

Senate Agriculture Committee Field Hearing

Opportunities for Growth: Michigan and the 2012 Farm Bill

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Lansing, Michigan

Testimony of Dennis West

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Marquette, Michigan

Good Morning! Thank you to Senator Stabenow and to the Senate Agriculture Committee for this chance to offer testimony. These written remarks are longer than the allotted time for verbal testimony, so I would request that they be entered into the record.

Northern Initiatives is a non profit community development financial institution and microloan intermediary, serving 46 rural Michigan counties and the five border counties of Wisconsin. NI is based on the campus of Northern Michigan University, tracing our beginning to the University who founded us in 1991.

Our founding direction grew out of perspective of the late Jane Jacobs that rural areas needed connection to urban areas for three things that were less available in rural places, the access to capital, information and markets. This has been our theory of change at Northern Initiatives and the USDA programs have been critical to us in our efforts to build a more diverse and resilient rural economy. USDA resources have helped us to make nearly 600 loans, provide technical assistance, training and consulting to over 1,000 businesses, and build regional strategies in support of cultural and nature tourism which is helping parts of the Upper Peninsula grow as regional and national markets.

I am here to testify on the importance of rural development programs for **entrepreneurship** and for strengthening **community capacity**. On the entrepreneurship side, rural development programs are providing credit for rural businesses complimented by technical assistance for starting and growing businesses. Specifically, the programs vital to rural Michigan are the **Intermediary Relending Program (IRP), the Rural Micro entrepreneur Assistance Program (RMAP), Business and Industry Loan Guarantee Program (B&I), the Rural Business Enterprise Grants (RBEG) and the Rural Opportunity Business Grants (RBOG)**. The community capacity programs of importance are the **Rural Community Development Initiative (RCDI) and the Water and Sewer and Community Facilities Programs**.

Let me begin with rural **entrepreneurship**, the credit issues and need for alternative capital in rural Michigan (the Intermediary Relending Program, Rural Micro entrepreneur Assistance Program and the Business and Industry Loan Guarantee Program). Thank you Senator Stabenow for lending your support to the creation of the Rural Micro entrepreneur Assistance Program in the last farm bill, NI has already

drawn \$300,000 in this program since closing our loan last December. It adds a valuable tool for meeting the needs of northern Michigan's job creators.

There is the need to reach more would-be entrepreneurs and conventional financing alone leaves many potential business owners and job creators on the sidelines. Alternative capital is used to share in the risk with community banks in support of growing businesses that will invest in new equipment and technology and add jobs. Finally, alternative capital is important for overcoming the collateral and credit challenges that the last decade and the Great Recession dealt Michigan businesses.

Emerging from the last decade we need to grow our way out of the challenges that Michigan has faced. We were the only State to lose population from 2000 to 2010, and we spent much of the decade at the highest unemployment in the nation. Those challenges were coupled with an unprecedented loss in per capita income falling from 18th to 36th among States in just eight years.

Renewing growth begins by encouraging entrepreneurs to bring their ideas and passions to the market, and alternative capital is an essential part to that cause. Attached is data about the 46 rural Michigan counties (see Attachment A). In March, one out of 46 counties had a jobless rate lower than the US rate, and 41 of 46, (89%) had a jobless rates that were higher than Michigan's rate. The recession has been hard on rural Michigan and if we are to grow our own, we need resources. This point is emphasized by data supplied by the Edward Lowe Foundation at www.youreconomy.com. According to their data, from 2000-2008, self employment in Michigan increased by 117.9% and Stage One businesses (2-9 employees) grew by 50.2%. While we were hit hard by the loss of manufacturing and large firms, there was growth, and it was in small businesses. The Small Business Administration's Michigan District's Annual Report relates that there has been growth among these classes of small businesses every year since 1991.

For a community to reach its entrepreneurial capacity the first question is where are the sources of financing likely to come from? So will banks or credit cards or home equity loans take up the start up financing slack? When one looks at what happened in Michigan during the last decade, then compares that reality with the requirements for loans the traditional "five c's" of lending: credit, collateral, cash, capacity and character, one can see the depth of the issue for Michigan's innovators. Cash is short in many businesses not to mention households, collateral values have fallen in home and commercial industrial buildings, credit is tight everywhere. In order to fully tap our entrepreneurial capacity, there must be resources that focus on capacity (the prospective cash flow of the proposed enterprise) and most importantly character of the prospective entrepreneur. An alternative lender uses these resources to provide credit and technical assistance to improve businesses survival rates and capacity to grow.

As a result, Northern Initiatives is coming off 2010, its most productive year ever, in terms of new loans, jobs created and jobs retained (see Attachment B). Our use of these alternative loan products, the Intermediary Relending Program, and the Rural Micro Enterprise Assistance Program allow loans to be made to those who cannot meet a "bank standard." They provide a form of capital that allows for a customer's story to be heard and a judgment made which largely resides in character and energy of the borrower.

Let me share a few stories of where small amounts of alternative capital have led to big results.

In Marquette, the IRP loan fund has helped Dan Torres to take a small building that had been the site of two previous failed restaurants and start his concept of a fresh, authentic Mexican restaurant - The Border Grill. Fourteen years later, The Border Grill is in three locations and employs over 100 people who have jobs with benefits.

In Wakefield, Michigan, in ten years, Mike Zacharias has used an IRP loan to go from start up of Extreme Tool, in a rural, hard to find location, to a company with global reach. Mike went head first into what appeared to be a dying industry in the US, the tool and die industry, and focused on quality, speed of delivery to customers and their satisfaction. He has three operations and now employs over 50 people.

Alternative loan funds also support growing businesses. Community banks need partners when it comes to taking the risk to support growth. Jacquart Fabric Products is an example. An IRP loan enabled the company to buy a computer aided design cutting machine which supported a move to "just in time" production. Today, the cut and sew manufacturer features a great deal of technology, features speed of delivery of its products, and employs over 150 people in Ironwood Michigan.

Nationally the IRP program has made over \$700,000,000 in loan capital available to intermediaries like NI. In its history the IRP program has never had a default or a delinquency while providing, capital to 8,000 rural businesses.

Finally these alternative capital resources are also important for existing businesses that experienced a loss of revenue and business losses and a resulting loss of revenue during the recession. It is not unusual to have manufacturers and some commercial establishments facing lower collateral values. They have seen property and equipment values fall with the decline in the number of larger businesses (Stage 3 and 4 (100 + employees) who were hit hard by the recession and the woes of the auto industry. What we are seeing is Bank customers who had formerly been A or B rated fall below that standard, as a result of losses in recent years. As business conditions have begun to improve they now need credit, but cannot secure it or at least the amounts that they need to fulfill contracts and hire again. In 2004 Northern Initiatives was given the authority by the USDA to issue B&I Loan Guarantees. We have done but one in the first seven years of that authority, but in 2011 we are prepared to do two more, just in the first quarter. These B&I loans opportunities have come as referrals from community bank partners who want to see business customers that they cannot serve in the current environment, succeed.

In an effort to expand entrepreneurial capacity, support growth and restore economic viability to sound Michigan businesses, we need these rural development programs that allow intermediaries to support small business. What we cannot predict is whether Northern Bee, Sky Iris or any of 27 other micro borrowers from 2010 will prove to be the next major job creator like Border Grill, Extreme Tool or Jacquart Fabric Products. What is certain is that most will stay in business and some of them will grow to be significant job creators. As a result, the Federal Government gets the returns of payroll taxes, employees with benefits, and lower safety net costs through these small investments using these USDA programs.

Rural development capital can also be sourced through the Rural Business Enterprise Grant Program but its great value is also its flexibility. The RBEG and the Rural Business Opportunity Grants (RBOG) can be used to bring information and knowledge that supports entrepreneurs to build systems essential to growth. Many of our rural businesses face three challenges, distance from markets, isolation, and seasonality. Yet, in today's economy, many small rural businesses in Michigan enjoy international sales and business partnerships, made possible with the right systems which includes the know how to find and be found. Generally this is through advanced use of the internet in e-commerce applications. Bringing the ability to support small businesses through information resources is another important issue for rural development.

The other critical role of USDA programs is the building of **community capacity**. The **Rural Community Development Initiative** (RCDI) program enables a multi-year approach to organize communities around market building strategies. The RCDI grant that we received helped us to launch a regional project involving five counties to build a brand and strategy around nature and cultural tourism. The project is the Great Waters, www.greatwaters.org. Seven years after the grant, the project has shown communities the value of collaboration, and the successes that come from leveraging small amounts of money for larger results. Nine communities are now using Facebook, You Tube, and collaborating on a Pure Michigan campaign. Their contributions of around \$4,000 each are getting publicity about their area, and we are seeing results. Last August we interviewed 2,411 visitors and found that around 80% were there for recreation and cultural purposes and that 41% were not from Michigan. The use of data is infectious, recently a resort owner told us that although her percent of Michigan residents has dropped from 80% to 31% in just three years, her revenue grew. This is thanks to visitors from other States and countries. Regional collaboration can cause impressive results and important lesson to small communities their businesses and this Committee.

Finally there is the critical role of infrastructure and community facilities investments. Recently, Marquette and Northern Michigan University were delighted to be visited by President Obama. He came to the University to highlight the investments in high speed internet connectivity that the University was leading for the Upper Peninsula. Northern Michigan University has been a leader in using Wi-Max and communication for instruction and connection of remote rural areas.

When the environment for broadband access to the internet exists businesses that otherwise face isolation, remoteness and seasonality can compete. Recently, the owner of a saw sharpening service was supposed to come to Marquette to Northern Initiatives to sign a note extension. At the last moment he cancelled because he had just received a \$15,000 order that he needed to fulfill. While this seems like a "no big deal" occurrence, he is 14 miles from Iron River and he is not located on a State, or US highway. Having a website designed by Northern Michigan University students has allowed him to have an e-commerce presence and to be "found." A second illustration of e-commerce's impact is the story of Risak Pottery in Marquette. For many years sales of their unique Raku Pottery, primarily came from going to art shows and fairs. Last year after building an e-commerce web site, again assisted by Northern Michigan University students, they saw their sales increase by 10% with a substantial cost savings as they attended 10 fewer art fairs.

Rural American businesses can compete globally when they can be found. That first means access to broadband, but it is coupled with the capacity and knowledge to build and grow e-commerce capacity. In this light USDA programs should be considering ways that bring the maximum possible value to their efforts, infrastructure and business development working together to make as a norm, 1+1=3. The precious nature of our rural development resources means tying together expectations and outcomes to achieve the greatest returns possible for the dollars invested.

There is a critical issue on which your leadership is needed. While USDA Rural Development now has the critical programmatic tools to create jobs in rural America, they are being defunded. Federal investment in rural development has plummeted, falling by almost 1/3 over the last eight years.

Please exert your leadership to restore a fraction of the cut by committing \$100 million of mandatory funds each year to a Rural Renewal Initiative, to be allocated by the Secretary among USDA Rural Development Programs, **(the Intermediary Relending Program, the Rural Micro entrepreneur Assistance Program, the Rural Business Enterprise Grant Program, the Water and Sewer Program and the Value Added Agriculture Grant Program)** to create jobs in rural America. Priority should be placed on communities suffering high unemployment, population loss, low incomes, high poverty or sudden and severe job loss.

Investment of \$100 million annually would have a big impact on job creation in small communities, but represent just 1/6 of one percent of total farm bill funding. There must be a way to carve out 1/6 of one percent of farm bill funds to create urgently needed jobs for unemployed Americans and struggling families in rural communities.

And for urban America the USDA programs are a contribution to the building of a corollary to Jane Jacobs' theory, that urban America needs access to rural America for the goods, services and assets that represent **fresh, natural, local and authentic**.

These programs are vital to the revitalization and transformation of Michigan communities through building and encouraging viable businesses. We are seeing an exciting revival of new ideas and entrepreneurship and these rural development programs are vital to continuing to build on a rising trajectory.

Once again, thank you for this opportunity to advocate for rural development.

Attachment A

MICHIGAN ▪ LOWER PENINSULA							
County Name	Population 2010 US Census	Median Household Income 2008 US Census	% of State Median Household Income 2008 US Census	Unemployment Rate March, 2011 US 8.8%	Poverty Rate 2008 US Census	Children in Poverty 2005 US Census	Percentage Bachelor's Degrees; Adults over 25 2007 Census
Michigan Total	9,883,640 Red= decline between 2000 and 2010	\$48,606	RED=<80% Blue =80 to 90% Black = 90 to 100% Green => 100%	March, 2011 10.3% MI-DLEG Red= higher than the Michigan Jobless Rate	14.4% Red = higher than the Michigan Poverty Rate	18.3% Red = higher than the Michigan Poverty Rate	21.8% Red =<21.8%
Alcona	10,942	\$34,547	71%	16.9%*	15.5%	27.2%	10.9%
Alpena	29,598	\$37,546	77.2%	12%	16.5%	20.3%	13.2%
Antrim	23,530	\$42,732	87.9%	15.1%	12.9%	16.9%	19.4%
Arenac	15,899	\$36,418	74.9%	15.7%	18.2%	26.3%	9.1%
Benzie	17,527	\$45,309	93.2%	15.1%	10.3%	13.4%	20%
Charlevoix	25,949	\$48,410	99.6%	14%	11.2%	16.4%	19.8%
Cheboygan	26,152	\$37,851	77.9%	17.2%	18.2%	23.1%	13.9%
Clare	30,926	\$34,904	71.8%	14.9*	19.1%	29.5%	8.8%
Crawford	14,074	\$37,396	76.9%	13.1%	17.8%	26.1%	12.9%

Emmet	32,694	\$50,556	104%	15.8%	10%	12.7%	26.2%
Gladwin	25,962	\$37,924	78%	15.3%	17.8%	29.6%	9.2%
Grand Traverse	89,986	\$50,207	103%	11.5%	9.5%	11.1%	26.1%
Iosco	25,887	\$34,929	71.8%	16.1%	17.6%	27.2%	11.3%
Isabella	70,311	\$39,006	80.2%	8.6%	29.4%	17.6%	23.9%
Kalkaska	17,153	\$40,618	83.6%	14%	15%	22.6%	9.7%
Lake	11,539	\$31,658	65.1%	14.5%	20.1%	38.5%	7.8%
Leelanau	21,708	\$56,056	115.3%	11.1%	8.5%	11%	31.4%
Manistee	24,733	\$38,076	78.3%	13.2%	13.6%	18.8%	14.2%
Mason	28,705	\$40,858	84%	12.5%	15.7%	18.7%	15.9%
Mecosta	42,798	\$37,888	77.9%	11.7%	20.9%	25.6%	19.1%
Missaukee	14,849	\$40,037	82.4%	15%	14.6%	23.8%	10.2%
Montmorency	9,765	\$33,425	68.7%	20.4%*	17.7%	28.3%	8.2%
Newaygo	48,460	\$44,157	90.8%	12.3%	16.2%	18.8%	11.4%
Oceana	26,570	\$40,872	84%	16%	18.8%	27.5%	12.6%
Ogemaw	21,699	\$35,539	73.1%	12.9%	18.8%	27.6%	9.6%
Osceola	23,528	\$39,757	81.8%	13.4%	16.7%	23.6%	11.3%
Oscoda	8,640	\$34,239	70.4%	18.6%*	17.7%	28.8%	8%
Otsego	24,164	\$47,643	98%	13.9%	10.1%	14.9%	17.4%
Presque Isle	13,376	\$37,731	77.6%	21%	13.8%	18.7%	11.5%
Roscommon	24,449	\$35,009	72%	14.6%	18.4%	27.8%	10.9%
Wexford	32,735	\$41,264	84.9%	14.3%*	15.2%	19.9%	15.3%
	366,179						

NI currently offers only microloans in Grand Traverse and Leelanau Counties

MICHIGAN ▪ UPPER PENINSULA

County Name	Pop. 2010 US Census	Median Household Income 2008 US Census	% of State Median Household Income 2008 US Census	Unemployment Rate March, 2011 US 8.8%	Poverty Rate 2008 US Census	Children in Poverty 2005 US Census	Percentage Bachelor's Degrees; Adults over 25 2007 Census
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Alger	9,601	\$41,152	84.6%	13.5%	13.5%	18.5%	14.7%
Baraga	8,860	\$35,387	72.8%	21.1%*	16.1%	18.9%	10.9%
Chippewa	38,520	\$41,173	84.7%	13.2%	18%	20.6%	15%
Delta	37,069	\$43,485	89.5%	11.4%	13.8%	16.7%	17.1%
Dickinson	26,168	\$41,872	86.1%	10.1%	12.1%	14.1%	16.7%
Gogebic	16,427	\$33,483	68.9%	11.7%	19.2%	23.3%	15.8%
Houghton	36,628	\$34,196	70.3%	10.5%	20.2%	18.5%	23%
Iron	11,817	\$36,325	74.7%	11.3%	15.4%	20.8%	13.7%
Keweenaw	2,156	\$37,635	77.4%	14.9%	14.7%	22.9%	19.1%
Luce	6,631	\$36,851	75.8%	12.6%	20.3%	25.4%	11.8%
Mackinac	11,113	\$37,928	78%	24.2%	11.5%	18.1%	14.9%

Marquette	67,077	\$43,599	89.7%	9.6%	14.2%	15%	23.7%
Menominee	24,029	\$39,072	80.4%	9%	15.7%	17.9%	11%
Ontonagon	6,780	\$33,927	69.8%	17.8%*	15.8%	20.1%	13%
Schoolcraft	8,485	\$39,475	81.2%	15.7%	15.6%	22.6%	11.3%
	311,361						

*among the highest 50 unemployment rates for rural counties in the US in September

Attachment B Northern Initiatives 2010

Lending Performance (Micro loans, subordinated debt and non-debt structures, available to businesses in 49 rural counties)

- Total number of Commercial and Industrial Loans closed in 2010-**47** (ties all time record for one year)
- Total start up loans-**19**
- Total new jobs created-**134** (all time record for one year)
- Total jobs retained-**200** (all time record for one year)
- Percentage of loans for women owned businesses-**32%**
- At year's end Northern Initiatives had loans in **30** Northern Michigan counties and one in a Wisconsin border county.

Business Advancement Center Performance (Business Advancement Services, technical assistance, consulting and training)

- **54%** of all new loan customers received technical assistance
- **75%** of customers whose loans were less than \$50,000 received technical assistance
- **25** manufacturers received market diversification strategy assistance
- **32** Stage Two businesses graduated from Profit Mastery Training (sessions held in Marquette, Baraga, Houghton, Delta, Dickinson and Chippewa Counties)
- **Twelve** Northern Michigan University students were employed in developing projects to support and grow small businesses.

Regional Strategies

- **Food Systems**
 - The Hoop House at the Jacobetti Center had its first year of production. Used by Northern Michigan University's College of Professional Studies for experiential learning. Used by the Marquette Food Coop to support community education and test crop production for local growers.
 - Value added packaging pilot(salsa and pesto kits) with local grower.
- **Cultural and Nature Tourism**
 - Pure Michigan campaign organized for Sault Ste. Marie, Curtis, Paradise, Newberry, St. Ignace, Les Cheneaux, Mackinac Island, and Munising with dramatic increases in community web site traffic.
 - Social Network sites managed for 5 eastern UP communities
 - Visitor Survey completed for 7 key counties in Upper Peninsula, featuring 2,411 tourist interviews
 - Nature and Cultural tourism strategy launched for the Western UP counties of Gogebic and Ontonagon

2010 Regional Strategies & Business Advancement Center NMU Student Capabilities and Projects

Capabilities

- Content Management for Website
- Launch and Manage Social Media - Flickr, Facebook, Youtube
- Primary and Secondary Market Research
- Project Management
- PowerPoint Presentation
- Traffic Analysis
- Data Analysis
- Surveying - online/phone
- Manage web based inventory management system
- Website Programming - CSS, HTML, PHP, Joomla
- Search Engine Optimization
- Marketing Strategy
- Financial Spreading and Credit Analysis
- Adobe Suite - InDesign, Illustrator, Photoshop, Dreamweaver
- Work flow Creation with Microsoft Visio
- Report Creation
- Network and Information Technology

Projects

- Social Media - Manage Great Waters, Newberry, Paradise, and Ski/Bike Michigan UP Trails Facebook pages
- Manage Great Water website content
- Reporting - Report out traffic on social media and web efforts monthly
- Visitor Survey
- Business Survey
- Local Growers Research
- Value added local foods pilot
- Market/Competitive Research and Recommendations
- Website Content Development
- Website Programming and Setup
- Website Training Manual Creation
- Facebook Strategy and Calendar Development
- Financial Scorecard Tool Setup and Analysis
- Website Promotion and Analysis with Keyword Analysis, Page Rank, Google Analytics and Google AdWords
- Collateral Materials Development
- Video Conference Room Research and Setup
- Network and Computer Support for Northern Initiatives staff

