Legislative statement on
USDA Intermediate Relending Program
6-16-2009

The City of Big Rapids first applied to the USDA for participation in the USDA Intermediate Relending Program in 2006. Our application did not score high enough in either 2006 or 2007 to be funded – but with continued attention it was approved in 2008.

That application asked for $300,000 in USDA loan dollars to be matched by $50,000 local funds...$36,000 of which come from local bank contributions: Chemical Bank, Lake Osceola Bank and Isabella Bank. This grant is still in the 'approved and pending' status, depending on the outcome of this legislation before the State of Michigan.

I have managed municipalities in Ohio and South Carolina, which supported local businesses much as Michigan does Industries, with an assortment of loan and grant incentives. These states make full use of the USDA Intermediate Relending Program, giving their communities a competitive edge.

It was, therefore, natural to bring this concept to Michigan. The City Municipal Attorney, however, advised "Don't use tax dollars for this program" and so Big Rapids, through the DDA, was able to find $150,000 in 'private' funds to begin a small scale low interest loan program. We have made six loans from $15,000 t0 $40,000 to downtown businesses: Music Store, Pet Store, Downtown Food Market, Insurance Agency, Bridal Dress Shop and Beauty Salon. Four of these are start-up businesses, which would have never opened their doors without the low interest loan program. Big Rapids felt this was a very successful – but limited – program.

In 2007-08, the City participated in the Governor's 'Cool Cities' program. As part of that initiative, Hyett-Palma consultants studied Big Rapids and concluded that funds were more seriously needed in other downtown programs and advised against committing these dollars to individual loans. In the end, this has been a wise decision because the City has been able to participate in the Vibrant Small City Initiative Program which is pumping $2.7 million into the downtown area and these funds are needed, just as Hyett- Palma predicted.

Just the year before, the City became aware of the USDA Intermediate Relending Program and made its first application, hoping to expand our small local program. We were understandably ecstatic when we learned that our application had been funded, because we had seen the successful track record of the earlier program.

One of the requirements of the USDA was to have an unqualified legal opinion that these loans were 'acceptable legal practice'. The City employed Miller Canfield (Joel Piell) to draft this opinion...and immediately discovered why NO MICHIGAN COMMUNITY HAD EVER RECEIVED THIS USDA MONEY. While State law does not PROHIBIT a community from participating in the USDA loan program, neither is there SPECIFIC APPROVAL for communities to participate. Joel aggressively questioned the attorneys from the USDA in Chicago about a mutual agreement which might be acceptable, but could not find common ground. Without this letter, our successful application would have to be scrubbed!!!! The fundamental reason is that this program is crafted as a 'loan' program and not a 'grant' program.

In order to gain access to the funds ALREADY APPROVED, we must first gain clarity in legal terminology.

So, how does the program work...

1. The USDA loans funds to the participating agency with the requirement to repay the principle and 1% interest.
2. *The participating agency relends these funds at a low rate (we have picked a* rate of 1 ½ % to 3% above our CD earnings rate depending on the quality of the loan package)
3. A financial committee of citizens approves the loans and loan concepts
4. The City keeps the additional interest income to continue the program into the future.

The problem and difficulty is that the present Michigan Code identifies 'BONDS' and 'GRANTS', but does not specifically cover 'LOANS' and 'NOTES'. The impact of this legislation is, therefore, to identify and add the 'specific permission' to use 1913 PA 380 to include references to LOANS and NOTES and to directly allow for Michigan villages, cities, townships and counties to make use of federal programs, which may be crafted in the form of loan programs.

As the USDA deals with small units of government, this legislation has sweeping impact across the entire State of Michigan and will have a positive impact on economic stimulus for private enterprise. It will give small government units another significant tool to use in these difficult economic times. This USDA program actually allows loans up to $750,000 in any one annual cycle...which in a small area would be a MAJOR assist to the business community.

It is widely known in Big Rapids that this legislation is being considered. The USDA has agreed to hold our application in the 'approved' status until the State completed its deliberation on this adjustment in Michigan law. At the present time we have ten businesses in a similar 'holding' list including:

Optometrist	Health Food Store	Insurance Agency
Hospice	Furniture Store	Ladies Boutique
Cultural Center	Manufacturing Outlet	

The low interest review committee is ready to act on these applications...there will not be a problem in finding qualified businesses that are interested in taking advantage of this program. Our review committee is a very high profile group of responsible citizens including, a lawyer, a financial accountant, two bankers, a businessman and two government officials.

We ask for your assistance in this change in State Law to help these businesses through a difficult time...and to afford this opportunity to many businesses across the entire State of Michigan. We ask that you make all the USDA/Federal programs accessible to the State and, thereby, give Michigan a greater competitive business advantage in the national marketplace.