

A Flight of Financing Options

Article #6 of Hopping on the Brewery Bandwagon Series

Finding a funding source is often one of the primary challenges faced by new breweries and brewpubs. The last article in this series explored friends and family and angel investors, and this article will discuss a range of additional financing options, from Small Business Administration loans to crowdfunding to various types of tax credits and green energy incentives. The type of financing options that are available to and appropriate for a brewery or brewpub will vary according to the specific financing needs, the ultimate business goals, the size and stage of the business, and the preferences of the business owners.

Small Business Administration Loans

Breweries and brewpubs that are relatively new and do not have the cash flow or assets to support a traditional bank loan often look to programs of the Small Business Administration (SBA). There are several SBA loan programs, each with its own limitations and qualification requirements. In each case the lender will not be the SBA directly, but instead will be another institution, with the SBA providing credit support to the lender. The two most common types of SBA loan programs are known as CDC/504 loans and 7(a) loans.

CDC/504 loans can be used by breweries to acquire premises or equipment. CDC/504 loans must be used to acquire real estate or capital assets, such as equipment, and usually consist of a senior private sector loan, an equity contribution from the borrower, and a junior loan from a Certified Development Company. A list of Certified Development Companies is available on the [SBA's website](#).

The other principal SBA program is more flexible in the purpose of the loans. Like CDC/504 loans, 7(a) loans can be used to acquire real estate or capital assets, but unlike CDC/504 loans, they can also be used to purchase a business, or for long-term or short-term working capital needs. The maximum amount available under the 7(a) program is \$5 million, although the average loan size is around \$325,000.

Crowdfunding

Wisconsin's primary crowdfunding statute allows Wisconsin businesses to raise

POSTED:

Jun 1, 2015

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up to \$1 million from Wisconsin residents, although the dollar amount can be increased to \$2 million if audited financial statements are provided. The limit on contributions is \$10,000 unless the investor is an accredited investor or a certified investor. The offering must be made via a website that is registered with the Wisconsin Department of Financial Institutions (WDFI) as an Internet site operator. The statute requires the business to provide a disclosure statement containing specific cautionary statements prior to the sale of the securities. The statute also contains a requirement that the business that has issued crowdfunded securities provide a quarterly report to the investors and to the WDFI within 45 days after quarter end containing a discussion of the financial condition and operations of the business, and disclosing certain compensation information with respect to the officers and directors of the company. Two Wisconsin brewers have registered offerings on the WDFI's website.

Another financing option for small businesses that have a loyal customer base would be Kiva Zip, which is a form of crowdfunded loans. Kiva Zip is a nonprofit organization allowing small businesses to borrow zero interest loans, with individuals choosing the amount they want to contribute as a lender. In most cases, the loan will need to be endorsed by a trustworthy organization familiar with your business. Some organizations that have served as endorsers for other Wisconsin food and beverage related enterprises on Kiva Zip include the Wisconsin Women's Business Initiative Corporation and local chambers of commerce.

Historic Tax Credits

One under-appreciated financing tool is federal and state historic tax credits. Craft brewers and brewpubs—striving to use and create spaces with character—often rehabilitate, refurbish and retrofit historic, older buildings. If certain conditions are met, historic tax credits can return a portion of the cost of building restorations to a building's owners. As a side benefit, banks are more amenable to making loans when such tax credits are part of the overall financing arrangement.

The federal historic tax credit program awards federal income tax credits to a building's owners in an amount of 20 percent of the eligible costs of rehabilitating a historic building. Likewise, the Wisconsin historic tax credit program returns 20 percent of such costs to owners as a Wisconsin income tax credit. Thirty-three other states have similar programs.

The developer can sell the tax credits to raise funds at the start of a project. This is commonplace where the tax liability of the recipient is less than the amount of the tax credit. In such situations, the recipient sells the credits to an entity that has a larger tax liability—for example, an insurance company, a bank, or even a subcontractor.

The smallest approved tax credit amount under the Wisconsin program since the start of 2014 was \$13,000 (in fact, there were three projects where the approved credit amount was below \$15,000). So while there are upfront costs associated with qualifying for the historic tax credit programs, such costs are not necessarily prohibitive.

Green Energy Incentives

Finally, craft breweries and brewpubs should consider environmental and green energy incentives. For example, Focus on Energy is a program offered by Wisconsin utilities to promote energy efficiency and renewable energy. Craft breweries and brewpubs have used programs offered by Focus on Energy to obtain cash-back incentives and technical expertise. Some applicable programs offered by Focus on Energy are:

- Business Incentive Program. Custom incentives based on estimated first-year energy savings associated with a project/technology, featuring a per-project maximum incentive of \$200,000 and a cap of \$400,000 per applicant per year; and prescriptive incentives offering specific dollar amounts for completing certain qualifying energy efficiency measures.
- Renewable Rewards Program. Incentives for geothermal heat pump and solar electric installations in an amount up to \$650 through \$2,400 (depending on the technology).
- Renewable Energy Competitive Incentive Program. A competitive bid process for incentives for geothermal, biogas, biomass, wind, solar electric and solar thermal technologies in an amount up to \$500,000 or 50% of the total project cost.
- Design Assistance Program. Financial and technical support to enhance the net energy efficiency of newly constructed and substantially renovated buildings.

If you have questions about financing options or documentation, contact your



Reinhart attorney or any member of the Banking and Finance Department or Food and Beverage team.

Stay tuned for the series' next article on Site Selection: Purchasing, Leasing and Zoning Considerations.

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