

Statement by Rob Riley

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Before the Committee on Small Business & Entrepreneurship United States Senate

"America's Rural Opportunity: Unlocking entrepreneurial potential to create jobs, leverage investment and steward the landscape"

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Thank you, Chairman Risch, Ranking Member Shaheen and members of the committee. My name is Rob Riley and I serve as President of the Northern Forest Center, a non-profit organization which works to create economic opportunity and community vitality from healthy working forests in the northern parts of Maine, New Hampshire, Vermont and New York. We work across a 30-million-acre area with a population of 2 million people to help businesses and communities adapt to a changing economy.

Over a century ago, the Northern Forest region supplied the timber that built east coast cities and gave birth to the modern pulp & paper industry. Vertically integrated timber and paper companies literally built communities to support their mills and owned millions of acres of land. With good wages and jobs for almost everyone, our rural communities thrived through the 1970s.

Things began to shift in the 1980s and 90s as globalization and changing markets spurred the forest products industry to consolidate.

Nearly 50 Northern Forest communities have lost their forest products mills and tens of thousands of manufacturing jobs. Service sector jobs, particularly in tourism, have filled some of the void, but they usually don't offer the consistency of wages or job security that manufacturing once did.

Today our region is dealing with population decline or stagnation. Mill towns like Berlin, NH, have dropped from 10,000 people to 5,000. Median household incomes have not kept up with the nation as a whole. Some places are successful at attracting tourists and second-home owners, but not the new residents – particularly young people and families – and businesses that can maintain a thriving community, or reinvigorate a waning one.

However, there is a lot of reimagining, reshaping and redevelopment underway. And there is a lot to build on. We have a beautiful region full of small communities and iconic landscapes- the Adirondacks, the Green Mountains, the White Mountains, the North Woods of Maine. Our challenge is to figure out how to use the natural resources that have always sustained this region in new and sustainable ways. We need to develop new ideas for what it means to be a "forest-based economy."

More broadly, we know the following to be statistically true and anecdotally supported about rural communities:

- Rural communities were hit hard by the Great Recession and have been slower to recover than more urban areas.
- The key to addressing poverty, providing livable wage jobs and unlocking the potential of these areas is small business, which is now the predominant backbone of rural communities.

- For small businesses in rural areas to succeed, we need to understand and focus on their unique challenges and think differently HOW we deploy our resources. Challenges include: infrastructure, including transportation/water treatment; broadband (both the 'last mile' and wireless deployment); access to appropriately priced capital and financing, specific financial management and business development services to business owners; development of value-added rural industries (including manufacturing, natural resource businesses, and outdoor recreation and tourism); and education and training to build and attract a skilled workforce.
- The federal government and its various agencies are a critical partner to help rural communities meet these challenges. There are a number of programs that exist, that combined with local and state public investment and private capital and philanthropy, truly make a significant difference in our communities.

Federal agencies and business development programs play a crucial role as rural places across the country adapt to changes in their historic economies and work to take advantage of new economic opportunities. In rural places like New Hampshire opportunity exists and yet we seek strong public-private partnerships to offer complementary programs that meet different small business needs, including:

- Business and entrepreneurial development through technical assistance programs – such as the SBA's Small Business Development Center and USDA Rural Business Cooperative programs
- Innovative tools to leverage traditional financing – such as the SBA 504 loan guarantee program and the New Markets Tax Credit Program supported by the US Department of Treasury Community Development Financial Institutions Fund
- Support to retool rural manufacturing for new markets and opportunities assistance through the Manufacturing Extension Partnership
- Programs that support infrastructure for community and economic development such as the US Department of Agriculture Rural Business Community Facilities programs, the Northern Border Regional Commission, and HUD Community Development Block Grants.
- Grant and loan dollars to build and rebuild community-scale infrastructure such as broadband, transportation and water and sewer projects.

Rural Entrepreneurs

Let me give you an example of how these programs have worked together to help a small business located in Lancaster, New Hampshire. Ten years ago, Bill Rutherford his wife, April, decided to move their family from New Jersey to this rural town and started NorthWoods Manufacturing, which manufactures custom designed cabinetry and kitchens. It is important to recognize that modern rural business creation stories like this one can only come to fruition with access to high speed and consistent broadband, which Lancaster had.

To pursue his entrepreneurial dream and succeed in a rural community Bill used several federal programs—made available through local non-profit organizations—to secure business and specialized assistance to overcome obstacles:

- Ensure quality and consistent broadband connection for his home for his wife to work remotely and connect his business to regional markets extending as far as New Jersey
- Financing from a CDFI—Northern Community Investment Corp— to assist in growth and product development

- Tailored business counseling from the Small Business Development Center
- And finally, the Northern Forest Center used a US Department of Agriculture Rural Business Development Grants to help Bill with refinancing and bring in specialized lean manufacturing assistance to help the company to streamline their manufacturing space and processes, resulting in significant avoided capital cost and growth in revenue.

Bill is an active member of his community. In addition to volunteering as a leader of local scouting troop for his son, Bill carries the responsibility of employing 12 residents and knows that the quality of the job he provides to his employees is in their and his best interests! Bill and April came looking for the community they wanted to live in and sought entrepreneurial opportunities. His success is due to his own persistence, commitment, smarts, and his ability as a small business owner to pursue and find assistance to fill the gaps in his knowledge.

Across the state border in Gilman, VT a pair of entrepreneurs are close to breaking ground on a new manufacturing facility – Kingdom Pellets – that will manufacture wood pellets for local, renewable fuel to heat homes, businesses, schools and more. Tabitha Bowling is a relative new comer to the Northeast Kingdom of Vermont but relocated from Washington DC with her son and wife whose family goes back for generations in the region. Tabitha saw an opportunity and harnessed her business background to help the region transition to modern, automated, efficient technology using wood to heat homes. She also saw a need to tap into the regional economic development tool box:

- Various state agencies that provided technical assistance, financing and regulatory guidance;
- USDA-Rural Development, which guaranteed the lead loan with a local bank.
- And through the Northern Forest Center, grant support from USDA Rural Development Rural Business Development Grants to assist with legal and engineering work required to secure construction financing.

Once the mill is in full operation, Tabitha expects to produce 22-23,000 tons of pellets a year, drawing on wood harvested within 30 miles of the mill. She'll ultimately employ 21 people directly and support more than 60 additional jobs in the forest supply chain. Kingdom Pellets will be the town's largest employer and one of the larger employers in the county.

The Northern Forest Center's role has gone beyond direct assistance to Tabitha. We working to make sure that there is market demand for her product by helping to install wood pellet heating systems in local community facilities to demonstrate their use, effectiveness, and economic benefit. This critical market development for new technologies, with financial support from the Northern Border Regional Commission, US Department of Agriculture Rural Development, the Economic Development Administration and substantive philanthropy capital, has been critical to help create this new economic opportunity for the region.

Bill and Tabitha are just two examples of the many small businesses owners who are key to the long-term health of Rural America.

Investing in America's Rural Opportunity

We need to enhance the programs that helped this small business and countless others – and we need to find ways to expand their reach and effectiveness in rural America. Cutting these programs -- which the President has proposed doing to some key ones, like many US Department of Agriculture Rural Development programs, the Economic Development Administration, the Northern Border Regional Commission, the Community Development Financial Institutions Fund and the Community Development Block Grant program – reflects a lack of knowledge around the effective deployment of these programs

and will have a direct and seriously negative impact on struggling rural communities and the small businesses that help them survive and grow.

The need in rural for additional sources of capital is especially acute – there are fewer investors, longer distances to market and aging infrastructure. Rural does have its assets, however, upon which suburban and urban populations rely and that we should recognize, celebrate and seek to enhance. Rural:

- Is both the home and the steward of abundant natural resources on which the American economy depends, and through which the American spirit is nourished.
- Is the primary domestic source of food and energy consumed by all of America – with the potential to supply even more and reduce dependence on outside sources.
- Is critical to the nation's ability to provide clean water through healthy forests and sustainable agriculture.
- Is the locus for the manufacturing, energy, agriculture and forestry sectors that drive much of the wealth generation at the foundation of America's economy.
- Shelters nearly one-fifth of America's population – and raises more than that share of its children.
- Is called home by a disproportionately larger share of America's current combat forces as compared to urban America – based on Iran and Afghanistan casualty rates.
- Is diverse in its people; people of color accounted for three-quarters of rural and small town population growth since 2000.
- Is increasingly a place where immigrants settle, start and grow new businesses that create local jobs.
- Provides a willing and able testing ground for policy and practice innovation that can be adapted in cities, towns and regions nationwide.

The private sector, of course, plays an important role in rural places, as does philanthropic investment and direct business investment. These two sources, however, tend to follow public investment and in many cases can only be leveraged by a loan guarantee or other incentive from the public sector. Without this public-private leverage, deal flow is slow to develop and emerging businesses and entrepreneurs don't have the tools they need to navigate the many hurdles facing sole proprietors and self-employed people.

Current programs need to be accountable and justified, but in my experience, they are not abused, wasteful or duplicative. They actually reflect the spectrum of needs that must be addressed to help spur innovation, create jobs and provide livelihoods to people and communities seeking a better tomorrow.

Instead of cutting these programs, we should identify ways to improve them so that we can maximize taxpayer support, leverage private sector resources, and enhance rural communities.

Rural Development Innovation Group

To that end, the Northern Forest Center has recently partnered with the Aspen Institute and the US Endowment for Forestry and Communities to form the Rural Development Innovation Group, a group of grounded practitioners guided by experience in rural places across the country. We have identified shared realities and principles that seek to make federal tools the most effective they can be in their service to rural entrepreneurs and small businesses.

The Group's principal goals are to accelerate the adoption, adaptation and impact of innovative rural development strategies and convene key innovators to increase leadership, learning and dissemination to the field.

In 2017, the Rural Development Innovation Group is hosting a six-part series, *America's Rural Opportunity*, to explore innovative and proven approaches to rural economic development. In tandem, the group is developing new partnerships to turn our proven ideas into better opportunities for rural places via federal policy and philanthropic strategy.

Based on our experience working in rural places, the group believes that effective rural investment programs should share two common characteristics: (1.) They invest in people, ideas, and markets, not just projects; and (2.) they offer investment that is appropriately scaled for modern rural realities and seeks diverse outcomes that are rooted in the rural experience. Details are as follows:

Innovation is driven by people, ideas and markets.

- Investment in entrepreneurial people is as important as capital investment. Many programs provide capital for specific business transactions, but few support the other tools necessary for entrepreneurial success. Just as in venture capital, investing in enterprising people is critical to build competency in rural places, which must dig deeper into their talent pool to fill leadership positions.
- Capitalizing on market opportunities requires integrated and collaborative solutions. Because they wear multiple hats in the community, rural people are naturally resourceful. However, the “project” funding available to rural places does not allow the flexibility they need to work in integrative, systemic ways to achieve results that last.
- Regional approaches are required to effectively connect rural and urban markets. In geographically large rural places with small populations, assembling the critical mass of people, ideas, resources and connections needed for success often requires working across sectors and geographic boundaries.
- Community-centered intermediary organizations are essential to successful rural community and economic development. These organizations engage the community in developing visions and solutions. They provide the technical and financial support to conceive and complete complex initiatives.

Innovation requires investment scaled to modern rural realities.

- Short term investments will not yield desired long-term results. Many government and financial resources available to rural places miss this reality. Those who want lasting solutions must recognize the need to be patient investors committed for the longer term.
- The entry thresholds for investments often lock out rural players. Rural organizations often cannot operate at the numerical threshold – e.g., deal size, jobs created, population served – that investors require. For federal funding, meeting local match requirements can be a barrier to entry.
- Rural projects are often of a smaller scale than investors seek. Investors typically are looking for “scale” – large numbers and volume. In rural, a project’s progress from its starting point is more important than its size. Indeed, well-structured rural investments can provide rates of return comparable to those in urban areas.
- Investors in rural must have a different expectation for return on capital. The expectations for return must go beyond financial to include a broader range of rural outcomes – natural, social,

economic and infrastructure – that are essential to building thriving rural-urban markets over time.

Use of existing federal programs is not without challenges as we continue to adapt to changing rural realities. As we partner with other analogous organizations nationally – to learn from each other, replicate innovative practices, seek business development opportunities and secure resources across landscapes – we are working to develop specific recommendations for changes in federal programs to make them more effective in rural places.

For example, we're in the process of drafting report cards for specific federal programs that support business development in rural areas and we grade the functionality of the program against the principles outlined above. In the case of the Rural Business Development Grant, we score the program high for its ability to invest in business capacity and those organizations providing technical assistance. We score it low because it is limited to businesses whose revenues are under \$1 million. This rules out a vast number of businesses that could otherwise use assistance. These report cards will also provide recommendations, such as lifting that revenue cap to allow services to be provided to businesses with revenues under \$2 million. In the coming months, we'll circulate these report cards to share our insight with decision makers seeking to sustain and improve programs that support rural business development.

In conclusion: The Small Business Committee, along with the Agriculture committee and other Congressional stakeholders, can help shape policies that provide the critical tools that serve the entrepreneurial fabric of this country. We believe that Rural America represents an opportunity, and we look forward to working with you to ensure that rural small businesses have the tools they need to succeed.

Thank you for your commitment to the business community and for providing opportunities to share this perspective from the Northern Forest. I welcome any questions the committee may have.

Rural Development Innovation Group

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***Organizing Partners**