How Economic Development Projects Are Financed

Although there are exceptions, the first rule of economic development finance is **"There is no free money."**

Except in very special circumstances, the days of grants for economic development projects are largely over. Today economic development projects are funded primarily through owner equity and private bank financing, with economic development funds available for "gap financing."

Many times, particularly with economic development projects, owner equity and conventional bank financing do not provide all the funding a project requires. Typically, this occurs because the bank has lending limits they must adhere to, there is inadequate equity, there is insufficient collateral or the business cannot afford market interest rates and/or term requirements.

Generally speaking, economic development financial tools exist to fill this funding "gap." Typically an economic development financing deal looks like this:

Source	Notes
Owner Equity	Must be present in the financial package and should be at least 10% of the total. More may be required and more is better.
Bank Loan	Required. Could be up to 90% of a project's funding.
"Gap" Funding	Comes into play only when needed and only in the amount necessary to make the deal work. Could potentially come from multiple sources and represent up to 50% of a project's funding.

We do not compete with banks and in no instance will economic development financing replace bank financing. Public financing exists solely to supplement private financing in order to move worthwhile economic development projects forward.

If you have any questions or need additional information, please contact Miles Seppelt, Hutchinson's Economic Development Director, at (320) 234-4223 or via email at mseppelt@ci.hutchinson.mn.us