

Grants to Start Your Business—Myth or Reality?

By Tom Dorr, Director

The Center for Economic Vitality has been getting a number of calls recently from small business owners from throughout the Country asking how they can get some of the FREE money we were giving away to small businesses. They had heard or read that we were one of a number of “government” organizations that had money to give away. It seems our organization was listed in a book “Getting Free Money from the US Government.” To set the record straight, let me share with you some of the common questions we have received:

Q: I don’t have the money I need to start my new business. What grants are available to me?

A: “If it sounds too good to be true, it probably isn’t,” comes to mind when talking about grants to start a business. After all, a grant is a direct financial contribution made without expectation of repayment. Grants may be available from family members or friends but organizations who give grants have criteria to meet that, by and large, excludes for-profit businesses.

Q: What criteria does a grant-making organization use to make awards?

A: Foundations, for example, normally fund non-profit organizations that qualify for public charity status under section 501(c)(3) of the Internal Revenue Code. These nonprofit organizations are usually charitable, educational, scientific, religious, literary, or cultural in nature. The government grant program designed to fund for-profit businesses is called the Small Business Innovation Research Program (SBIR). Small businesses with strong research capabilities in science and engineering that are currently doing high quality research and development are the most likely to compete for funds to continue their research. The program is not an assistance program for small business—it is highly competitive and merit-based. We are proud to have had a client qualify for a similar grant to look at commercializing their technology. They will receive \$100,000 to fund collaborative research with WWU’s mathematics department. (Go to www.sbaonline.sba.gov/sbir for more information).

In highly distressed parts of the United States, states may make funds available to businesses if it results in measurable job impact. Sometimes corporations, such as US West, offer seed money programs aimed at encouraging entrepreneurs. The US West NewVentures Competition offers 10 awards totaling \$100,000 to entrepreneurs in their 14-state territory. It is very competitive and based on feasibility, creativity and proposed use of the \$10,000 grant.

Q: Would I be able to qualify for a grant if I am a woman, minority, disabled, or a veteran?

A: A Native American living or working on a designated Reservation may be eligible for grant funds. Besides that, there are no Washington State or Federal programs that provide grants for individuals meeting those criteria. That is not to say, however, that assistance is not available. The most significant is preferential status for bidding on government contracts. Nonprofit organizations that serve women, minorities, disabled people, or veterans may offer grants or other forms of assistance. Check the phone book or our local library to locate these special focus organizations.

Q: What do I have to do to obtain nonprofit status for my business?

A: Since that is a rather complex question, request the Internal Revenue Service’s Publication 557

“Tax Exempt Status for Your Organization” to get some answers. You may call to order one at 1-800-829-3676. This publication will provide general information about obtaining tax-exempt status, filing requirements, and detailed information on section 501(c)(3) organizations. You may also visit the IRS website at www.irs.ustreas.gov.

Q: If I gain nonprofit status, where do I go to find out about grant opportunities?

A: If what you do is research-based, the Electronic Research Administration (ERA) has an excellent website at www.rams-fie.com/. It is a great resource for locating research and education funding opportunities and includes a link to FEDIX (a database of federal research and education funding opportunities). Regardless of the nature of your business, you may find non-research grant opportunities through related links such as The Foundation Center (a source of information on foundations and companies interested in philanthropy). The Foundation Center site provides assistance and information on grantwriting, funding sources, and references. Its web address is <http://fdncenter.org>. The Bellingham Library has some information available on the topic of grants. References include: the Foundation Directory, The Directory of Major Washington Foundations, Government Assistance Almanac, by J. Robert Dumouchel, and general guidance on operating a nonprofit business.

Q: Is there a local resource designed to assist non-profit organizations?

A: There are three organizations that can assist local non-profit organizations: The Opportunity Council, The Whatcom Foundation and United Way of Whatcom County.

Q: If my business doesn't really qualify for nonprofit status, are there other forms of financial help available?

A: The first place to look for funds is in your own personal resources. However, it is often necessary to leverage your resources with other people's money. While no direct funds are available other than those mentioned earlier, there are Federal and Washington State programs available to increase access to capital (funds). Through the US Small Business Administration, the 7(a) loan guarantee program is designed to offset the bank's risk by guaranteeing up to 80 percent of a borrower's loan. The guarantee encourages the lender to fund to start-ups or other businesses that might be deemed higher risk. Another SBA program is the SBA 504 used to finance assets such as land, buildings, or equipment purchases. The 504 program offers a combined interest rate that is lower than conventional rates. Your banker administers the SBA's lending programs and is a good place to start, or stop by the SBDC for information. Washington State assistance programs target counties that are suffering from high unemployment, economic instability, or businesses that are at-risk of failure and impact a significant number of jobs. In Whatcom County, the Child Care Facility Fund is available to businesses who want to develop an employer-based child care facility on their site. The fund does include some grant financing opportunities. Other state programs offer technical assistance in subjects such as minority and women business enterprises, procurement, forest products (revolving loan), international trade, tourism, etc. Call the Business Assistance Hotline at 1-800-237-1233 or visit the Washington State Home Page at www.wa.gov for more information.

Q: If I'm not eligible for any grants, I don't have any money, and I know I won't be able to get a loan from a bank, how can I start a business?

A: Maybe the answer is you can't. However, if your business depends mostly on your labor, you are able to secure supplies used on the job through credit or payment by your customer, and you are able to generate enough profit to reinvest back into the business, you may still be able to do it. Be sure to create a strong business plan and assure you have a solid business opportunity. Building a business this way, however, can make it more vulnerable to unexpected events so you may want to start while you have some other means of income for basic needs. The other answer is to wait until the time is right. Repair damaged credit, reduce debt, save your money, purchase assets you can later contribute to a business, and begin writing a business plan. Since the first step in writing a plan is assessing the

market environment, start researching the industry, competitors, and customer needs now. To own a business is to make an investment in your future; be prepared to accept some risk and commit your assets.