



JULIE LASSA

STATE SENATOR

Testimony on Senate Bill 43
Senate Committee on Economic Development and Local Government
March 6, 2013 at 10 a.m.
330 Southwest, State Capitol

Thank you committee members for the opportunity to provide testimony on Senate Bill 43, the Invest Locally to Grow Wisconsin Act, which creates an incentive for Wisconsin residents and corporations to invest in Wisconsin community development financial institutions (CDFIs).

Wisconsin currently has 21 federally-certified CDFIs that work closely with both rural and urban communities to spur development, add quality affordable housing and grow small businesses through micro-financing.

The CDFI industry was created by the U.S. Department of Treasury for the specific purpose of promoting economic and community development and meeting the financial needs of populations and communities that historically faced barriers when it came to accessing capital through conventional means. They are supported by a diverse group of investors, including individuals, religious institutions, foundations, corporations, banks, credit unions and others.

CDFIs are attractive because they offer both social and financial benefits. They not only lend money to the small business owners and nonprofit organizations that need it, but they also provide financial counseling and advice before and after making a loan to help ensure successful outcomes. Meanwhile, invested money is lent into the community – strengthening resources, spurring development and creating jobs.

I have included a number of success stories, but I thought I would highlight at least one example of the great assistance CDFIs can offer that occurred in my district at Baum's Mercantile. Baum's is a small town, long-standing, family-owned grocery and general merchandise store in Pittsville. Although Baum's operates primarily as a grocery store/deli, owners John and Gale have been steadily building a successful catering business. Growing demand for their catering services required more space and catering equipment to allow for expanded prep space, customer service, and new employees. Unfortunately, John and Gale's personal finances were stretched thin after Gale was injured in 2010, making it difficult for them to acquire traditional financing for an expansion.

Community Assets for People LLC (CAfP) is a U.S. Treasury-certified CDFI and a wholly-owned affiliate of CAP Services in Stevens Point. CAfP was able to assist the Baums in creating a business plan for their expansion and assembling a financing package to seek funding from CAfP and other outside sources. The Baums were able to successfully complete their expansion in September 2012.

All told, CAfP has provided 91 business loans, 128 housing loans, and 98 auto loans to residents of central and east central Wisconsin since 2006. Similar success stories have been realized all across our state.

Senate Bill 43 helps to build on these achievements by creating a tax credit incentive for individuals and investors to invest much-needed capital in CDFIs. This legislation will create a 10% tax credit (spread over two years) for investments ranging from \$10,000 to \$150,000 and a 12% credit (spread over two years) for investments greater than \$150,000 and up to \$500,000 per year. The incentive of a tax credit will raise awareness about Wisconsin's CDFI industry and encourage investors to invest locally in CDFIs. Through those investments, CDFIs can continue to make loans that stabilize local economies and create jobs. It is anticipated that every dollar the state invests will generate \$10 in return.

As some of you may recall, I have introduced this bill the past two sessions. I first co-authored it with the late-Representative Steve Hilgenberg. Given his great passion for this issue, we have named the tax credit in his honor. Both sessions, this proposal has received widespread bipartisan support—last year the Assembly passed it, 92-5, and the Senate Economic Development Committee passed it unanimously—but we have run out of time before both houses can pass it. I hope the third time is a charm and we can finally pass this legislation—to honor Representative Hilgenberg and to encourage investment in gap areas around the state to bring much-needed capital to small businesses. The credit environment is still tight so anything we can do to encourage private sector investment is important to the growth of our economy and the creation and retention of jobs.

Thank you again for your consideration.

CDFIs in Wisconsin

double bottom line

Where do CDFIs get their money?

CDFIs are capitalized by a diverse group of investors, all attracted by CDFIs' double bottom line. CDFIs combine financial return with a social return. Investors include individuals, religious institutions, foundations, corporations, federal and state government, banks and thrifts, non-depository financial institutions (such as insurance companies or mutual funds), national intermediaries, credit unions and others. The top four investors in CDFIs are:

■ **Individuals**, primarily in the form of savings and checking accounts in community development banks and credit unions. Some wealthy "angel investors" make equity investments in venture capital funds.

■ **Banks and Thrifts**, mostly mainstream institutions making loans to loan funds for relending. They often receive CRA credit for these activities.

■ **Non-depository financial institutions**, primarily finance companies, but also insurance companies and socially responsible mutual funds. Most make loans to loan funds for re-lending.

■ **Corporations**, mostly as deposits in community development banks.

Investment by the Federal Government accounts for only 7% of all CDFI capital. However, it is important to note that federal money leverages private sector capital.

CDFIs in Wisconsin

Brewery Credit Union
Milwaukee
www.brewerycu.com

Community Assets for People
Stevens Point
www.capserv.org

CoVantage Credit Union
Antigo
www.covantagecu.org

First American Capital Corporation
West Allis
www.aiccw.org

First Service CU
Milwaukee
www.fscu.coop

Forward Community Investments
Madison
www.forwardci.org

Greater Galilee Baptist CU
Milwaukee

Impact Seven, Inc.
Almena
www.impactseven.org

Lac Courte Oreilles Federal Credit Union
Hayward
www.lcofcu.com

Legacy Bank
Milwaukee
www.legacybancorp.com

Legacy Redevelopment Corporation
Milwaukee
www.legacybancorp.com

Milwaukee Economic Development Corp
Milwaukee
www.medonline.com

Mitchell Bank
Milwaukee
www.mitchellbank.com

New Covenant Missionary Baptist Church CU
Milwaukee

NiiJii Small Business Loan Fund, Inc.
Keshena

North Milwaukee State Bank
Milwaukee
www.nmsbank.com

Northwest Side Community Development Corp.
Milwaukee
www.nwscdc.org

Partners Advancing Values in Education
Milwaukee
www.pave.org

Ways to Work
Milwaukee
www.waystowork.org

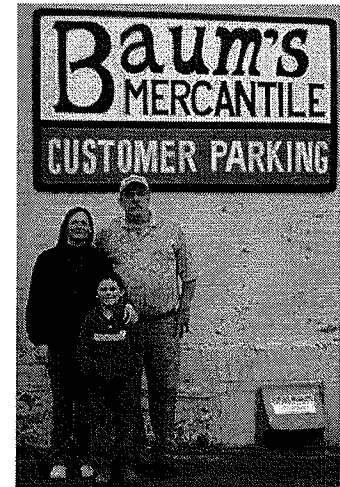
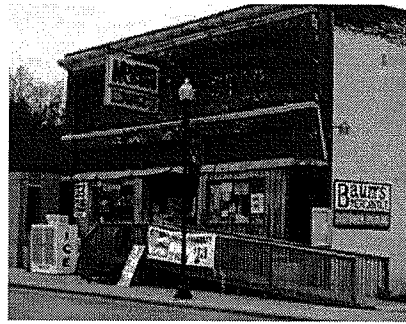
WBD Opportunity Fund, LLC
Monona
www.wbd.org

Wisconsin Women's Business Initiative Corp
Milwaukee
www.wwbic.com

social return

Baum's Mercantile
John and Gale Baum, Owners
5307 2nd Ave.
Pittsville, WI 54466
Self-Employment 100% RMAP

Wood County
Business Expansion: September
2012



Baum's Mercantile is an "everything" store in Pittsville, WI selling groceries and so much more. A small town grocery and general merchandise store, Baum's also offers deli-made pizzas and lunches. This long-standing, family-owned store was founded in 1895. John and Gale became the owners in January 2003 and today work in the business with their three children.

Although the Baum's operate mostly as a small town grocery store/deli, they have been steadily building a successful catering business. The success of the catering side of the business has them in great need for more space and catering equipment. The Baum's feel store expansion and additional equipment will make their catering business more productive and less time consuming.

The addition to the building will give them a bigger prep area for making pizzas, subs, and catered foods as well as allowing them to serve more customers. An expansion will also allow them to offer later hours of operation, creating 2 to 3 new jobs to staff those hours.

The Baum's found it difficult to acquire traditional financing since their own finances were stretched thin after Gale was injured in 2010 and unable to work at the business for 6 months. Baum's Mercantile approached both CAP Services and the Pittsville Community Development Authority (CDA) in August of 2011 for assistance in financing new equipment and a store expansion.

CAP Services assisted the Baum's in creating a business plan for their expansion and assembling a financing package seeking funding from CAP and outside sources such as the Pittsville CDA.

Laura West: December 19, 2012

TURTLES AND FLUFF COMPANY LLC

Andrea Watters
924 Washington Ave
Stevens Point, WI 54481
715-255-5064

Self-Employment 185% & RMAP
Portage County
Business Start: May 2012



Andrea Watters has been working in the food industry since 1996 in restaurants, hotels, and catering to gain a wide knowledge in food service and production. Her combined experience with the food and customer service industries led her to develop a business to provide memorable treats to patrons of festivals and community events.

Determined to provide confectionaries that would tantalize the taste buds of festivals attendees, Andrea Watters began working with CAP Services in August of 2011 to develop a business plan for the start up of Turtles and Fluff Company LLC. CAP provided step-by-step guidance to write a business plan, develop viable financial projections and provided loan funding for the business. Turtles and Fluff received a \$6,500 loan to purchase equipment from CAP Services under the RMAP program.

Turtles and Fluff will produce and package its custom confectionaries for sales at festivals and community events on a portable, customized sales cart. Andrea's business will produce and sell two types of sweets. Watters describes them as: "the Turtle on the Stick geared toward the older crowd and the Fluff on a Stick to thrill the younger patrons".

To make her business unique, Andrea will incorporate a theatrical atmosphere into her sales approach that specifically fits the theme of the festival she is selling at. As an example: when selling at Oktoberfest, Andrea will outfit her cart in a German motif, use German greetings with her customers, and wear clothing appropriate for the part she is playing. Special orders will also be taken online through Turtles and Fluff's website from festival patrons who can't get enough "fluff".

Laura West: June 11, 2012

Whimsical Walls by Nancy
Owner: Nancy Heise

Nancy Heise
472 Clayton Ave
Stevens Point, WI 54481
Self-Employment 100% - FSET



Portage County
Business Start: October 2012

Nancy Heise worked with children as a nanny and as a daycare provider for many years. Nancy had to give up the work she loved when she became ill and started her battle with cancer. In addition, she suffers from blood clotting issues that continue to be an ongoing problem and have caused degeneration and poor circulation of many veins in her legs. Even with these medical issues, Nancy remained hopeful she could find a way to have a professional career again.

Nancy discovered she had a talent for creative design. She found that her love of children's themes along with her creative expression would lend itself well to a line of children's graphic art that could be easily be printed and sold online. Heise began working with Laura West, Jobs & Business Coordinator, CAP Services, Inc. in August of 2012 to develop a business plan for the start up of her new business, Whimsical Walls by Nancy.

Heise also reconnected with The Department of Vocational Rehab for assistance with her business plan and to access funding opportunities to launch her business. Though Nancy struggles with the number of hours she is able to work on her business products in a given day or week, she is determined to become a self-sustaining business-woman rather than depend on family, friends, volunteers and public assistance.

The designs Nancy has created have grown from approximately 100 to well over 200 unique art pieces that she is able to have scanned, printed, and mounted for sale as children's graphic art. Whimsical Walls will also offer customers the opportunity to request personalization of the pieces they purchase. The designs are mounted on foam board or a wooden plaque for durability and ease of shipping. These mediums keep overhead low because expensive wooden and glass frames are not needed.

Nancy will work from her apartment where she will have access to the equipment suited to her needs. As her business grows she will hire assistants to help with the physical work of assembly and shipping.

Nancy will receive a \$250 grant from CAP to help with start-up marketing costs. As her business grows, she will continue to work with DVR and CAP Services for grants and loans to cover additional start-up costs.

Laura West: October 15, 2012

Good morning. My name is Salli Martyniak and I am president of Forward Community Investments, one of Wisconsin's 21 community development financial institutions – otherwise known as CDFIs.

Before beginning, I would like to extend my sincere thanks to Senator Julie Lass for spearheading this legislation. And, special thanks are extended to members of the Committee on Economic Development and Local Government, for giving us the opportunity to testify in support of SB43.

If passed, this act would incentivize individuals and corporations with a state tax credit in exchange for a five-year investment in one of Wisconsin's 21 CDFIs.

These CDFIs include mission-based community development banks like Brewery Credit Union in Milwaukee; loan funds like ours, Community Assets for People in Stevens Point and NiiJii Small Business Loan Fund in Keshena. Each of these 21 CDFIs provides loans to un-served and under-served urban and rural markets, including micro businesses, small businesses, individual consumers and nonprofits across the state.

These CDFI loans have produced good jobs, the growth of small businesses, quality affordable housing, community facilities, and more.

Before going any further, let me take a moment to briefly tell you about certified Community Development Financial Institutions, otherwise known as CDFIs. A CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions.

CDFIs operate under the umbrella of the U.S. Department of Treasury and are highly regulated by the CDFI Fund.

CDFIs provide a unique range of financial products and services that includes mortgage financing for first-time homebuyers, flexible underwriting and risk capital for community facilities, and commercial loans to small start-up or expanding businesses. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

By last reference, the CDFI industry had provided more than \$30 billion in financing in many of the nation's underserved and riskiest markets.

Here in Wisconsin, CDFIs had more than \$500 million in loans outstanding at the end of fiscal year 2010.

Yet with all of this so-called "risky" lending, CDFIs had net charge-offs comparable to – and in some cases, less than – banks working in conventional markets.

It's proof that responsibly expanding access to capital does increase economic growth and productivity. Yet, despite the industry's exemplary performance on Main Street, we have been impacted by what happened on Wall Street.

Our CDFIs in Wisconsin do not have the same access to the capital markets that big banks do – or even CDFIs in other states. So, we are constantly being challenged to find new sources of loan capital.

This legislation could help us attract new investments that would increase our capital base so that we can continue meeting the demands of our customers across this state.

Loans made by CDFIs result in the creation and retention of 1000s of jobs each year. According to Donna Gambrell, director of the CDFI Fund, "CDFIs play a vital role in job creation. Their investments in low-income and struggling communities create permanent jobs for local residents, as well as construction jobs for new developments. CDFIs take the lead in job creation by assisting small businesses with loans to start up and expand."

The truth is that many worthy small businesses and community projects would never get funded without the support of CDFIs. And CDFIs need the capital to keep funding such efforts. Through their flexible and sound lending practices, CDFIs are part of the solution to today's economic problems.

Admittedly, this is a tough economy; SB43 is proof that solutions to problems can happen when you think “out of the box”.

At Forward Community Investments we lend money at below-market rates of interest so that our nonprofit borrowers can develop quality affordable housing, build community facilities and promote economic development strategies in distressed rural and urban communities.

Last year – thanks to the infusion of a friendly investor – we also make loans that support sustainable agricultural projects in WI – many of these projects would go un-funded were it not for programs like ours, willing to take a risk in new ag initiatives.

Why nonprofits?

- *Because they are the fifth largest employer in the state, representing 10% of Wisconsin’s workforce.*
- *Because they provide nearly 250,000 jobs for Wisconsin’s residents who pay state and local taxes.*

Spanning our 19-year history, Forward Community Investments has disbursed more than \$38 million to nonprofit borrowers and has had only two losses totaling less than \$100,000! That’s pretty remarkable but it speaks volumes about us, as well as the industry.

We estimate that FCI's loans have:

- Created or preserved almost 1,100 units of affordable housing;
- Contributed to the addition of more than 1,000+ new jobs; and
- Developed more than one million square feet of nonprofit facility space.

Demand for our loans continues to increase and our biggest challenge is raising capital to lend to our borrowers. Just yesterday, our Lending Committee approved \$2 million in new loan requests.

And, FCI is not unique. CAP Services located in Stevens Point (and who could not be here today) supported this loan portfolio at the end of January:

- 1,042 housing loans valued at more than \$8 million all made to households with incomes at 80% CMI or below
- 62 business loans totaling \$4.9 million
- 55 auto loans for \$150,208

SB43 will encourage investment in Wisconsin's 21 CDFIs. In turn, these new investments will go towards funding the small businesses, nonprofits and individuals who have limited – if any – access to conventional financing.

Your support of SB43 would be appreciated.