

## Case Study Two

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**Directions:** Read this case study carefully. On Page 81, you will be asked to evaluate the unmet needs, assets and opportunities of the community presented in the case study. Next, you will have the opportunity to work through three scenarios to finance a community development project. You can compare your answers with the suggested answers that start on Page 93. Keep in mind, there is no one right way to approach community development finance.

### HomeMade in Adamson: Sustainable Economic Development

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#### **Background**

During the past 20 years, the state of Adamson has seen explosive growth. Adamson recently led the nation in industrial expansion and relocation. But, at the same time, southeastern Adamson has lost its relative economic standing in the state.

Although the state of Adamson as a whole has benefited from aggressive industrial recruitment campaigns, such a strategy would be counterproductive in the highly rural areas of southeastern Adamson, where the challenge is to develop economic strategies sensitive to the natural environment, preserving its unusual agrarian, small-town culture.

Southeastern Adamson is constrained by a lack of land suitable for economic investment. A large federal presence, extensive holdings by corporations and utilities, watershed restrictions and steep, hilly slopes keep more than half of the available acres out of use. In addition to the land owned by the federal government and corporations, the region has many absentee owners who are disinterested in the area.

The region is blessed, however, with major highways, which create an intersection between north and south, east and west.

To regain its economic standing in the state, southeastern Adamson needs a creative approach, one that offers opportunity for skilled jobs and the diversification of the economic base of the area.

Now, imagine a manufacturer that is environmentally friendly, producing practically no air, soil or water pollution. It employs 739 full-time and 3,349 part-time workers, and its contribution to the economic base of the area exceeds \$122 million annually. It does not take advantage of any special subsidies or treatment from local, county or state government—no tax breaks, site improvements or special infrastructure, such as improved roads, sewage or drainage. Sound too good to be true? Most economic development experts would say so. However, this industry already exists in southeastern Adamson, and it has been here for hundreds of years. It is the individual craft and cultural heritage tourism industry.

The rolling hills and river valleys of this region have long been identified with beautiful and functional handmade items. The region is home to the nation’s finest craft schools and its oldest continuing craft organization. Most native southeastern Adamson industries—pottery, paper, textiles and furniture—grew from handmade traditions.

Realizing the future may frequently be devised from the past, the challenge became apparent: How could the region and its rural communities build an identity and an economy around the multimillion-dollar “handmade industry”? Until now, it has been composed of many small businesses that have not acted together as a single industry or in a coordinated fashion.

“HomeMade in Adamson” was envisioned as an initiative that would focus on maintaining and enhancing the region’s quality of life while broadening its economic opportunity.

## **People**

HomeMade in Adamson was organized as a nonprofit organization dedicated to sustainable community and economic development in southeastern Adamson, focusing on the handmade items industry. The goals of the organization are to:

- Develop community strategies that will collectively enhance Adamson’s role nationally and internationally within the homemade craft field.
- Establish an academic base to promote crafts at all levels of school.
- Develop a communication plan that establishes Adamson’s role as the center for handmade objects in America.
- Implement environmentally sustainable economic strategies for Adamson that emphasize the handmade industry and cultural and heritage tourism.

- Implement strategies that will enhance opportunities for makers of hand-made objects within Adamson.
- Actively encourage the public, private and nonprofit sectors to develop independent and interdependent vehicles that build the handmade industry.

HomeMade was organized to be inclusive. Everyone in southeastern Adamson was invited to participate. Meetings were held across the region in a variety of settings to communicate the inclusiveness of the process. The people who attended these meetings listened, talked and debated how to best achieve their goal, which is to make southeastern Adamson the center of handmade objects in the nation.

More than 360 people participated in a regional planning process. Currently, more than 600 citizens are participating in 11 regional and local HomeMade projects. The quarterly newsletter, *Partners: Explorations in Community*, is mailed to 2,500 people who have expressed an interest in HomeMade in Adamson.

The organizational structure of the HomeMade initiative is highly developed and includes the parent company and three subsidiaries: a community development corporation, a foundation and an entrepreneurial financial services corporation. Each corporation is under the leadership of a skilled professional who directs a small staff.

The HomeMade parent corporation is governed by a board of advisors made up of 22 members representing the region geographically and drawing from diverse sectors of the community.

### **Process**

An economic impact study conducted in 1995 revealed that craft-related activities generated more than \$122 million annually in Adamson. The state is home to 4,000 full- or part-time artisans. The production of handmade items represents an invisible factory already existing in the region. Annual craft sales include: \$25.6 million for full-time professional producers, \$22.7 million for second income or part-time producers and \$70.8 million for retail shops and galleries. Consumer sales at four craft fairs held in summer recently totaled \$1.5 million and are indicative of the potential value of the more than 85 craft fairs held annually throughout the region.

Researchers identified 820 retail firms selling an average of more than \$8,000 in crafts annually. Eighty percent of the professional craftsmen work in their homes or in home studios. Most are college-educated. They have deep roots in the area: Most are Adamson natives or have lived in the area for more than 15 years. In addition, they have a great deal of craft production experience, averaging 15 years each.

The average annual income that professional producers derive from craft sales and craft-related work is \$34,775. Furthermore, 40 percent of the handmade items they produce are sold outside the state.

Using existing craft-related resources in the region, HomeMade in Adamson has developed a 20-year strategic plan that will establish southeastern Adamson as the geographic center for handmade objects in America. This plan allows urban and rural areas to benefit equally while bringing together a unique collection of entrepreneurs, small businesses, associations, educators, regional institutions and corporations around a common theme. These community development strategies have created educational, economic and cultural opportunities that focus on the region's craft history, craftsmen and craft educational institutions.

As HomeMade began to implement its 20-year strategic plan, a number of general guiding principles emerged and are being used to govern its work for sustainable economic development. Each of the goals is supported by a number of action-oriented strategies. These strategies focus on creating sustainable economic development opportunities that maintain the rural quality of life, provide business and financial support for craftsmen and reinforce a positive image of the region's craft culture through public relations and education.

**Principle One:** HomeMade is regional. All communities, both rural and urban, are viewed as equals in terms of the resources each brings to the table.

HomeMade's projects serve either a region-wide audience or a collaboration of specific communities. Communication efforts to link the region include a HomeMade in Adamson computerized community bulletin board, a traveling documentary photography exhibit and quarterly newsletters.

**Principle Two:** All HomeMade in Adamson projects are community-based. Each community defines its needs, resources and how it fits into the strategic plan. An example of this principle is the Craft Heritage Corridor. To develop the sites for the Craft Heritage Corridor, each county created a small resource

team to inventory the criteria-based sites and activities for its community. In addition, each community listed sites that are “sacred” and would not welcome large numbers of tourists.

As work began on fulfilling these initiatives, HomeMade continued to depend on the support and involvement of those in the public, private and nonprofit sectors who share a common commitment to the art and function of handcraft industries.

**Principle Three:** All projects are done in partnership with other organizations and institutions, and all funding is written jointly or in the other partner’s name. This principle has been the most successful in creating collaboration.

**Principle Four:** HomeMade is sustainable community development using the region’s own resources and focusing on long-term solutions. In HomeMade, no outside consultants are used unless required by the funding source or legal constraints. The project draws on the expertise and experience of citizens and institutions in the region it serves.

**Principle Five:** HomeMade in Adamson is self-sustaining. All projects must fit into the operation of an ongoing institution or organization or be financially self-sustaining.



## Coming up with the Money

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It's your turn to identify financing sources.

The board of HomeMade Adamson is seeking help to obtain funding for some or all of the following needs:

**Craft Heritage Trails.** In partnership with three local tourism districts, this project is designed as a series of self-guided driving/hiking tours on already established roads and paths throughout southeastern Adamson. In addition to picking out the trails, the board wants to print guidebooks. Marketing, point-of-sale kiosks, tourism centers and lighting are also on the drawing board.

**Investment bank.** A program to make capital accessible to artisans.

**Main Street revitalization.** The smaller towns of Jefferson (population 1,508), Williamson (population 3,219) and Hermanson (population 2,101) need to develop revitalization plans and to secure funding sources similar to the other larger cities in the region.

**Training in craft production.** This job training would seek to promote arts and crafts as viable career choices.

**Craft registry.** This project is designed to develop an accessible database identifying artisans and describing their work.

**A+ Schools.** This project comprehensively integrates the arts into the public school curriculum.

Your assignment as a member of the project team is to develop the financing package for the **Craft Heritage Trails** segment.

## Craft Heritage Trails' List of Possible Financing Sources

<i>Sources</i>	<i>Type</i>	<i>Rate</i>	<i>Term</i>	<i>Amount and Conditions</i>
Adamson Travel and Tourism	Grant			\$75,000 maximum for a 3-district collaborative grant.
State District 1	Grant			\$25,000 contingent on collaboration.
State District 2	Grant			\$25,000 contingent on collaboration.
State District 3	Grant			\$25,000 contingent on collaboration.
Federal Highway Administration	Grant			Maximum \$200,000 competitive grant restricted to program expenses. Must have 50 percent local match.
Tennessee Valley Authority	Loan	Prime + 1%	12 mos.	Maximum \$50,000.
Regional Economic Development	Loan	Prime + 2%	12 mos.	Max. \$65,000. Restricted to guide-book printing.
Guide book sales	Retail			Sale of 10,000 guide-books @ \$15 each.
HomeMade Foundation	Grant			Anticipated sale of 1,000 memberships @ \$100 each to generate revenue. Restricted to marketing and advertising expenses.
Cultural Trust Fund	Grant			Maximum \$100,000. Can be used for matching.
State Parks & Recreation	Loan	6%	12 mos.	Maximum loan amount of \$75,000. Contingent on Adamson Travel and Tourism's matching grant amount.

Assume prime equals 7 percent.

# Case Study Analysis: Evaluating Finance Projects

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**Instructions:** After reading the case study, complete this step-by-step evaluation of the project. Then, compare your answers with the suggested answers on Pages 93-103.

## Step 1. Define Unmet Finance Needs

■ What is going on in Adamson that warrants attention?

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■ What are the Craft Heritage Trails?

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■ Is there an unmet need the project is attempting to address?

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■ What type of project is it?

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■ What are the goals of the project?

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**Step 2. Recognize Assets (either in the community or available to the community)**

■ What is the management capacity of the initiative?

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■ What skills or resources could be brought to the initiative to improve performance?

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### **Step 3. Determine Financing to Cover the Cost of the Project**

The goal of this step is to review the project costs (as shown in the Uses table on the next page) and the sources of money that are available to cover them.

#### **Scenario 1**

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As you can see in the table, there are three blank spaces yet to be filled in: the subtotal, the financing costs and the total project cost. First, add up the operating and program costs to get the subtotal. This will give you a preliminary idea of how much money you need to come up with. Leave the “financing costs” blank for now. We will return to fill in this blank after we select our sources of money; we must wait because some of these financing sources might involve interest charges. Then, turn to the list of possible funding sources on Page 80 to fill in the Sources table to determine how to finance this project. (You may want to pull this page for easy reference.) After you decide what sources of money the project will use, financing costs can be calculated. (If you skipped Case Study 1, you can learn how to calculate financing costs by completing the exercise on Page 51.) Insert financing costs in the Uses table and total all of your uses. The total of uses should be equal to or less than the total of sources. If not, rework your sources and, if necessary, your financing costs to cover the total project cost. Use the “Adjusted” column for these revisions.

**Uses**

<b>Uses</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
<b>Operating</b>		
Salaries	40,000	
Travel	5,000	
Rent and utilities	10,000	
Telephone	2,700	
Postage	600	
Supplies	1,700	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Program</b>		
Marketing plan	30,000	
Advertising	120,000	
Radio           10,000		
Print ads       100,000		
Brochures      10,000		
Printing guidebooks (10,000 x \$6.50 each)	65,000	
Trail management	40,000	
Trail construction	250,000	
Trail signs	20,000	
<b>Total Program Costs</b>	<b>525,000</b>	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Subtotal</b>		
Financing costs		
<b>Total Project Cost</b>		

**Sources**

<b>Sources</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
Total		

Once you determine the sources, calculate your financing costs (if any) and write this figure in at the end of the “Program” costs on the Uses table. (Use the “scratch paper” for your calculations.)

*Scratch paper*

- Is the total of uses equal to or less than the total of sources?     Yes     No

If “No,” then you still have a funding gap. Rework your sources to cover the total project cost. Use the “Adjusted” column for your next attempt. Remember to adjust finance costs accordingly.

When you balance uses and sources, answer the following questions:

- Why did you choose the sources that you did?
- Did you remember to follow any terms or conditions tied to the sources?

## Scenario 2

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In this scenario, the Travel and Tourism districts can only come up with \$15,000 each, for a total of \$45,000. We also discovered HomeMade in Adamson memberships are coming in slower than anticipated, with 700 memberships sold at \$100 each, raising only \$70,000.

Rebuild your Sources table with the above changes in mind.

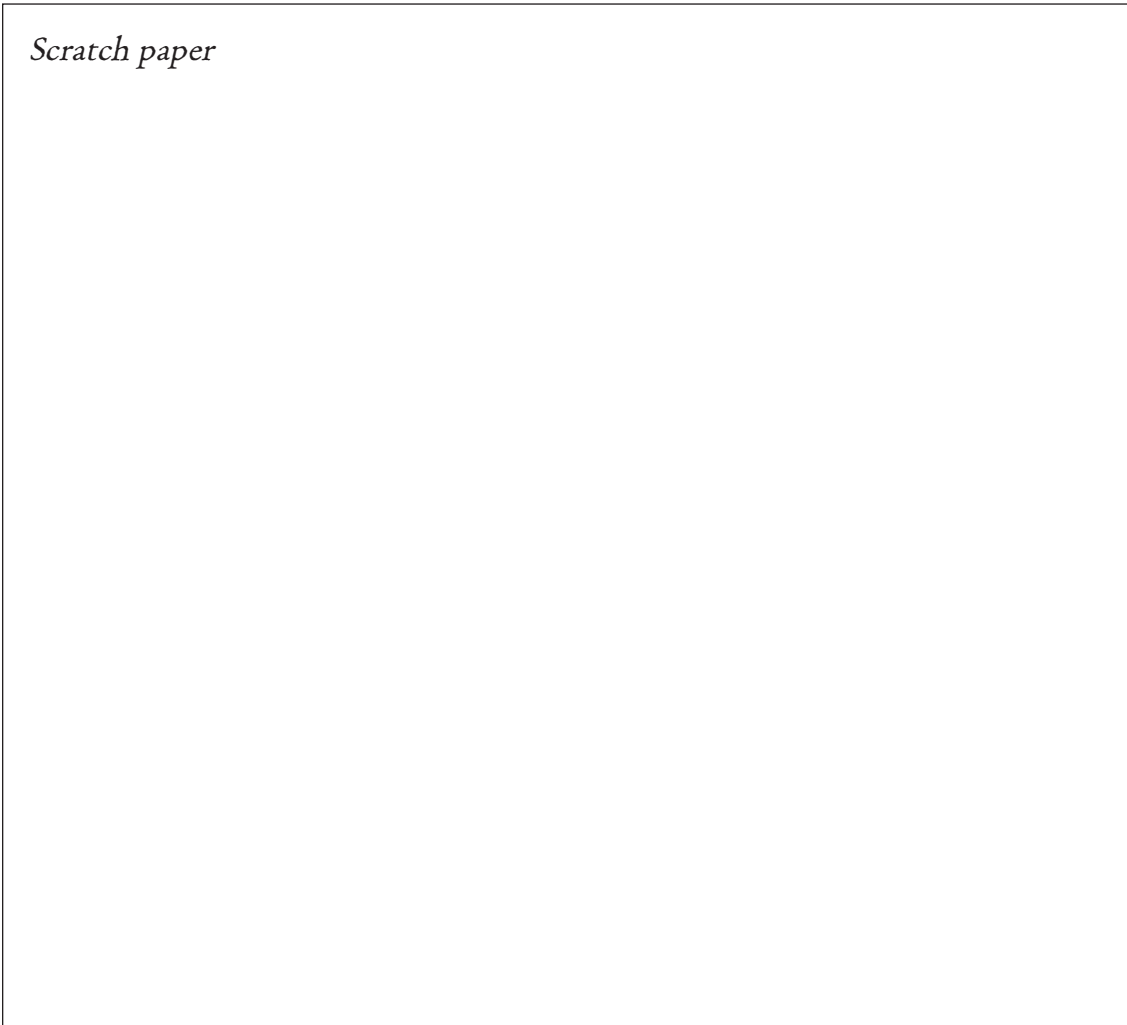
### Sources

<i>Sources</i>	<i>\$ Amount</i>	<i>\$ Adjusted</i>
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
Total		

- What do the sources total? \_\_\_\_\_
- After picking your sources, calculate your financing costs. (Use “scratch paper” below.) What do financing costs total? \_\_\_\_\_. Write the financing cost in at the end of “Program” costs on the Uses table (next page).
- What is the grand total of the project budget? \_\_\_\_\_. Plug this figure into the “Total Project Cost” line of the Uses table.
- Is the total of uses equal to or less than the total of sources?     Yes     No

If “No,” then you still have a funding gap. Rework your sources to cover the total project cost. Use the “\$ Adjusted” column for your next attempt. Remember to adjust financing costs accordingly.

*Scratch paper*



**Uses**

<b>Uses</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
<b>Operating</b>		
Salaries	40,000	
Travel	5,000	
Rent and utilities	10,000	
Telephone	2,700	
Postage	600	
Supplies	1,700	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Program</b>		
Marketing plan	30,000	
Advertising	120,000	
Radio           10,000		
Print ads       100,000		
Brochures      10,000		
Printing guidebooks (10,000 x \$6.50 each)	65,000	
Trail management	40,000	
Trail construction	250,000	
Trail signs	20,000	
<b>Total Program Costs</b>	<b>525,000</b>	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Subtotal</b>	<b>585,000</b>	
Financing costs		
<b>Total Project Cost</b>		

When you balance uses and sources, answer the following questions:

- Why did you choose the sources that you did?
- Did you remember to follow any terms or conditions tied to the sources?

### Scenario 3

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In this scenario, HomeMade found out that Federal Highway Administration money is not available for this type of project. However, HomeMade was able to work with the Travel and Tourism districts to come up with a total of \$60,000. HomeMade in Adamson memberships still are coming in slower than anticipated, with 700 memberships sold at \$100 each, raising only \$70,000.

Tweak both the Uses and/or Sources tables to find a possible solution to filling the financing gap. This time, feel free to modify your “soft costs,” such as advertising, marketing and trail design. Pretend that you can negotiate lower fees for these services.

#### Sources

<i>Sources</i>	<i>\$ Amount</i>	<i>\$ Adjusted</i>
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
Total		

■ What do the sources total? \_\_\_\_\_

■ What do the financing costs total? \_\_\_\_\_

*Scratch paper*

■ What do the uses total? \_\_\_\_\_

■ What is the grand total of the project budget? \_\_\_\_\_. Plug this figure into the “Total Project Cost” line of the Uses table on the next page.

■ Is the total of uses equal to or less than the total of sources?  Yes  No

If “No,” then you still have a funding gap. Rework your sources to pay for the total project cost and/or the uses to lower project costs. Use the “\$ Adjusted” column in each table for your next attempt. Remember to adjust financing costs accordingly.

## Uses

<i>Uses</i>	<i>\$ Amount</i>	<i>\$ Adjusted</i>
<b>Operating</b>		
Salaries	40,000	
Travel	5,000	
Rent and utilities	10,000	
Telephone	2,700	
Postage	600	
Supplies	1,700	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Program</b>		
Marketing plan	30,000	
Advertising	120,000	
Radio           10,000		
Print ads       100,000		
Brochures      10,000		
Printing guidebooks (10,000 x \$6.50 each)	65,000	
Trail management	40,000	
Trail construction	250,000	
Trail signage	20,000	
<b>Total Program Costs</b>	<b>525,000</b>	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Subtotal</b>	<b>585,000</b>	
Financing costs		
<b>Total Project Cost</b>		

When you balance uses and sources, answer the following questions:

- Why did you choose the sources that you did?
- Did you remember to follow any terms or condition tied to the sources?
- If you altered uses, what was your rationale for doing so?
- Were there any new resources or techniques used to adjust uses and sources?
- What other resources or ideas could have been used?

## Suggested Answers to HomeMade in Adamson

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### **Step 1. Define Unmet Finance Needs**

- What is going on in Adamson that warrants attention?

Adamson has a large area of underdevelopment in the rural southeastern part of the state. There is potential for a different kind of economic growth.

- What are the Craft Heritage Trails?

The trails are the centerpiece of a sustainable economic development plan. The trails would tie together craft industries and attract investment in the handmade items industry.

- Is there an unmet need the project is attempting to address?

Possible responses include:

- Need for economic health
- Need for tourism districts to work together
- Need for individual entrepreneurs to act in unison
- Need to get tourists out into the hills and valleys where artisans are working
- Need for leadership in the craft industry
- Need for financing the Craft Heritage Trails project or several other projects

- What type of project is it?

Each of the above needs represents different types of projects. Responses may include a range of types from rural development to job training in craft production. Overall, HomeMade in Adamson is an economic development program focusing on cultural heritage tourism and the crafts industry. Specifically, the project is an initiative to finance the Craft Heritage Trails. They will serve as the backbone of the HomeMade in Adamson economic development program.

- What are the goals of the project?

Possible responses may include a range of goals but, specifically, the finance goals of the project are:

- Publish a guidebook
- Pay for a marketing plan
- Build point-of-sale kiosks
- Advertise the trails
- Organize trail management system

**Step 2. Recognize Assets (either in the community or available to the community)**

■ What is the management capacity of the initiative?

- An economic impact study has been completed.
- Strong community participation and extensive networks have been developed.
- A 22-member board of directors provides leadership and represents the artisans as an industry rather than as individual, small businesses.
- A broad-based, regional approach with more than 600 citizens participating in 11 regional projects.
- The organizational structure of the HomeMade initiative is highly developed and includes three entities under a parent company: a community development corporation, foundation and entrepreneurial financial services corporation. Each corporation is under the leadership of a skilled professional who directs a small staff.
- The organization publishes a quarterly newsletter.
- A 20-year strategic plan has been developed.
- Innovative, collaborative strategies have been formed.
- Local assets, such as knowledge and community institutions, will be drawn on first.

■ What skills or resources could be brought to the initiative to improve performance?

HomeMade in Adamson has developed a growing network of skilled businesspersons and local institutions. The unique collection of entrepreneurs, small businesses, associations, educators, regional institutions and corporations serve as a deep well of skills and resources.

If solutions cannot be developed locally, the organization looks outward for assistance. For example, it may seek help from the state's cultural trust fund, arts or humanities council, the Ford Foundation or the National Endowment for the Arts or Humanities. There is also a growing field of

knowledge associated with the business aspects of cultural tourism and the arts. The organization may need assistance with special issues associated with the arts and crafts industry, such as:

- seasonal fluctuations in cash flow,
- a seesaw of surpluses and deficits, and
- erratic business cycles that require laying off and rehiring staff, adding and deleting programs or certain features of programs.



**Step 3. Determine Financing to Cover Cost of Project**

**Scenario 1**

This is our first possible alternative for funding the project.

**Uses**

<b>Uses</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
<b>Operating</b>		
Salaries	40,000	
Travel	5,000	
Rent and utilities	10,000	
Telephone	2,700	
Postage	600	
Supplies	1,700	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Program</b>		
Marketing plan	30,000	
Advertising	120,000	
Radio           10,000		
Print ads       100,000		
Brochures      10,000		
Printing guidebooks (10,000 x \$6.50 each)	65,000	
Trail management	40,000	
Trail construction	250,000	
Trail signs	20,000	
<b>Total Program Costs</b>	<b>525,000</b>	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Subtotal</b>	<b>585,000</b>	
Financing costs	<b>7,940</b>	
<b>Total Project Cost</b>	<b>\$592,940</b>	

To calculate financing costs:

If Prime = 7%, then

Parks & Recreation	\$75,000	x	.06	=	\$4,500
TVA	\$43,000	x	.08	=	\$3,440
					\$7,940

Which financial resources could the project use?

**Sources**

<b>Sources</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
1. Federal Highway Administration	200,000	
2. Adamson Travel & Tourism	75,000	
3. HomeMade Foundation	100,000	
4. Cultural Trust Fund	100,000	
5. State Parks & Recreation	75,000	
6. Tennessee Valley Authority	43,000	
<b>Total</b>	<b>593,000</b>	

**Rationale:**

**Federal Highway Administration**—Funds are a matching grant, and both the Cultural Trust money and the HomeMade Foundation income may be used for the match.

**Adamson Travel and Tourism**—Funds are a grant without restrictions.

**HomeMade Foundation**—Equity investment is generated from business owner memberships.

**Cultural Trust Fund**—Grant that may be used for any costs associated with the project.

**State Parks & Recreation**—Most favorable terms of the lending options.

**Tennessee Valley Authority**—Next most favorable loan terms and without restrictions.

**Guide book sales**—We shied away from this source, figuring we might not sell the books in time to have the money when we needed it

## Scenario 2

The Travel and Tourism districts can only come up with \$15,000 each, for a total of \$45,000. We also discovered HomeMade in Adamson memberships are coming in slower than anticipated, with 700 memberships sold at 1,000 each, raising only \$70,000. Adjust the Sources table and related financing costs (if necessary) to fill the gap.

### Uses

<b>Uses</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
<b>Operating</b>		
Salaries	40,000	
Travel	5,000	
Rent and utilities	10,000	
Telephone	2,700	
Postage	600	
Supplies	1,700	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Program</b>		
Marketing plan	30,000	
Advertising	120,000	
Radio           10,000		
Print ads       100,000		
Brochures      10,000		
Printing guidebooks (10,000 x \$6.50 each)	65,000	
Trail management	40,000	
Trail construction	250,000	
Trail signs	20,000	
<b>Total Program Costs</b>	<b>525,000</b>	
<b>Total Operating Costs</b>	<b>60,000</b>	
<b>Subtotal</b>	<b>585,000</b>	
Financing costs	<b>12,550</b>	
<b>Total Project Cost</b>	<b>\$597,550</b>	

To calculate financing costs:

If Prime = 7%, then

Parks & Recreation	\$45,000	x	.06	=	\$2,700
TVA	\$50,000	x	.08	=	\$4,000
RED	\$65,000	x	.09	=	\$5,850
					<u>\$12,550</u>

**Sources**

<b>Sources</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
1. Federal Highway Administration	200,000	
2. Adamson Travel and Tourism	45,000	
3. HomeMade Foundation	70,000	
4. Cultural Trust Fund	100,000	
5. State Parks and Recreation	45,000	
6. Regional Economic Development	65,000	
7. TVA	50,000	
8. Guidebook Revenue	22,550	
<b>Total</b>	597,550	

**Rationale:**

**Federal Highway Administration**—Same as in Scenario 1. Funds are a matching grant, and both the Cultural Trust money and the HomeMade Foundation income may be used for the match.

**Adamson Travel and Tourism**—Decreased, but still offers \$45,000 or \$15,000 from each district.

**HomeMade Foundation**—Down to \$70,000 from \$100,000 because of lower than anticipated memberships.

**Cultural Trust Fund**—Same as in Scenario 1. Grant may be used for any costs associated with the project.

**State Parks & Recreation**—Had to lower to \$45,000 to match Travel & Tourism grant.

**Regional Economic Development**—Borrowed maximum \$65,000 to offset the gap created by the lower than anticipated Travel and Tourism grant, membership fees and State Parks & Recreation loan amount. Plus, it guaranteed printing of the guidebooks.

**Tennessee Valley Authority**—Maximum available to help fill the gap.

**Guidebook revenue**—We felt we had to count on some sales, but we used only as much revenue as necessary to make the project work. Surplus revenue, if any, can be reserved for other uses because we were able to borrow \$65,000 from Regional Economic Development for the printing of the books.

## Scenario 3

HomeMade found out that Federal Highway Administration money is not available for this type of project. However, HomeMade was able to work with the Travel and Tourism districts to come up with a total of \$60,000. HomeMade in Adamson memberships still are coming in slower than anticipated, with 700 memberships sold at \$100 each, raising only \$70,000. Now, adjust both the Uses and/or Sources tables to find a possible solution to filling the financing gap. Feel free to adjust the “soft costs,” such as travel, marketing, advertising and trail design. Pretend that you can negotiate lower fees for these services.

### Uses

<i>Uses</i>	<i>\$ Amount</i>	<i>\$ Adjusted</i>
Salaries	40,000	
Travel	<b>2,000</b>	
Rent and utilities	10,000	
Telephone	2,700	
Postage	600	
Supplies	1,700	
<b>Total Operating Costs</b>	<b>57,000</b>	
<b>Program</b>		
Marketing plan	<b>25,000</b>	
Advertising	120,000	
Radio	10,000	
Print ads	100,000	
Brochures	10,000	
Printing guidebooks (10,000 x \$6.50 each)	65,000 (13,000 @ \$5 each)	
Trail management	40,000	
Trail construction	<b>229,550</b>	
Trail signs	20,000	
<b>Total Program Costs</b>	<b>499,550</b>	
<b>Total Operating Costs</b>	<b>57,000</b>	
<b>Subtotal</b>	<b>556,550</b>	
Financing costs	<b>13,450</b>	
<b>Total Project Cost</b>	<b>\$570,000</b>	

If Prime = 7%, then

Parks & Recreation	\$60,000	x	.06	=	\$3,600
TVA	\$50,000	x	.08	=	\$4,000
RED	\$65,000	x	.09	=	\$5,850
					<u>\$13,450</u>

**Sources**

<b>Sources</b>	<b>\$ Amount</b>	<b>\$ Adjusted</b>
Federal Highway Administration	Unavailable	
Adamson Travel & Tourism	60,000	
HomeMade Foundation	70,000	
Cultural Trust Fund	100,000	
State Parks & Recreation	60,000	
Regional Economic Development	65,000	
Tennessee Valley Authority	50,000	
Guidebook Revenue	165,000	
<b>Total</b>	570,000	

**Rationale: Sources**

**Federal Highway Administration**—No longer available.

**Adamson Travel & Tourism**—Decided each could add an additional \$5,000, bringing the total to \$60,000.

**HomeMade Foundation**—Lower from \$100,000 to \$70,000 because of lower than anticipated memberships.

**Cultural Trust Fund**—Same.

**State Parks & Recreation**—Adjusted to \$60,000, matching the increase in Travel & Tourism.

**Regional Economic Development**—Borrowed maximum \$65,000. Guaranteed printing of the 10,000 guidebooks plus 3,000 more.

**Tennessee Valley Authority**—Up to maximum.

**Guidebook revenue**—We're banking on selling 11,000 of the 13,000 guidebooks at \$15 each. (We better get crackin'!)

***Rationale: Uses***

**Travel**—Found cheaper flights and accommodations for those attending the annual national tourism conference.

**Marketing**—HomeMade Foundation negotiated a decrease with the consultant hired to do the marketing plan

**Guidebook**—Reduced quality of paper stock. Now paying \$5 per book.

**Trail design and construction**—Negotiated lower price with designer of trail kiosks.

## Update

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This case study is loosely based on the HandMade in America project in Asheville, N.C. In the spring of 1996, HandMade published a guidebook that signaled the birth of a craft heritage trail system across a 22-county area of the state. The guidebook is now in its second printing and includes colorful side stories, route maps and photography of seven fully developed scenic loop tours. It has grown to include nearly 200 additional listings of craft studios, galleries, restaurants, historic inns and other attractions.

The Crafts Heritage Corridor is using revenue from its guidebook sales to pay for reprinting, advertising and trail management. The craft registry task force is studying several options of revenue generation, including subscriptions for entry into the registry, sales of the registry, CD-ROM production and kiosk systems at museums, exhibits and design centers.

As for the rest of Asheville's efforts, an investment bank works in partnership with a large community development credit union to make capital accessible to artisans. The investment bank is sustained by loan payments and continues under the direction of the credit union. Funding sources include the credit union and the state's department of community assistance.

The Craft Production Job Training Program is a partnership with the community college, a crafts school and the state's department of community assistance. The program is designed to increase the viability of crafts as a career choice; the curriculum offering is based on student demand.

The A+ schools initiative developed into a partnership among four elementary schools in southeastern North Carolina. Funding partners are the state's arts council and a local family foundation.

Other demonstrable results include a 10 percent to 15 percent increase in income for many craftspersons and more than \$11 million in investment in six of the region's smallest communities.

Read more about the HandMade in America organization on the web site: [www.wnccrafts.org](http://www.wnccrafts.org).

## Conclusion

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Capital both pulls and pushes. Be prepared. If you have a solid business plan, if you have your finances in order and if you have a head start on your marketing plan, then you are ready to “pull” money from those sources that have it. You’ll also be sitting in a prime position when government agencies or other groups start new programs and have money that is looking for a good use. When they start “pushing” this money, you’ll be better prepared than most to qualify for it.

