



February 7, 2011

Testimony on LB 387 by Chuck Hassebrook on behalf of the Center for Rural Affairs

The Business Innovation Act can be good for all of Nebraska, if some modest refinements are made to ensure that it works for our small towns and rural areas. We would like to support this bill because it has positive features to support the development of new high growth, technology related businesses and, critically for rural Nebraska, it continues support for microenterprise.

Nevertheless, I must reluctantly speak in opposition to the bill as written because it also eliminates or weakens programs that have served rural Nebraska well.

Building Entrepreneurial Communities Act – LB 387 would repeal the Building Entrepreneurial Communities Act, so small towns would no longer have a funding source for their initiatives to support small business and entrepreneurial development. That funding has enabled effective, community-based initiatives. Here are a few examples, drawn from Department of Economic Development news releases:

- Nebraska City and Table Rock received \$26,700 to support local entrepreneurs.
- Eddyville, Miller and Sumner received \$4,800 to provide business owners and entrepreneurs with tools to invigorate the area economy.
- Schuyler and Columbus received \$7,200 to provide training on financial literacy, basic business understanding and continuing education.
- Cambridge and McCook received \$60,000 for developing business and engaging youth and young adults in entrepreneurship.
- Butler County and David City received \$12,500 for leadership and business development.
- Southeast NebraskaEDGE Program received \$6,000 for continuing education classes to small business owners in Otoe, Nemaha and Johnson counties.
- The Grand Island Area Chamber of Commerce and Juan Diego Center in Omaha received \$23,800 for the Latino Business Partnership, which provides training to the minority business community.

Nebraska Value Added Agriculture Program – LB 387 would repeal the Nebraska Value Added Agriculture Program, which makes grants to farmers and ranchers to develop value added enterprises. Some value added agricultural products could be supported through the new program that would be created under Section 7 of the Act to make grants for commercialization of prototypes developed by Nebraska businesses. Nevertheless, there very likely would be less support for value added agriculture and a narrower range of projects would be supported – limited to those involving product prototypes.

The Value Added Agriculture Program that would be repealed by this Act has prompted a wave of entrepreneurial agricultural enterprises across Nebraska – many that don't involve new product prototypes and thus would not be eligible for funding under this legislation. Here are a few examples, drawn from Department of Economic Development news releases:

- Pheasant Oak Wine Confections of Brainard received assistance for freezers and marketing of sauces, jellies, ice creams and cocktail sorbets, enabling the business to market and expand its line of wine flavored ice cream and sorbets. Pheasant Oak has been featured on CNN Headline News and Fox Business Network.
- Pekarek's Produce of Dwight, Hollenbeck Farms of Elmwood, and the statewide Nebraska Food Cooperative receive grants for equipment and processing facilities to market Nebraska-raised produce and livestock to Nebraskans.
- Heartland Nuts N' More Cooperative in Saunders County received assistance for facilities, product development and marketing.
- At Springfield, Turtle Creek Farm received assistance in getting into the business of producing bamboo for use by Henry Doorly Zoo.
- Near Syracuse, M & M Farms received assistance in developing an enterprise that freeze-dries Nebraska produce into nutritious snack foods for sale in schools, hospitals and health food stores.
- At Roseland, local farmers and others in Little Blue Energy received support for development of an ethanol plant.
- In southwest Nebraska, the program helped GROW Nebraska of Holbrook expand its marketing of Nebraska food products, helped Republican River Organic Produce establish an organic fruit and vegetable company, supported Republican Valley Bio-Fuels on planting low-water-use crops for use as biofuel alternatives and supported a feasibility study for a food processing plant near Eustis (FOOI-Food Processing).

These are just a few examples. Many other innovative projects have received assistance.

Lied Main Street Program – Appropriations would end for the Nebraska Lied Main Street Program, with the funds shifted to the new Business Innovation Act. This is not actually written in LB 387, but is part of the proposed funding for the programs created by LB 387. Lied Main Street has assisted communities across Nebraska in revitalizing their Main Streets including McCook, Nebraska City, Plattsmouth, Hastings, Grand Island and many others. It has worked extensively with Omaha neighborhoods including Gifford Park, Joslyn, Benson, Florence and South Omaha. Elkhorn is a designated Main Street community with the smallest Main Street district, a block wide and two blocks long. Since 2006, they have recorded 31 net new jobs and 12 net new businesses with a reinvestment of nearly \$226,000 in the downtown thanks to the Main Street program.

Microenterprise Development Program – The existing Nebraska Microenterprise Development program would end and be replaced by a new microenterprise program created by the Business Innovation Act. Microenterprise includes owner-operated businesses with up to five or ten employees.

We commend the Governor for including microenterprise in this legislation. Under the Act, up to \$1 million could be spent on microenterprise, though the amount actually allocated by the Department to microenterprise could be less.

Nevertheless, microenterprise development in rural Nebraska would be greatly reduced as a result of language in LB 387 dedicating 80 percent of the funding to loan capital, thereby exacting a several-fold cut in funding for microenterprise training and technical assistance, such as assistance in developing business plans. Ironically, dedicating more of the funds to loan capital would, in our judgment, diminish microenterprise lending.

The Center for Rural Affairs is the leading microenterprise lender in Nebraska. Our REAP program has made over \$6 million microenterprise loans in rural Nebraska and, in recent years,

has made four times the number of microenterprise loans as the second largest micro lender in rural or urban Nebraska. In addition, by providing technical assistance and working in collaboration with other lenders, we have leveraged an additional \$13 million in microenterprise loans in rural Nebraska.

We have plenty of loan capital from federal and private sources to make more loans, if there were more qualified borrowers. The key to making more loans is developing more qualified borrowers, which requires training and technical assistance. By statute, our federal capital can be lent only to businesses that don't qualify for private loans. So we don't compete with banks for their customers. Our job is developing new customers who will ultimately graduate to private lenders.

In spite of lending only to borrowers who cannot get private loans, our default and loan loss rates are only slightly higher than private lenders. We accomplish that by providing training and intensive technical assistance that for-profit institutions could never provide without running in the red.

In fact, many of our training and technical assistance clients never borrow from us because, with our assistance, they secure bank loans. Our ability to train clients and provide technical assistance has enabled us to develop close partnerships with rural banks. We develop borrowers and, once they reach the point of qualifying for bank loans, we hand them off.

Our REAP program is able to provide these services by placing business specialists across the state from Morrill to North Platte to Minden to Plymouth to Tecumseh to Seward, and from Atkinson to Norfolk in the Northeast. State funding has been critical in putting these staff in place, both in providing direct support for them and leveraging federal funds. For every one dollar of state training and technical assistance funding we lose, we lose four dollars of federal funding for the same purposes.

If state funding is reduced for training and technical assistance, there will be fewer business development staff, fewer microenterprise loans, and fewer microenterprise startups and expansions in Nebraska.

It is important to understand that though microenterprises may be small, they collectively have a big impact on the state's economy – accounting for one-in-five Nebraska private jobs. Microenterprises are especially critical during recession, because historically they have been the first to create jobs and lead us out of recession. For example, during the 2000-2003 recession microenterprise employment grew by five percent in Nebraska while employment fell in larger firms.

Nebraska has been a leader in investing state funds in microenterprise development, and it has paid dividends. In the last two years, state-funded microenterprise development organizations helped create or retain nearly 5,000 jobs. Technical assistance and training accounted for the lion's share of those jobs.

Proposed Changes or Refinements in the Act to Support Rural Development

We respectfully request that the Committee take one of two possible steps to address rural development. We ask that you either, 1) remove from LB 387 provisions affecting the Building Entrepreneurial Communities Act, Nebraska Value Added Agriculture Program, Lied Main Street Program and the Microenterprise Development Program, or, 2) make the following refinements in the Legislation:

- Explicitly add the development and marketing of value added agriculture products as an eligible purpose for the \$2 million in grants for commercializing prototypes. That will ensure value added initiatives that do not involve product prototypes could receive funding.
- Continue funding for Lied Main Street.
- Eliminate the requirement that 80 percent of microenterprise funding be used to provide loan capital. Instead, allow the Department of Economic Development to fund the work with the greatest potential to create quality jobs and self-employment opportunities without the constraining mandate that 80 percent of funds to go to loan capital, even though that may not be the highest and best use of funds.
- Expand the activities supported by microenterprise grants. Include grants for technical assistance to small towns for their initiatives to support entrepreneurial development. That would help make up for the loss of the Building Entrepreneurial Communities Act, which in many instances funded communities to hire consultants to provide such assistance.

Also provide funding through the microenterprise program to educational institutions and business development organizations to provide technical assistance on value added agriculture projects – including assistance with feasibility studies, market analysis and business plans. In the past, private businesses often used their Nebraska Value Added grants to contract with third parties for such assistance. Funding that assistance directly would help make up for a reduction in direct Value Added grants, and it would create a pipeline of projects to apply for federal Value Added grants. The state of Iowa provides such assistance, and it leads the nation in federal Value Added Producer Grants.

Also, expand the purposes for microenterprise grants to include development of small business networks to enable small businesses to work cooperatively to secure more lucrative non-local markets. The economic development literature documents the contributions to regional development that result from regional business networks.

- Set minimum funding of \$1 million for microenterprise grants to accommodate the expanded purposes proposed above and to ensure that overall support for small town rural development is not diminished.