

Southwest Rural Economic Area Partnership (SW REAP) Annual Narrative Report 2011

To: USDA Rural Development and Interested Parties

Compiled by: Shirley Brentrup, 701-483-1447 brentrup@ndsupernet.com

Executive Director for SW REAP

635 Oak Street, Dickinson, ND 58601

Executive Summary – 2011

SW REAP celebrated its 2010 designation as a USDA Rural Development *Great Region* in February 2011. Attending a meeting and luncheon were the SW REAP Board, regional businesses, local government and local organizations. Special guests were Jasper Schneider, USDA-RD State Director; Aaron Krauter, USDA-FSA State Executive Director; Doug O'Brien, USDA-RD Deputy Undersecretary for Policy and Planning, Washington DC; and Randy Gibson, USDA FSA, Washington DC.

O'Brien provided a congressional overview of the designation. Bill Davis, North Dakota USDA RD, and Aaron Krauter gave an overview of REAP and its history. Another 34 attendees spoke about their REAP supported businesses, services or projects. This celebration not only gave REAP an opportunity to reflect on successes but also to forge a relationship with good people working on behalf of rural areas in Washington DC. It is likely, this great showing of local support for REAP had a positive impact on the next big event to come to SW REAP, the award of a HUD Sustainability Grant.

In August, SW REAP partnered with the North Dakota Association of Gas and Oil Producing Counties, the REAP Investment Fund and a national company, Building Communities, Inc., to submit a HUD Sustainability Planning grant application for 19 counties and one tribe in western North Dakota. The application was selected in November to receive \$1.5 million in HUD grant supports for sustainability planning. We firmly believe our 16 year collaboration with North Dakota USDA Rural Development, the Great Regions designation and the recent celebration were key to receiving the HUD award. Planning work will begin in February. State USDA RD staff have offered to assist in the planning meetings and provide supports where possible.

The following statistics are reported for the SW REAP Zone for the 2010 calendar year:

Micro Loan Program – maximum loan amount \$7500

- 4 micro loans were made
- 1 job was created
- 20 jobs were retained
- 1 new business was started
- SW REAP loans totaled \$26,100
- Leveraged funds were \$319,035
- Total Funds for all Micro Loans were \$345,135

Partnership Fund

- 1 project assisted
- One conference was assisted with 350 people attending
- \$1,000 was granted by SW REAP
- \$28,268 was leveraged through donations for this conference
- Total Funds for all Partnership Fund projects was \$29,268

SW REAP Internal Projects (Great Regions Meeting/HUD Sustainability)

- 2 projects were implemented and assisted by SW REAP
- 1 Great Regions Meeting was held/1 HUD Sustainable Community Meeting held
- 1 HUD Sustainable Communities Application was submitted
- \$10,375 was granted
- \$2,075 was leveraged through donations
- Total funds for all Internal projects was \$13,450

REAP Investment Fund Revolving Loan Fund – maximum loan \$50,000

- 1 business was assisted
- 2 jobs were maintained
- \$50,000 was loaned
- \$469,341 was leveraged
- Total funds for all RIF Business Loans \$519,341

REAP Designations (award of up to 15 points in some USDA funding competitions)

- Seven projects were reviewed and received SW REAP designations

Most Significant Accomplishments

Micro Loans (Benchmark 76). The SW REAP Micro Loan Program provides loans for businesses that employ one to 10 people or new business ventures located within the SW REAP Zone. Businesses can receive up to \$7,500 but not more than 50% of the project total (whichever is less) for business activities approved by the SW REAP board. The 0% micro loan is for a maximum of three years with repayments beginning six months from the approval of the loan. Interest rates apply if the loan is not repaid on time. A \$150 fee is assessed to each loan.

Applicants must complete an application and provide a project narrative and budget to their local economic developer who sponsors the project to the county economic development board and then both the developer and the business owner present the application to the SW REAP board.

This year 4 loans were made which is five times less than the number of loans made in 2010. We believe this decrease reflects the fact that low interest rates are now widely available.

Community Participation

At a minimum, 562 people were identified as participants in SW REAP supported activities this year by being board and committee members, class participants, instructors, partner groups, businesses, and entrepreneurs. In addition, our area newspapers provide support of SW REAP through excellent coverage for SW REAP funded activities.

The SW REAP board meets on even numbered months in a different location to allow residents throughout the region to attend. Usually interested people, regional development corporations, the county newspaper, county commissioners, and some city officials attend.

The SW REAP board initiates very few projects. The board recognizes areas of need and interest and then expresses a willingness to fund projects in those areas. Therefore, almost all projects mentioned in this report are initiated and implemented by persons outside the board and in many cases involve partnerships of at least two or three entities.

Partnerships and Alliances

(1) SW REAP and its sister REAP Zone, the Center of North America Coalition, have been in partnership for sixteen years. The two zones share their non-profit 501©3 organization, the REAP Investment Fund Inc. This group has been the recipient of grants for and within the two zones and continues to provide grant administration and facilitation. The organization has several programs benefiting both zones including the Revolving Loan Fund. This program lends up to \$50,000 per business in either zone. (2) SW REAP also had working partnerships with the seven local development corporations and the Small Business Development Center which bring regional issues to the focus of the board. These groups prepare and sponsor 100% of all micro loan applications. (3) In 2011, SW REAP partnered with the North Dakota Association of Oil and Gas Producing Counties to request a HUD Regional Sustainability Grant. The grant has been awarded at \$1.5 million. Local match and in-kind make the project total \$2.4 million. The project will complete sustainability plans for 19 counties and one tribe plus create one regional plan and one Infrastructure Agenda for counties impacted by energy development. The project will begin in 2012 and end in 2014.

Problems/Obstacles

In 2010, SW REAP made 20 Micro Loans. This was by far the most loans ever in one year. However, more were approved but met with obstacles for accompanying bank loans. A primary obstacle was poor credit ratings. Two other loans were undercapitalized and closed their businesses this year. SW REAP doesn't regret making the loans but wanted to implement some safeguards or practices that would help to assist borrowers before they got too far into their business financing or before they became indebted for a business that no longer existed.

Another problem was joint partnerships. These appeared to be more volatile and the partners failed to plan for dissolution of their businesses. A final observations was that some loans were for existing business expansions. It appeared these loans didn't need the six month furlough before beginning repayment.

Solutions

SW REAP Implemented several safeguards in their Micro Loan Program. Upon board approval, a Micro Loan Checklist was initiated so local county economic developers could assist potential borrowers to assemble better loan packages. New items consisted of a request for a credit report, anticipated revenues and expenses and copies of previous tax returns or the previous year's balance statement for existing businesses. In addition, partnerships need to provide a partnership agreement with dissolution statements. The local county development corporation sponsors each Micro Loan application and as a new item should indicate when they suggest loan repayments begin for any existing business and how they reached that recommendation.

These safeguards should inform the borrower of their credit rating before they start asking for money or begin their business. These items should help the borrower to understand their finances and how new debt and/or a new expansion will affect their income and expenses. Partnership agreements force persons excited about starting a business to face the work needed should that business not succeed or if one partner should want to leave the business. Removing the six month furlough on some loans reduces the monthly payment for borrowers and helps to revolve the funding faster.

Best Practices

(1) Benchmarks. The benchmark system has provided accountability and uniformity to the development process. **(2)** Meeting in locations throughout our region has allowed community participation. **(3)** Mandating project match on loans and grants has required local buy-in. **(4)** Creating partnerships has strengthened our position on issues and increased knowledge that has enabled us to create and implement solutions. Partners include universities, job development authorities, development corporations, local and state extension services, health care providers, other non-profit organizations, rural development staff, financial institutions, county and city officials, and state agencies.

Plans/Prospects for the Future

Loan Programs – We anticipate continued use of the Micro Loan Program and more use of the RIF Business Loan Fund as our regional economy is exploding. We have great working relationships with county development corporations, and regional entities including the Small Business Development Center, and the Strom Center for Entrepreneurship.

Energy Impact – Currently, western North Dakota is experiencing energy exploration and extraction activities. This element has changed our economy. We expect that the board shall be presented with more issues that are impacting small rural communities in our zone. These communities have fewer resources and may be able to better address shared concerns in regional partnerships supported by SW REAP through the regional planning proposed in the recently funded HUD Sustainability Grant.

Last Audited Statement: 12-31-2010

ACRONYMS USED IN THIS DOCUMENT

SW REAP – Southwest Rural Economic Area Partnership
USDA – United States Department of Agriculture
CONAC – Center of North America Coalition (six county REAP Zone)
SBDC – Small Business Development Center
RIB – REAP Investment Board
RIF- REAP Investment Fund
RLF – Revolving Loan Fund
FSA – Farm Service Agency (a branch of the USDA)
HUD – Housing & Urban Development