secondary Capital Providers - Debt Sources

This segment analyzes Toledo's availability of lenders secondary to banks and credit unions.

Community Lending Programs

A key component to any economic development program is the availability of non-banking funding provided by the community. These lending programs help reduce financial risk to bankers as well as potential investors. More importantly it signals a city or region's commitment to enterprises wishing to move to expand within its borders.



Key Finding: I have researched what is currently offered by Toledo and Lucas County and made comparisons to other cities in Ohio as well as a few select communities outside of Ohio. These comparisons do not include state related or bond programs such as those offered through the Port Authority (although certain SBA and state programs will be addressed under the state and federal program heading). The comparisons are as follows:

Toledo

- Enterprise Development Loan - \$5,000 to \$50,000, 7 years, 4% interest rate, job creation requirements
- Neighborhood Economic Development Loan - \$3,000 to \$20,000, up to 5 years, blended interest rate

Columbus

- Business Development Fund – up to \$200,000 for machinery, equipment and real estate.
- Working Capital Loan Fund – up to \$100,000 per year up to five years.
- Neighborhood Commercial Revitalization Fund – up to \$200,000 for fixed assets
- Neighborhood Commercial Revitalization Investment Fund – up to \$25,000 for exterior renovation
- Neighborhood Commercial Revitalization Renovation Fund – up to \$7,500 for exterior renovation.
- Green Switch Loan Fund – up to \$200,000 for gap financing of energy efficient construction/renovation projects
- Micro loan program - \$500 to \$100,000 (SBA program) administered by The Economic and Community Development Institute
- Community Development Financing – amounts vary, administered by Columbus Compact Corporation (a Community Development Financial Institution)

Cleveland

- Working Capital Loan Program – up to \$200,000, 42 month repayment, 4.25% fixed interest rate
- Economic Development Loan - \$35,000 to \$500,000, 5-15 years, 4% interest.
- Storefront Renovation – up to \$25,000
- Retail Assistance Program – grants and loans up to \$40,000
- Vacant Property Initiative – up to \$720,000, varying interest rates, 25 year term.
- Grow Cuyahoga County Fund – \$100,000 to \$1 million loans, prime minus 2% to prime plus 2% interest rate, 25 year amortization.

Cincinnati

- Grow Cincinnati Fund - \$50,000 to \$250,000 for working capital, equipment, real estate. Interest rates and amortization varies
- MicroCity Loan Fund – up to \$35,000 up to 7 years with interest fixed at prime.
- CDBG Float Loan – up to \$35,000, job creation requirements, interest rates vary
- HUD Section 108 Guaranty – job creation for every \$35,000.



Dayton

- CityWide Direct Loan Program – up to \$200,000 for real estate, renovation, equipment, working capital. Below market rates. Term 3-10 years.
- Neighborhood Business Assistance - \$2,500 to \$50,000. 5% fixed interest rate, 3-10 year amortization.
- Enterprise Ohio Investment Co. - \$50,000 to \$150,000 loan/direct investment including start-ups. Interest rate varies with terms of 5-15 years.

Other cities outside Ohio were analyzed, but are not included here and may be added in a later update.

Conclusion: When comparing the City of Toledo’s community lending programs to those cities listed above, the only word that comes to mind is “dismal”. This is likely one of the most serious weaknesses in Toledo’s economic development arsenal – and a very useful tool when attracting, retaining or growing a business.

Community lending programs are many times used as the next level of funding after pre-seed and seed funding provided by venture capitalists and angel investors. Without these sources there is a void in the next level of funding and financing.

This area alone may be the prime reason for reduced bank lending to small business. To date economic development specialists and bankers agree this is a serious flaw that needs correcting immediately

Micro lending

Micro lending is making loans to very small or even small start up businesses. Loans under this program can be as little as \$1,500 and generally do not exceed \$30,000. Many of these loans are provided to enhance community objectives that do not always “fit” the traditional lending methods by other lenders.



Key Finding: According to the Cleveland SBA office, Toledo has no certified micro loan originators. I could not find any formal micro-lenders as defined above.

UPDATE: Based upon recent conversation with the head of an economic development concern, there are plans underway to create a micro-lender although no time table was provided,

Boutique Lending

Boutique lenders are either very specialized or unique. Examples of these types of lenders are person to person lenders like Prosper, Lending Club, On Deck Capital and Virgin Money (formerly CircleLending).

Toledo has no such style boutique lenders. Demand would need to be measured before any local development of such an entity although use of current national firms is an alternative.

Action

- Develop a new entity to create and manage a community lending and investment program.
- Develop micro loan program.
- Encourage boutique style lenders based on need.

Primary Capital Providers - Equity Sources

Since many small and mid-sized businesses rely on debt to run their businesses, the debt issues were the first focus of this analysis. The need for equity is secondary; but it is only secondary to many entrepreneurs because the source seems so unattainable, is not available following start up and appears to be very costly. Correctly used though, this can be an even better, and less costly, source of capital for the business owner and likely creates a liquidity source for the owner. This section will be broken into public and private sources.



Public Capital

Many communities have public and/or semi-public funds to invest directly in business. A number of the community funds listed in the Community Lending Programs have an investment component. There are a number of private and public business incubators that also have investing capabilities. Finally, there is a growing trend to forming community funding and investing entities, either direct investment or cooperatives.

Key Findings: Toledo has no agency, public or semi-public, that invests in Toledo enterprises, unlike many funds listed in the cities under the debt section. This area should not be confused with venture capital, discussed under the Private Capital heading.

Private placements, as defined by the SEC, have been used in a variety of ways throughout Toledo and Northwest Ohio although there is very limited data on such transactions since detailed public filings are not required. Lacking in this region, and for that matter, throughout much of Ohio, are public offerings through the Intrastate Offering section of SEC law. Under this section, public stock can be offered without extensive costs since no SEC filings are required although filing and approval of offering circulars as well as full disclosures are required at the state level. Public disclosures similar to other publicly traded companies is required.

Key finding: Toledo's presence in Public Capital is virtually non-existent. Considerable investment opportunities via retirement funds, IRA's and personal accounts go untapped. Even more problematic is the lack of funding from pension funds, especially the public pension funds. As dollars for police, fire, teachers and other government workers go to Columbus, it appears very little comes back to Toledo to enhance the business climate.

Action

- Establish a community investment organization to use private and public dollars for small and mid-sized projects.
- Encourage businesses, especially start up and early phase enterprises, to offer public stock under the intrastate offering guidelines.

Private Capital

This section will focus on venture capital, angel investing and private placement equity and debt.

Venture Capital and Angel Investors

Venture capital, a form of equity for a company, involves an entrepreneur giving up some level of ownership and/or control in exchange for the investment. Most venture capital investments come from venture capital firms managed by a fund manager with investors providing the cash resources. Venture capitalists usually have a defined time frame for the investment with a predefined exit strategy that may be a stock offering, sale of the business, merger or other. Returns on investment come primarily from the appreciation of the entrepreneur's capital. Returns on investment are usually high with a minimum rate of return of 20%.

Funding options include pre-seed funding (funds used to prove that an invention or concept will work), seed funding, start up funding, early stage funding, second or later stage funding, third or mezzanine funding and bridge funding.

Angel investors can be wealthy individuals or groups of individuals that invest in early stage companies with higher than expected returns matching financial and investment risk. Angel investors are usually those not directly known to the entrepreneur unlike investments made in a venture by family and friends with a less structured investment strategy and more important – no exit strategy. Rates of return for angel investors have a wider range than those of venture capitalists, with higher returns and more structured investment and exit strategies in organized angel investor groups.

Key Finding: Toledo (and Northwest Ohio) has very limited numbers of venture capital and angel investor groups. According to the Ohio Venture Capital Report (2007-2009) issued by the Center for Entrepreneurship, Fisher College of Business at The Ohio State University, Toledo had 2 such organizations - Rocket Ventures (venture capital) and CoreNetworks (angel investors).

In comparison the rest of the state has the following:

Northeast (Cleveland area)	31 firms
Southwest (Cincinnati area)	14 firms
Central (Columbus area)	11 firms
West Central (Dayton area)	6 firms
Southeast (Athens area)	6 firms
Northwest (Toledo area)	2 firms

Source: 2009 Ohio Venture Capital Report, Fisher College of Business, Ohio State University

Of the total investment of \$760 million made by these venture capital/angel companies in Ohio in 2008 and 2009, Toledo accounted for just 9%.

Recently an out of state venture firm, Plymouth Management Company, opened an office in Toledo, so the number of total firms has risen to 3.

Small Business Investment Companies

Another popular method of equity funding for entrepreneurs is a Small Business Investment Company. A Small Business Investment Company or SBIC is a public/private method of equity investment and is offered through the Small Business Administration. The SBIC rules allow the use of private capital and SBA backed publicly issued debentures (typically two to three times the capital base) to create an equity pool for investment. The minimum capital base is \$5 million. This method leverages the private capital and allows for another tool to attract and retain business.

Key Finding: In 2010 SBIC's invested \$2 billion in 1,331 small companies creating or retaining 46,120 jobs. Toledo has no SBIC.

Ohio SBIC's are located as follows:

Columbus	5
Cleveland	4
Cincinnati	4
Dayton	1

Source: SBA

Conclusion and Opinion: Like community lending, Toledo is sorely lacking in investment capital sources. I suspect Toledo is not taken very seriously in terms of venture or angel capital with one exception – solar and green energy related concerns where we have developed quite a niche and have had success. Is it enough? Compared to other competing cities in Ohio, and likely the rest of the Midwest and county – likely not.

Action:

- Within five years and hopefully less, attract or develop new venture capital funds and/or companies with investment funds totaling \$20 - \$25 million.
- Organize new angel investor groups targeting specific industries
- Develop venture capital and angel groups targeting women businesses
- Develop venture capital and angel groups targeting minority and disadvantage groups
- With one year establish a Small Business Investment Company

Secondary Capital Providers - Equity Sources

Community Equity

A much underused method of financing (and a method growing in popularity) is community owned companies. Many of these operations have been successfully used to revitalize downtowns areas and areas where commerce has declined or ended altogether. For most, a community owned business must follow the same guidelines as intrastate stock offerings with full disclosure. The benefit is spreading the financial risk and making more individuals aware of the business, its needs and the need for support.

Like community owned business, the community cooperative is another method of community financing. This style is more complicated in managing since it invites a more democratic approach to management versus the tradition company – i.e. everyone believes they have a voice in the company and its decisions. Yet it also invites total financial commitment to the operation, ensuring a level of financial security key to business success.

Thirdly there are investment funds where individuals wish to have an ownership in, but have no interest in running or managing the business – i.e. the silent partner. The investor relies on others to make prudent decisions knowing the loss of capital is to be avoided.

Key Finding: I could not find any local community owned companies, community investment funds or cooperatives in Toledo.

Conclusion: It is apparent this segment of financing and ownership is completely lacking in Toledo. Recent conversations with individuals and other leaders indicated that Toledoans would like to own some of Toledo businesses, but not run them. This segment is the methodology of accomplishing this goal.

Action

- Create the template for community ownership for a variety of businesses starting with downtown businesses usually accompanying tax credits.
- With this template, use these sources to “save” certain properties or business deemed valuable to Toledo – economically and culturally.



Participation in State and Federal Programs

Federal Programs

In this segment the use of various programs offered by state and federal governmental units is reviewed. The segments reviewed are lending support programs, grants and key economic development offerings.

Lending support at the federal level involves primarily the Small Business Administration and its program. Key in this segment are the 7a guaranty and the 504 programs. Details on each of these can be found on the SBA web site. Lending support at the state level involves primarily the 166 program.

Key Finding: Published reports have indicated that Toledo does fairly well in SBA 7a loans although detailed data has not been examined for year after year trends. Most banks in the city have dedicated SBA staff to handle such matters. The Port Authority, a certified development company with the SBA, handles the 504 loan program. Like the SBA 7a program, details of lending patterns are not available at this time, but it appears the Port Authority does well with this program. This is likewise the case for the State of Ohio 166 lending program. Added research on lending levels within each of these segments is needed.



Grants provided in Toledo are very difficult to measure at both the state and federal levels. In future years it will be critical for Toledo to begin to measure these statistics to determine the source and level of grants over time and respond accordingly. While there is not clear objective data, it appears there is little or no collaboration amongst applicants. There is, at times, collaboration among entities when a specific project goal is determined.

Key Finding: Within the City of Toledo there are three Certified Community Development Financial Institutions (CCDF), all serving housing based needs – none having community or economic development agendas. A CCDF is a federal program through the Department of the Treasury that funds economic, housing assistance, community development financial services and loans to members of an underserved community. CCDF’s are eligible to participate in the \$200 million fund to fuel the funding for needs in low income U.S. communities.

Key Finding: Total federal funding. In terms of total federal funding coming from Washington in all forms to Ohio, the data is as follows:

Total federal funding in 2009 <i>(1)</i> :	
Franklin County (Columbus)	<i>\$18.5 billion</i>
Cuyahoga County (Cleveland)	<i>\$15.1 billion</i>
Hamilton County (Cincinnati)	<i>\$11.2 billion</i>
Montgomery County (Dayton)	<i>\$ 6.2 billion</i>
Lucas County (Toledo)*	<i>\$ 4.5 billion</i>

*Toledo portion - \$655 million

Source: Consolidated Federal Funds Report for Fiscal 2009 issued Aug. 2010. United States Census Bureau.

(1) Previous report reflected data regarding grant - this has been replaced with total federal dollars from all departments.

State Programs

A sample of a few select sources of state grants and funding are as follows:

Total Ohio Third Frontier Awards (as of July 2010)

Cleveland	\$372 million
Columbus	\$263 million
Dayton	\$138 million
Cincinnati	\$105 million
Akron	\$86 million
Toledo	\$82 million

2009 awards totaled \$131 million (Toledo \$3 million)

2010 awards totaled \$94 million (Toledo \$2 million)

Source: Ohio Department of Development, Ohio Third Frontier

Ohio Capital Fund, known as the fund of funds, was created to increase the amount of private investment capital to seed and early stage Ohio based businesses. This fund invested approximately ***\$125 million (of the total \$140 million available)**** in these venture funds. Venture funds receiving investment (by geographic location):

Cleveland	10
Cincinnati	3
Columbus	3
Southeast OH	1
Outside OH	4
Toledo	0

Source: Ohio Capital Fund

*** corrected since first report issued**

Conclusion: Toledo is not getting its “fair share” of federal and state dollars. Part of this may be the strength and size of other competing communities in Ohio and part of this may be due to lack of leadership regarding these matters in Toledo. It cannot be determined what has been “lost”, but Toledo could have certainly done better in receipt of federal and state dollars.

Action: The community needs to have a much better effort in knowledge of available funding and coordination in securing such funding. The dollars will not be “thrown at us”, we need to go out and get them as other cities in Ohio have – in some cases at Toledo’s expense.

Business Support

Consulting and Advisory Services


In addition to funding needs, successful businesses need business support services, most notably advisory services in finance, accounting, marketing, legal, insurance and risk and personnel issues. Most large cities have sufficient numbers of generalist in each field, but the numbers of specialists available for each stage of a business marks whether a community is truly business friendly and/or entrepreneurial savvy.



level of expertise.

Business managers will also measure a community by its entrepreneurial assistance and education. Here the "venturist" will look at business incubators, resources at institutions of higher education and business support services/resources and the ease of use of these services as well as their accessibility and

Key Findings: Toledo does reasonably well in providing general advisory services. The Small Business Development Center (SBDC) supported by the SBA provides a variety of business services for start up and existing businesses.



There is a very active local SCORE (Service Corp. of Retired Executives) chapter in Toledo. ASSETS Toledo, a local nonprofit corporation provides training and mentoring as well as micro-lending to its graduates. The extent of each provider's services and the success of each have not been measured at this time.

The lead economic development organization, the Regional Growth Partnership, offers advice to clients, but this is not its primary function and while offering significant business support, it is not in the format of broad advisory type services (like SCORE, SBDC or private providers) and therefore not analyzed under this heading as such. RPG, through its Rocket Ventures and Launch programs does provide guidance and management support to their specific client base.

The University of Toledo provides advisory services to technology companies through its Center for Technological Entrepreneurship and Innovation. Details of this program are not available at this time.

Analysis: Like many communities of its size Toledo has a number and variety of accountants, insurance providers and lawyers providing general business services. There are also legal experts in patent and trademarks, private equity and labor relations. Where there appears to be significant weakness are in the areas of finance, public equity preparation and placement and turnaround management. Specialized marketing services including social media support, sales management, operations management and supply chain management have not been measured as of this writing.

Public based support includes The City of Toledo's Department of Development, Lucas County Improvement Corp. and the Toledo Regional Chamber of Commerce.

The City of Toledo's Department of Development is led by a commissioner and four staff personnel. They are responsible for development activities

related to site selection, tax abatements, facade grants, and the lending programs noted in the community lending section of this report.


The Lucas County Improvement Corp. (LCIC) is the economic development arm of Lucas County. While it is a private non-profit corporation, a substantial amount of its funding comes from federal block grants from municipalities, most notably the City of Toledo, and from Lucas County itself. LCIC is a support organization for other economic development institutions serving Lucas County. It appears from information on its website to be an information gathering and sharing organization as well as a marketing organization for Lucas County.

The Toledo Regional Chamber of Commerce supports businesses activity and business advocacy in Northwest Ohio. The Chamber is very active in the community, not only housing the Small Business Development Center (previously noted), but offering a number of seminars and speakers for all business activities including, but not limited to, business start ups, personnel issues, taxation and regulation matters, finance, marketing, legal issues and governmental issues related to regional business. The also support business through two other organizations – Toledo Area Small Business Association (TASBA) and Engaging People Inspiring Change (EPIC).

So what happens if something goes wrong? How does Toledo react to a business that falls into financial or some other type of economic distress? This is a significant weakness in the advisory services provided in the metro area. Turnaround management is an expertise not found often in small cities, but is present in many larges and mid sized cities. I found Toledo has limited or

none of these types of businesses (note: author currently owns and manages a turnaround company in Toledo). Without this turnaround structure in place, without the communication among stakeholders agreed to and in place, results can be disastrous for the business and ultimately the community. This has





been evident by a number of business closings, bank foreclosures, or businesses being purchased and subsequently relocated outside of metro Toledo.

Conclusion: Toledo has a good level of generalist when involving business consulting. For the most part this is successful for existing businesses, especially smaller businesses, and local start-ups, but it is not what is needed to attract the true entrepreneur and business builder. It appears all public support organizations referred visitors to their web sites to the local publicly supported advisor groups that in most cases are at no cost to the client. It is not always the cost though, that determines who is best.

Finally, the ability to secure clients through the traditional public and even private organizations for private practitioners is not available and therefore the market place for specialists in Toledo is not only weak, but relatively unattractive when considering other cities in and outside of Ohio (note: the author, a specialist in banking, finance and management is one such private practitioner).

Analysis: The market place for business advisory services must be changed to also include the specialist demanded of entrepreneurs. In a 2011 Ernst and Young report on entrepreneurship, the challenges facing entrepreneurs were financial (funding) and then finding and using key advisors to help them move their business forward. A strong business support presence is critical to business and to the future the Toledo economy.

Action:

- Determine levels of expertise for existing advisory groups so that referrals more closely match the needs of the client.
- Develop a formal retentions program that crosses some of the traditional boundaries between business, financier, lender and community.


Business Development and Assistance

Local Sources

Toledo has a number of entities dedicated to business development and assistance. Some have already been mentioned earlier, while other will be noted in the sections to follow. In totality the organizations looked to for the metro Toledo area for business development are as follows:

- The Regional Growth Partnership
- The Toledo-Lucas County Port Authority
- The City of Toledo Department of Development
- Lucas County Improvement Corp.
- Toledo Regional Chamber of Commerce
 - Toledo Area Small Business Association (TASBA)
 - Engaging People Inspiring Change (EPIC)
 - Small Business Development Center (SBDC)
- Service Corp of Retired Executives (SCORE)
- University of Toledo Incubator Program
- Rocket Ventures
- CoreNetwork
- Art Commission of Greater Toledo (artistic development)
- PRIZM Creative Community (artistic development)

Key Findings: Many of the “true” economic development organizations are heavily weighted towards high tech businesses. There is little or no focus on non-high tech business from these organizations. This is likely due to funding restrictions and business philosophy. Some of the organizations listed above do assist non- high tech businesses, albeit less formally and without significant funding sources. These are SBDC, SCORE, and the Chamber of Commerce and its related entities.




The funding sources for high tech businesses were also restricted, seemingly missing the funding and financing sources for latter stage development and acceleration mode.

Analysis: A visit to each of the main economic development organizations' web sites found significant weaknesses; not for all, but for many. Many of the web sites were not user friendly, had outdated information and copyrights, lacked current data (incomplete or lacking sufficient detail), did not provide sufficient information before requiring a telephone call to the organizations, had broken links or non working links, and in many cases created a “link loop” – that is a user was sent to another web site from the original web site, and then sent back to the original web site creating a loop without solving the client need.

Conclusion: In Toledo there is no one place for business knowledge – i.e. a knowledge data base. This is sometimes referred to a “one stop center” and can be a physical location or created in cyberspace. This conclusion is based on word of mouth, local news reports from entrepreneurs and local providers as well as publicly stated by economic development leaders at a recent Economic Development Forum.

The institutions of higher education have done a significant job in creating opportunities for business. These are The University of Toledo, Lourdes University and Owens Community College. Each has degreed programs that will help students achieve the knowledge based for entering into business or enhancing current business knowledge.

The University of Toledo has created enhanced programs for research and business development through its many Centers and Institutes (examples: The Executive Center for Global Competitiveness and The Center for Family and Privately Held Business) as well as its incubators (see Incubator section).



Lourdes University has expanded its academic offerings in business although it does not have outreach programs like University of Toledo.

Owens Community College not only provides degreed programs in business, but also provides a number of hands on offerings allowing the student to be better prepared for the entrepreneurial life. Owens appears to be expanding their offerings to meet greater demand for this hands on education and training.

Aside from academic programming for degrees, there appears to be very little overlap among these institutions allowing the student or seasoned business person adequate levels of service based on need.

Conclusion: Leadership and levels of expertise within each economic development organizations' staff was not analyzed; simply the availability of resources. In certain areas there is overlap, while in other areas this is a lack of basic resources. The main issue noted by the public, the business community and even members of these organizations was a lack of integration and formal cooperation among them. The cry for a one stop business center for both businesses is loud and clear.

Action:

- Develop a one stop business center that is tied in electronically and managerially with each organization.
- Develop a knowledge base of resources in metro Toledo for each business and artist group
- Improve web sites and information gathering criteria so future improvements to each organization can be made to better serve the client and prospect.
- Develop a data base of key local providers of various business services as well as professionals (especially those that specialize).
- Develop a business “think tank” for all citizens to exchange ideas and opportunities (currently there is a Linked In Toledo group that performs this, but a broader system is needed).

Incubators

Business incubators have been around for over 50 years. The purpose of incubators is to nurture companies in development and start up phases until they are self sufficient. Study after study reveals the reasons for business failures are caused by lack of funding and management error. These failures are usually concentrated in the first five years of a business' life. Incubators are set to aid a business in its critical needs and help an entrepreneur stand the best chance of avoiding “fatal” mistakes.

A recent study noted that incubators create new jobs at low public subsidy costs and provide a substantial return on investment. Incubator companies also had healthier sales growth and offered employee benefits compared to other non-incubator companies. Incubator programs expand community entrepreneurial resources and improve a local community's image. A 2008 Grant Thornton study revealed for every \$10,000 invested by the Economic Development Administration, 47 to 69 local jobs were created – providing up to 20 times the number of jobs compared to basic community infrastructure projects.

In Ohio many incubators found their start with funds from federal and state grants. When Ohio introduced its Thomas Edison Programs which focused on developing high tech companies, many incubators serving both high tech and non-high tech (or generalist) companies shifted their focus to high tech. This emphasis on high tech start ups continued with the introduction of The Third Frontier program that invested dollars in high tech start-ups in pre-seed and early stage funding. The generalist incubators lost funding at the state level and find increasing difficulties even at the federal level.

Analysis: While it is widely accepted that high tech firms create high paying wages, attract high caliber talent and are far more attractive to investors (creating higher rates of return), the need for assisting other forms of business has not diminished, only the resources have seemingly diminished. The need for funding of non-high tech incubators is critical since many of these business

owners need as much, if not more, management assistance and funding to achieve success. And it is these types of businesses that improve the living and working environment of their community providing a setting where high tech businesses that come out of their respective incubators will find attractive to make a permanent home.

Key Findings: According to the National Business Incubator Association, Ohio has 23 incubators, 5 of which are in Northwest Ohio. This statistic is very good for NW Ohio. Specifically, four of the incubators are located in Toledo and are managed by the University of Toledo. Three of these incubators focus on attracting and developing high tech firms

The breakdown of Ohio incubator is as follows:


Northeast Ohio (Cleveland)	9
Northwest Ohio (Toledo)	5
Southeast Ohio	3
South Central Ohio (Dayton)	3
Central Ohio (Columbus)	2
Southwest Ohio (Cincinnati)	1

Source: National Business Incubation Association

As of this writing I have not been able to find any arts incubators in Ohio.

Conclusions: Toledo serves the needs of high tech ventures and minority ventures very well. The success and capabilities of these incubators has not been analyzed – only the availability and perceived success of each. One of the glaring weaknesses of the Toledo incubators is that they do not have formal exit strategies for their clients – this according to their web sites.

Toledo does not have an incubator for general business ventures (non-high tech) and no arts incubator. In fact, with the exception of the SBDC and SCORE, Toledo does not have a defined plan for small businesses and the



related needs of these businesses for management assistance, financing and growth (the keys to success defined by all national and international studies).

Action:


- Create a new non-high tech business incubator.
- Create an arts incubator
- Create specialized education programs to add to the current opportunities provided by our higher education institutions as well as business related entities such as The Chamber of Commerce.

Summary Analysis

Toledo is suffering from a very weak financial infrastructure. Not only is there a definite lack of fundamental financial tools for entrepreneurs, there does not appear to be a cohesive relationship among all involved in economic development. This must change for Toledo to not only survive, but to return to prosperity.

Without significant and substantial changes to Toledo's financial infrastructure, the economy and business conditions will not fully achieve success and it may lead to further decline. The tools described in this report will allow economic development specialists to truly market Toledo as a COMPLETE city for business success. Creating conditions as these will be quite difficult for the entrepreneur as well as a seasoned business person not to take notice.

For these plans to reach fulfillment there will be a significant investment of time and dollars required to be put towards the various action plans. Unless Toledoans decide to put "skin in the game", no one else, including the federal and state government will either. Furthermore the federal grants and awards receiving the best chance of approval are those that demonstrate this civic cooperation and local investment.



The follow up report will detail how the current “inventory” of financial tools affects various type of business. In the meantime, the compilation of “Action” plans noted throughout this report is as follows:

Action:

- Create sources of good stable credit worthy borrowers.
- Reduce credit risk to lenders
- Enhance credit standing of existing borrowers
- Improved communications with bankers to adapt to changing environments and customers.

Action:

- One or two finance companies need to be created.
- One to three added factoring companies need to be created especially those with specialization
- At least one specialty leasing company needs to be created.

Action

- Develop a new entity to create and manage a community lending and investment program.
- Develop micro loan program.
- Encourage boutique style lenders based on need.

Action

- Establish a community investment organization to use private and public dollars for small and mid-sized projects.
- Encourage businesses, especially start up and early phase enterprises, to offer public stock under the intrastate offering guidelines.

Action:

- Within five years and hopefully less, attract or develop new venture capital funds and/or companies with investment funds totaling \$20 - \$25 million.
- Organize new angel investor groups targeting specific industries
- Develop venture capital and angel groups targeting women businesses
- Develop venture capital and angel groups targeting minority and disadvantage groups

- With one year establish a Small Business Investment Company

Action

- Create the template for community ownership for a variety of businesses starting with downtown businesses usually accompanying tax credits.
- With this template, use these sources to “save” certain properties or business deemed valuable to Toledo – economically and culturally.

Action:

- The community needs to have a much better effort in knowledge of available funding and coordination in securing such funding. The dollars will not be “thrown at us”, we need to go out and get them as other cities in Ohio have – in some cases at Toledo’s expense.

Action:


- Determine levels of expertise for existing advisory groups so that referrals more closely match the needs of the client.
- Develop a formal retentions program that crosses some of the traditional boundaries between business, financier, lender and community.

Action:

- Develop a one stop business center that is tied in electronically and managerially with each organization.
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- Improve web sites and information gathering criteria so future improvements to each organization can be made to better serve the client and prospect.
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- Develop a business “think tank” for all citizens to exchange ideas and opportunities (currently there is a Linked In Toledo group that performs this, but a broader system is needed).

Action:

- Create a new non-high tech business incubator.
- Create an arts incubator

- 
- Create specialized education programs to add to the current opportunities provided by our higher education institutions as well as business related entities such as The Chamber of Commerce.

These action plans will need to be prioritized according to need.

NOTE: Subsequent to this report, the author has created a new non-profit corporation that will begin to address a number of these issues. The corporation will be known as Toledo Community Ventures Inc. As of this writing the board of directors was being formed and the 501(c)(3) application was in submission. For more information visit the website: www.toledocommunityventures.org

Resources

- United States Census Bureau
- United States Department of Commerce
- The Economic Development Administration
- Federal Deposit Insurance Corp.
- Regional Growth Partnership (web site and written material)
- University of Toledo – College of Business and Innovation web site
- Brookings Institute – Responding to Manufacturing Job Loss (June 2011)
- University of Toledo – Business Incubator web site
- Owens Community College web site
- Service Corp of Retired Executives web site
- United States Small Business Administration
- City of Toledo Consolidated Plan 2010-2015
- Ohio Department of Development
- Toledo Regional Chamber of Commerce web site
- Small Business Development Center web site
- Toledo-Lucas County Port Authority web site
- TASBA web site
- EPIC web site
- City of Toledo Department of Development web site
- Consolidated Federal Funds Report for fiscal 2009 (US Census Bureau)
- SBA – New Market Venture Capital Companies web site
- The Economic and Development Institute web site – Columbus Ohio
- Fisher College of Business web site – The Ohio State University
- Lourdes University web site
- Brookings Institute – counting for dollars 2008
- City of Dayton web site
- OSU Endeavor Center web site
- National Association of Small Business Incubators web site
- Pacific Community Ventures web site
- Job Ohio.com
- ASSETS Toledo web site
- Lucas County Improvement Corp web site
- Columbus Dept. of Development web site

- Cleveland Dept of Development web site
- Lucas County web site
- Lucas County Comprehensive Economic Development Strategy 2006/2008
- University of Toledo Urban Affairs Center
- Rocket Ventures web site
- CoreNetwork web site
- National Business Incubation Association web site
- Ohio Third Frontier
- Northwest Capital LLC web site
- Artsincubator.org
- Youngstown Business Incubator web site
- Battle Creek Unlimited web site
- Toledo-Lucas County Economic Development and Innovation Plan 2004 (Hammer, Siler, George Associates)
- Downtown Transformation Strategy – Battle Creek, MI
- Finance Fund 2009 annual report
- National Trust for Historic Preservation web site and written material
- Impact Investing – Pacific Community Ventures (January 2011)
- An Introduction to Arts Incubators (March 1995)
- Economic Development Strategies, WE Upjohn Institute (January 1995)
- Main Street Now – The National Trust Main Street Center - Community Owned Businesses (March/April 2010)
- Pacific Community Ventures annual reports 2006-2009
- Toledo Regional Economic Plan (draft) – Transportation and Logistics Sector (September 2009)
- Show Me The Money – Tapping Federal Funds for Historic Preservation – National Park Service (July 2010)
- 2007/2008/2009 Venture Capital Reports – Center for Entrepreneurship, Fisher College of Business, The Ohio State University
- Arlington VA Arts Incubator
- Characteristics of Entrepreneurs, 4-Small Business web site
- Cincinnati Dept of Development
- SBA Small Business Investment Company web site
- Urban Activist roundtable: Re-design Toledo, Toledo Free Press
- Incubation Nation: Where great idea are born – Inc Magazine (May 2010)

- How to Preserve a Historic Building – National Trust for Historic Preservation- Information Sheet #2
- Virgin Money web site
- Microlenders develop niche in U.S., NY Times (August 2010)
- On Deck Capital web site
- Circle Lending printed material
- National Trust Community Investment Corp. web site
- Main Street News (May 2007)
- The Toledo Blade/toledoblade.com
- Best Practices in Action – Guidelines for Implementing First Class Business Incubation Programs – National Business Incubation Association
- Securities and Exchange Commission web site
- U.S. Treasury – Community Development Financial Institutions Fund web site
- Federal Financial Institutions Examination Council – Community Reinvestment Act (2005-2009) Lucas County
- CityWide Development Corp.
- Toledo Community Development Corporation web site
- Prosper.com web site
- Ohio Capital Fund web site
- Art Commission of Greater Toledo web site
- PRIZM Creative Community web site
- SBIC's Keep Capital Flowing in a Dry Time – Bloomberg/Businessweek (June 2009)
- Small Business Notes web site
- Downtown Toledo Improvement District web site
- Business Incubators and Their Role in Job Creation – Statement of David Monkman, National Business Incubation Association (March 2010)
- Greater Toledo's Strategic Plan for the Arts and Culture (November 2003)
- North Carolina Arts Incubator web site
- ICNC's Fulton-Carroll Center Business Incubator web site
- The Kauffman Foundation web site
- The Arts Incubator of Kansas City
- The Greater Columbus Arts Council

- Columbus Compact Corporation web site
- The Cleveland Federal Reserve
- Columbus CEO web site
- CentralOhioEntrepreneurs.org
- Seattle Dept of Development web site
- Community Capital Development Corp web site
- Economic Development America

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