

Kentucky Highlands Investment Corporation

Organizational Profile

Kentucky Highlands Investment Corporation (KHIC) was formed in 1968 as one of the original community development corporations (CDCs) funded through Title VII and the Office of Economic Opportunity.

Originally, KHIC served a nine county geographic area in Appalachian southeastern Kentucky. In 2003, this service area was increased to serve a 22 county area in the same part of the state.

The main thrust of KHIC's activities throughout its long history has been to create jobs within their service area. This has been a real challenge in the mountainous, rural area of the state that they serve. Traditionally, employment has been focused in coal mining and agriculture and broadening the local economy beyond these two sectors has been the challenge facing KHIC.

A further challenge has been the fact that 80 percent of venture capital is invested in the east or west coasts, leaving very little for other regions of the country. Without access to sources of capital, it is very hard to create jobs.

Kentucky Highlands has succeeded in developing ways to attract capital to their region of the country and have had a very large impact on the employment level in their service area. KHIC has taken a dual approach to job creation, using both loan mechanisms and a variety of investment tools to create jobs in the area. A method known as "development venture capital" has been created in order to meet the needs of the local residents. Development venture capital investing involves a more active participation with management of the businesses than does traditional venture capital investing.

In order to better carry out its job creation role, KHIC has formed for-profit subsidiaries, including a Small Business Investment Corporation, and industrial real estate development corporation and a management consulting company.

Loan Programs

KHIC offers a variety of loan programs that are each tailored to the size and needs of local small businesses.

1. **Micro-enterprise Loan Fund**—This fund was established to serve very small businesses with loans of up to \$35,000. Loans are offered at fixed rates for a maximum of 72 months. Loans can be used for either working capital or equipment.
2. **Small Business Loan Fund**—This fund provides loans up to \$250,000 to small businesses at a fixed rate for periods of 5 to 15 years. Business expansions and start-ups are the types of uses supported through this program. Working capital, equipment and real estate are all eligible uses for the loan.
3. **Working Capital or Lines of Credit**—These specific needs are typically met through loans of one year. A portion of these loans are sometimes sold to banks. Turning Point Capital Fund is the vehicle for some of the working capital needs. Part of Turning Point's capitalization came from a grant from HUD's Rural Housing and Economic Development program. Other funds came from a 2.75 percent loan from the Federal Home Loan Bank of Cincinnati.

Business and Industry Loan

Guarantees—KHIC has been designated as a guaranteed lender through the Department of Agriculture's Business and Industry Loan Guaranty Program. This program allows KHIC to make loans up to \$10 million and received a guaranty from USDA. This enables KHIC to offer long term fixed rate financing.

In addition, KHIC joined with seven other groups serving Appalachian Kentucky to establish a lending collaborative, the Appalachian Development Alliance. Together, the Alliance is able to get more resources from the state and the private sector than any one of them could do alone. They can reach 700,000 people and together have \$120 million available for deals.

Investment Programs

One of KHIC's main tools for creating jobs is through direct investment by the CDC in small businesses. This offers the possibility of a larger financial return to the CDC, but also carries with it a larger risk.

1. **Venture Capital Fund**—KHIC is the managing partner in a new \$12.5 million venture capital fund, the Southern Appalachian Fund, which covers Kentucky, Tennessee, and the Appalachian counties of Georgia, Alabama, and Mississippi. The fund was capitalized through the New Markets Tax Credit Program and includes as partners: Bank One, Concord EFS, Farmers & Merchants, First Bank, National City Bank, and Tennessee Commerce Bank.
2. **Venture Capital**—KHIC has a total of \$40 million in venture capital funds that can be used for investment in local businesses.

Empowerment Zone

In a unique approach, KHIC applied and was designated as the lead organization for a rural Empowerment Zone through the USDA, covering Clinton, Jackson and Wayne counties. The designation included a grant award of \$40 million.

The quality of life for this remote rural region has been dramatically enhanced through the EZ designation. Before 1994, the 30,000 people living in these isolated communities had difficulty obtaining basic services such as tax assistance, dry cleaning, and medical services. Now there are numerous local businesses, new schools, two performance theaters, a library, three industrial parks, health care/ambulance

improvements, and water, sewer extensions, and road improvements. KHIC's work has created 3,535 jobs, provided loans to 50 businesses and 189 farmers, and brought in \$120 million in private investment and approximately \$100 million in set-aside federal funding for projects. The community-led strategic plan is 89.7 percent accomplished, with activities planned through 2009.

Technical Assistance

As with access to capital, access to technical assistance by small businesses is harder to come by outside of large metropolitan areas. In order to meet the need for technical assistance by local small businesses, KHIC has taken on that role itself.

KHIC provides both short-term and long-term technical assistance. This has included primarily management assistance. Often small start-up companies cannot afford a chief financial officer or a senior marketing executive. KHIC will perform these functions for client companies. Additionally, Kentucky Highlands has recruited key executives that are needed by their clients.

Industrial Development

KHIC's strategy for industrial development is to invest in prepared sites that facilitate rapid construction of light industrial facilities. Through a program called LEAP (Land, Excavation, Architectural and Piers) sites are completely prepared to immediately begin the erection of up to a sixty thousand square foot building. These sites are then sold to companies wanting to expedite construction. KHIC has also constructed, financed and leased buildings to qualified clients.

Program Outcomes

Since its inception, KHIC has created 10,000 jobs from its investments of \$130 million in more than 400 businesses. These businesses provide annual wages of \$120 million and sales revenues of \$615 million.

In the Empowerment Zone counties of Clinton, Jackson, and Wayne, KHIC has over the ten years since the Zone designation, increased population growth by 11.7% (compared to 9.7% for the state); reduced poverty by 11.8% (compared to 4.4% for the state), and led to a

39.8% growth in employment (compared to 9.9% for the state).

Other Projects

One of the loans made by KHIC went for the start-up costs for a juvenile academy for youths, ages 12-17, who are in trouble with the legal system. A total of 46 youths live at the institution, with construction under way for another building to house 24 additional young men.

Although known primarily for its work in job creation, KHIC is also currently involved in developing affordable housing for local residents. With a \$40,000 grant from the American Dream Homeownership program, KHIC has launched the Housing CORE prototype. CORE is a factory-built system that combines the kitchen, bathroom, electric panel and heating/air conditioning unit. It is set by a crane on a prepared foundation and allows construction to move more rapidly than for a traditional stick-built home.

Affiliations

KHIC attributes much of its success to its affiliation with various national organizations that provide resources and funding for economic and community development. KHIC is a Partner CDC with Rural Local Initiative Support Corporation (LISC). It has also joined with the National Coop Bank and Federal Home Loan Banks to finance projects. It is a long time member of NCCED, the National Community Capital Association, the Community Development Venture Capital Alliance and various other trade associations.

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