

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 11: Iowa Foundation for Microenterprise and Community Vitality

(27:55; published May 6, 2020)

Description: *Bruce Nuzum and Brittany Morales discuss the financing programs that Iowa Area Development Group works with through the Iowa electrical cooperatives. Programs include revolving loan funds, USDA financing, and in some cases grants. Brittany also details the Ripple Effect partnership between IADG and Aureon as she provides economic development support to the Iowa Independent Telecommunication Companies through technical assistance and financial packaging.*

Transcript:

[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:55

Today our guests are Brittany Morales and Bruce Nuzum from the Iowa Area Development Group, also known around the state as IADG. Brittany is the vice president for community initiatives with Iowa Area Development Group, and Bruce is the senior vice president for finance. Bruce and Brittany, thank you both for being here today.

Bruce Nuzum 01:18

Glad to be here.

Brittany Morales 01:19

Thank you, Steve.

Steve Adams, host 01:20

Well, in this podcast, we'll be discussing some of the programs that rural utility members of the Iowa area development group have been using for many years. They're here to help businesses start up and expand while at the same time, also assisting communities in both planning and improvement. Well, Bruce, as one of the senior members of the IADG staff and I hope I'm not offending you by saying senior, can you first give us a little background on the how and why of IADG? And how long is the organization been around?

Bruce Nuzum 01:55

Sure thing, Steve. So IADG is the economic development partner for our rural utility members. And just to give you a little history in context, IADG was formed back in 1985 by Iowa's rural electric



cooperatives and the municipal electric companies that are part of the cooperatives system. And as you'll recall, the 80s were right at the height of the farm crisis, and rural Iowa was losing businesses, losing farms and population. And the electric coops wanted to reverse these trends and they knew that they could accomplish more together so they formed IADG.

Bruce Nuzum 02:27

So we're charged with business and community development efforts to help grow the rural economy. We market their electrical territories as a great place to do business, as a great place to live. And our organization tries to bring the technical and financial resources to projects and make them happen. Now IADG has really evolved over the years, and in the spirit of doing more together, over 10 years ago, we formed a partnership with Aureon, who provides the fiber backbone to Iowa's independent telecommunications companies across the state.

Bruce Nuzum 02:57

And as you can imagine, there's a lot of overlap in the territories of the electric coops and the independent telephone companies. So there's a great amount of synergy by these two utilities as we work on business and development projects together. And Brittany Morales on our staff leads this program in this effort with the telcos known as Ripple Effect. And we're going to talk about that in a little while.

Bruce Nuzum 03:18

As you can imagine, no matter the project, whether business or community development, putting together the combination of funding sources is a piece of the puzzle. And our members have a unique tool. It's a program through USDA Rural Development to help economic development efforts, which I know is the major topic for this podcast.

Steve Adams, host 03:35

Well on that program, as you alluded to, is known as REDLAG or Rural Economic Development Loan and Grant program. Now, actually, that Rural Economic Development Loan and Rural Economic Development Grant program are really two separate programs, are they not, Bruce?

Bruce Nuzum 03:55

They are, that's exactly right.

Steve Adams, host 03:57

Could you discuss maybe the similarities or differences between the two programs, just for our listeners' sake?

Bruce Nuzum 04:03

Sure thing, Steve. So the Rural Economic Development Loan is where the utility applies for a loan on behalf of the project. The grant is a little bit different in that it's a grant to the cooperative to either create or build a revolving loan fund. But from the project standpoint, a REDLAG award is always a zero percent interest loan. So in the general spirit of REDLAG, let me offer a few just kind of general comments, because this is a unique program in that it takes a rural utility in order to sponsor the application.

Bruce Nuzum 04:34

Unlike some federal programs, REDLAG isn't something that a business or organization just applies to, they need the support of that rural utility who then applies on behalf of the projects. And there's a few reasons why. For one, it's a chance for the utility to determine if the project fits within the economic development goals that they have as an organization. But it's also, this is a competitive program, so

they have to evaluate whether or not it's not only eligible but if it's something that we think hits the priorities of the program and will score well.

Bruce Nuzum 05:03

The other reason that they have a little bit of a say-so in participation is because there's some financial impacts for the utility to consider as they look at these applications on the loan side, and we'll get to this more specifically in a minute. But the utility receives a loan from the USDA on behalf of the project. So that impacts their financial statement because they're taking on debt. So the other piece of that is they're also guaranteeing the repayment of that loan back to USDA. So there's some financial aspects for them to consider as an organization themselves.

Bruce Nuzum 05:33

And then on the grant side, there's a 20% matching funds requirement, meaning that the utility must contribute general funds to the revolving loan fund on a permanent basis. So those two factors do weigh into whether or not a utility is going to participate in the program. I think given the timing of this conversation, another topic of interest is whether this program can provide relief to businesses or organizations that have been impacted by COVID-19. And the short answer is, not really, this program isn't really designed for working capital, which is really what a lot of businesses need in this trying time.

Bruce Nuzum 06:06

Instead, this is more of a program to think about as we work on business recovery, and the capital expenditures that we might need to expand a business or help them adapt as they continue to recover. With that kind of background, let me give you a little bit, let me go back to the original question, which was to provide an overview of the program and how it operates. REDLAG in a general sense was created to help create and retain jobs in rural areas and improve the skill sets of the workforce.

Bruce Nuzum 06:33

The program is very flexible, we can help with most business development or community development projects. Frankly, about the only thing we can't get involved in is housing with this program. And that's because USDA has a lot of other housing programs out there to help in those matters. However, the program does have some priorities. So they include business startups, business expansions, preferably high tech jobs that are going to improve the skill sets of the workforce, as we've already mentioned, and also medical and educational projects. All of those things are a priority, and we need to focus on those given the competitive nature of the program.

Bruce Nuzum 07:10

So when they break this program down into really kind of three separate discussions. One is the rural economic development loan. Then we'll talk separately about the grant side. And again, the grants— and this is a little bit of a misnomer because it's a grant for the utility to create or build a revolving loan fund. And then third, I want to finish up with just a little bit of discussion about the revolving loan funds themselves, because that's where, you know, we really get some flexibility in how we can get involved with different kinds of projects.

Bruce Nuzum 07:36

A Rural Economic Development Loan or REDL, or oftentimes it's called a pass-through loan, allows the utility to apply for up to a million dollars on behalf of a business or an organization. If the application is successful, that utility gets a loan from USDA, then in turn makes a loan out for the project. So if you think of it in terms of payments, the payments from the project come back to the utility just in time for them to repay USDA.

Bruce Nuzum 08:02

But the terms on this loan are very favorable, it's up to a million dollars at zero percent interest for up to 10 years. There can be a 1% administrative fee charged on it, but that's really the only expense involved in going through this program. The loan can be up to 80% of the project costs, but like most programs, you know, we get higher points for more leverage. Another great benefit is the two-year deferral of payments, which is great if you've got a new production line that's ramping up or you need a little time for business to build. But we have to recognize that a two-year deferral does shorten the amortization period of the loan. Eligibility for this side of the program is very broad. So for-profit businesses, nonprofits, governmental agencies, all of those entities are able to apply, but as you might expect, most of our applications on this side of the program are for larger business expansions.

Bruce Nuzum 08:56

Now as you remember from a little bit earlier, the utilities guarantee the repayments of the loan, so collateral is very important to this program. Typically that means an irrevocable letter of credit or a governmental guarantee is going to be required. That's why it's probably geared more for larger projects and expansions of existing businesses. Our members have received 135 of these loans since the program originated back in the late 80s. That's brought \$90 million to Iowa to help drive private investment and create jobs across the state.

Bruce Nuzum 09:28

On the grant side, the utility applies for a grant for the revolving loan fund, as we've already mentioned, and it's either to create a new one if they don't have one already, or to make an existing one bigger, there's no limit to how big we can build a revolving loan fund as long as we keep it reinvested into the community. With each application, we can apply for up to as much as \$300,000 and then the local utility needs to match that by 20%, or \$60,000. So the project gets a \$360,000 loan at these same terms— 10 years, zero percent interest, up to a two year deferral. So again, it's a great and flexible financial tool.

Bruce Nuzum 10:07

From a project standpoint, the primary difference between this side of the program is that the application needs to go to a nonprofit entity or a medical or education entity. So we do an awful lot of hospital expansions and medical clinics and dental clinics. There was a time period where we did a lot of assisted living facilities, those kinds of things. From an educational facility standpoint it's directly tied to classrooms or adult education. So while we're not going to build a new football stadium or anything like that, if there's something that the school is thinking in terms of actual classroom facilities, this is a great option.

Bruce Nuzum 10:44

Our members have received 222 of these REDLAG grant awards, which have brought \$56 million into Iowa to help these community projects. Plus they've contributed over \$11 million in matching funds to the revolving loan fund. And this really starts the third topic I want to bring up and that's the revolving loan funds themselves. You know, the primary difference from a utility is whether or not we get to keep the money as its loan, or as the payments are made back to the utility. And the great thing about the revolving loan fund side is, not only do we get to keep the money and reinvest it in other projects, some of the federal regulations go away.

Bruce Nuzum 11:23

So the revolving loan fund has more flexibility. And we can now loan this money to help small businesses in our communities. This is where we do an awful lot of loans to Main Street businesses across the state. These subsequent loans do carry an interest rate but it's typically below market right now. I'd say it's probably 3 to 4%. Collateral is still important, but we have a lot more flexibility about what is needed.

Bruce Nuzum 11:45

And while we're talking about RLS revolving loan funds, let me remind you that every electric coop in Iowa has a revolving loan fund. And while we haven't gotten to everybody yet on the telecommunications side, or the municipal electric side, many of those members have revolving loan funds as well. On average these funds are probably at about a million dollars each. And if it was all one big pot of money, we have \$70 million that IADG's members have across the state, locally controlled, reinvested into their communities. We've made over 1,000 subsequent loans from these revolving loan funds.

Steve Adams, host 12:21

Wow, that's in-depth, thorough, and it's kind of across the base. You may have covered some of my questions that I was going to pop up here, but primary partners just so I'm clear are probably the USDA and your municipal telephone companies or no, your independent telephone companies, and also your rural electric cooperatives. Is that correct?

Bruce Nuzum 12:44

Yeah, the primary partner, of course, is the rural utility, but we—there's so many other partners that we can involve. You know, local community banks are also a very strong partner with this program, because it takes a bank's involvement in order to provide that letter of credit that we need on the loan side. And on, you know, the community projects that we get involved in, there's an awful lot of ways we can partner, whether that's a local community or city or county grants, revolving loan funds, councils of governments, all of those folks can play a role in helping finance a project. This REDLAG is really unique in that it can pretty much partner up with about every other program that's out there.

Steve Adams, host 13:24

Outstanding, outstanding. Now, I had to ask you this, Bruce, is there a typical project that you would fund? Or is it so broad brush that just almost anything would fall into place? You mentioned some exceptions, but I'm just kind of curious if there is a typical project that Iowa Area Development Group is involved in.

13:45

Sure. Related related to REDLAG, you know, it probably falls into three categories: business expansion projects, and again, we do a lot of that on that Rural Economic Development Loan side of the program. But we also do an awful lot of health care, so again, medical clinics, hospital renovations, dental clinics. We've had a tremendous track record in helping new dentists that are fresh out of school buy practices and get started.

Bruce Nuzum 14:10

We've done, on the school front we've done everything from renovations to K - 12 facilities. We've helped build STEM classrooms, we've helped with equipment purchases, early learning centers, we've helped a community college build a new satellite center for welding classes. Again, it's a very flexible program. But we've also done some stuff on the community front. So we've helped with performing art centers that have been built, we've helped with fire stations. Again, we've helped the local economic development organizations as they purchased or developed land for new industrial parks. We've also helped finance some shell buildings that are offered up on a speculative basis to growing businesses.

Steve Adams, host 14:51

So I know just like a parent, it's always tough to pick your favorite child, but if you had to look at your some of your most successful projects in Iowa, tell us about maybe a couple of those just anecdotally.

Bruce Nuzum 15:06

Sure. There's a couple that come to mind and I kind of outlined three or four here in my head, that I wanted to use as an example. Probably one of the most recent ones that we did on the loan side is Godberson Metal Works, which is a startup in Spencer. Iowa Lakes Electric applied for the loan side of the program, they helped the company purchase a building that had become available after business closed. So it's a great community success story, we're able to repurpose a building, we were able to hire back folks that had been laid off. So that was a nice thing to see here recently.

Bruce Nuzum 15:38

One that's really unique is Midland Power Cooperative up in Jefferson. They received a loan to help a developer renovate and modernize a historic building that allowed them to attract a software development company to town. Pillar Technologies is the name of the company. But the story doesn't really end with Pillar Technologies, because not only do they locate there, but that company is helping with getting curriculum back into the schools for software coding development. And they've got a great apprenticeship program so kids can come straight out of high school and join their apprenticeship program. It was really a very successful project and something that might be a great topic for a future podcast of yours.

Bruce Nuzum 16:19

But, you know, we've got telephone companies that have helped dentists come into communities, purchase a clinic and build a new building. We've got municipal electricians that have helped the local hospital with their renovation, we get that most recently up in New Hampton. But one of my favorite stories is Southern Iowa Electricians in the help they've provided to Van Buren Community School District. The school district wanted to renovate a facility in Keosauqua, the electrician was glad to help. But my favorite part of the story is, not only did we build a revolving loan fund there, but the school board took the interest savings that they have from getting a zero percent interest loan and use that savings to purchase new laptops for all the students in the school district. So I think that was a win-win for everybody.

Steve Adams, host 17:02

That's a really nice feel-good story there. Keep that one in your repertoire, Bruce, going forward. That's, that's great. Well, Brittany, guess what, it's your turn. Kind of a general overview of the Ripple Effect program would be nice. And for all of you who don't know, Brittany took Sue Cosner's place at Iowa Area Development Group, but she's not brand new. She's been there about a year and if you haven't met her yet, I hope you take the time and opportunity to do so at some future date. So Brittany, tell us a little bit about Ripple Effect.

Brittany Morales 17:32

Yeah, thank you, Steve. Bruce kind of touched on that a little bit in his introduction, but just to provide a little bit of an overview. That Ripple Effect program was created about 13 years ago, and it's a partnership between Iowa Area Development Group and Aureon, which many of you may formerly know as Iowa Network Services. This program is dedicated to providing economic development resources and services and the tools of Iowa Area Development Group to the shareholders of Aureon. And those shareholders are like you mentioned the Iowa's independent telecommunication companies. There's about 122 of those across the state.

Brittany Morales 18:09

And my role at IADG is to manage the Ripple Effect program. And I'm solely dedicated to assisting those ITC members in their communities with the economic development initiatives they have. In addition to access to all of Iowa Area Development Group's financial resources and tools, the Ripple

Effect program also offers loans and grants that are only available to ITCs, who in turn utilize those funds to invest in the communities they serve.

Brittany Morales 18:37

So for all the Ripple Effect funding programs, whether it's a grant or loan, it does require a one-to-one financial match from the ITC. And for each project, there has to be outside funding sources other than just Ripple Effect. So all projects must have a local, public and/or private sector, financial investment. There's really, you can kind of break Ripple Effect, if we're talking just about those specific funds, down into two categories, the first being business and industry loans, and those are really to stimulate business growth and development. For those it's up to \$75,000 per project, a minimum of \$25,000.

Brittany Morales 19:15

The other component of the grant side, those are our community grants. Ripple Effect assistance is intended to enhance the community and economic development capacities of the partner cities and local economic development organizations they serve, which is why they make \$10,000 in grant funding available to seed community and economic development planning initiatives. The only entities available, or eligible for these funds are cities, economic development agencies and nonprofit development partners.

Brittany Morales 19:46

And so when we're talking about grant funds and what kinds of projects we funded with those dollars, we're looking at laborshed studies, housing needs assessments, strategic planning, project feasibility studies, job fairs, marketing plans, land use surveys, marketing materials, website development, and some specialized training as it relates to community and economic development.

Steve Adams, host 20:12

Again, a rather broad-brush approach with that program as well, and I think you answered some of these questions, non-profits are eligible for this program. There is a planning and technical assistance component to these. So same question as I asked Bruce a little bit earlier. What are some of your most successful projects? I believe that close to me that you did a project in Stanton, Iowa, with the Ripple Effect program?

Brittany Morales 20:39

We absolutely did. Yes, and so before I kind of touch on those, to give a general picture of what has come out of this program. When we're looking at grants, there's been about 61 projects in rural Iowa, and that has provided just under \$600,000 in grants, so that's a lot of different projects. When I look at it, you know, you mentioned the Viking Center, I think is what you're referring to there in Stanton, which is kind of the has kind of been the crown jewel or one of the better success stories of Ripple Effect.

Brittany Morales 21:12

And that was a neat story where the community of Stanton, which is a great little community there and great leadership, but they had a study done that said, what do we need in this community to make it an attractive place for people to want to live? And what are we missing? And so out of that, that study said that they needed a multitude of things. So what they did and what Ripple Effect helped with, they actually created a 38,000 square foot multi-purpose community center that houses athletic and recreation, the city library, they have a full-size gym, a storm center, or sorry, a storm shelter, and a Good Shepherd Preschool.

Brittany Morales 21:54

So they kind of, the study showed they needed all those things and they went ahead and wrapped it all into one building. As Bruce mentioned, you know, fine arts center, the Hanson Family Fine Art Center in Forest City. That's another Ripple Effect project. That's about a 30,000 square foot facility, a 600 seat capacity, you know. And that is, for anyone who hasn't been there in person, it is an impressive facility. Definitely heavily used by that community.

Brittany Morales 22:22

We've done things that you know, we built hotels, Cobblestone Hotel in Lamoni. Ripple Effect was involved in the Forge, the pillar technology, you know, project Bruce mentioned. Also you know, some other things like the North Central Iowa Rail Corridor helped with the preservation of about 20 miles of rail line that helps three counties. He mentioned also, you know, we do a lot of healthcare projects. To date, Ripple Effect has helped 44 new graduates from dental school either purchase or start new their own dental clinic.

Steve Adams, host 22:57

Wow, between these two programs, it's just almost like a potpourri of things that you can work on and take care of, I'm really, really impressed by that. So Brittany, if I'm going to apply for one of these, how would I go about doing that, just as a quick reference?

Brittany Morales 23:14

Yeah. So the first thing you would need to do is to determine if there's a local independent telephone company in your area and approach that company regarding the project that you're interested in. Because just like Bruce mentioned with the USDA program, the Ripple Effect program does require the sponsorship of your local ITC. So you would first need to determine if you have one of those companies in your area, and then if the ITC is willing to sponsor an application on behalf of your project. Then they can access the Ripple Effect application by either going to Ripple Effects website at rippleeffectworks.org or contacting myself directly.

Steve Adams, host 23:56

Outstanding. Brittany, any last words on Ripple Effect, before I give it back to Bruce, who's pretty darn talkative?

Brittany Morales 24:04

Um, yes. So just in closing, you know, it is an excellent resource and tool to help rural communities served by the Ripple Effects ITC members and our IADG members. A huge benefit to the program is that these funds don't take a lot of red tape, or wait time. As long as the project is eligible, has an ITC partner and is approved, it really is a short period of time before the project has funds in hand. It also works extremely well with other programs such as USDA, state and local programs.

Brittany Morales 24:34

And I would just say that if anyone out there has any questions about the program itself, is wondering if their project qualifies for funds, or has questions about if they have an ITC provider nearby or would like an introduction to those folks, please feel free to reach out to me directly and I'd be happy to help. As we always say, rural Iowa will never have too many partners or too many programs in their corner. And this program in our organization is truly dedicated to helping rural Iowa communities and businesses. So thank you, Steve and ISU Extension for your time today and for putting content out there like this, especially during this time, and allowing us to share our resources.

Steve Adams, host 25:10

Well, I had a former economic developer, who has since passed away, tell me one time, you know, he says we just have to fight like heck to break even here in rural Iowa, so sometimes you feel like you're

swimming upstream. But having resources like yours out there makes the job and the work a little bit easier. So Bruce, again, if I'm looking at applying for REDLAG or Rural Economic Development loan and grant, do I contact you, or how would I go about that? Same question that I asked Brittany.

Bruce Nuzum 25:41

Yeah, I appreciate that, Steve. And yes, you can reach directly out to IADG and find out more about the program. But just like Brittany said, it really all starts with our utility members. So if you know the folks at your local electric coop or your electric company, your independent telephone company, reach out to them and tell them about your project. And they'll know when to pull us in or whether it's something that they can handle on their own. Or if you prefer, you can get ahold of IADG directly, whatever works best for you.

Steve Adams, host 26:08

Great. Well, Brittany, nice to have had you on, Bruce, nice to see you again as well. And I want to take this moment in time to say thank you so much. And my gosh, I've known the IADG group for a good 25 years now since I came back to Iowa. And I've always just marveled at the amount of stuff that you can do and the amount of assistance that you can provide to Iowa businesses and communities and a really terrific job. I hope you folks keep it up. So thanks again for being with us today.

Brittany Morales 26:42

Yeah, thank you.

Bruce Nuzum 26:43

Appreciate that, Steve, thanks for the kind words.

Steve Adams, host 26:46

If you have any questions about this Back to Business Iowa podcast, please feel free to contact me, Steve Adams, and I can be reached at stadams@iastate.edu, and once again, thank you for listening. This podcast is a collaboration between Iowa State Extension and Outreach and the Small Business Development Centers of Iowa. We're always serving Iowans, hashtag Strong Iowa. Let's get back to business, Iowa. Our justice statement: This institution is an equal opportunity provider. For the full non-discrimination statement or accommodations inquiries, please go to www.extension.iastate.edu/diversity/ext. See you next time.

[music]