Boosting Jobs, Profits and Futures: Strengthening a Regional Manufacturing Sector
Community foundation that also leads regional development

Founded in 1986 to increase the viability of nine counties in rural “west central” Minnesota

Serving 8,500 sq. mi. with 210,000 people

18 staff, $5.7 million FY14 budget, $61 million in assets

Main program foci:
- Business, community and workforce development
- Family Economic Success
- Early childhood

My role in the story: VP, Programs
Regional Economy

- 1980’s failing local economy, driven by agriculture
  - Lowest wages in state
  - Massive outmigration

- Many small locally owned manufacturers struggling to compete with Asia

- Largest manufacturer closed costing 500 jobs
Catalysts for Economic Development Focus

- Severe agricultural crises – thousands of farm foreclosures
- Massive outmigration as foreclosed farmers, young adults and laid off workers left to seek jobs
- Domino effect – outmigration saps economy, costing jobs, causing more outmigration
- Diversification – too many eggs in agriculture basket – needed a broader economic base
Why Manufacturing?

- Highest wages among potential target sectors
- Only “wealth creating” sector with a good chance for growth
- Strong transferable local skill base because of agricultural roots (good at making and fixing things)
- Nearly all locally owned – wealth would stay here
- Companies saw opportunities to grow if they could get the capital to expand
Two-year planning and research effort to identify opportunities in region prior to foundation start-up

Intensive evaluation and planning process repeated every five years to keep effort on track and adjust course as needed

Regular and ongoing engagement with company leaders to maintain understanding of opportunities and constraints
Attention to Market Demand

- Addressed company by company rather than across sector.
  - Too much variety in products and manufacturing capacities to address sector-wide

- Supported assistance to companies with individualized market research and business planning

- One crosscutting demand from customers – implement productivity and quality systems
1986 – lack of access to capital was holding back firms that otherwise were primed and ready for growth and had identified viable markets

1991 – customer demand for “new” productivity and quality systems required a major shift in practices

1992 – 1990 census data released showing that region had absorbed available workforce and was facing severe skilled workforce shortages
WCI Roles / Partners

- 1986 – as part of foundation startup, developed capacity to address gap in access to capital, working in partnership with locally owned banks

- 1991 – identified productivity and quality systems issue and partnered with new national Mfg. Extension Partnership (MEP) to address

- 1992 – realized that no existing partner was willing or able to take on skilled worker shortage, so developed internal capacity to address it and formed a regional coalition to guide and assist
Three main components:

1. 1986 – Economic development revolving loan fund (RLF)

2. 1991 – Created regional manufacturers association to partner with MEP on productivity and quality systems, and to allow firms to collaborate to seek expanded markets

3. 1992 – Workforce 2020 program to increase worker skills
Revolving Loan Fund

**Approach:**
- Gap loans to reduce down-payment on bank loans
- Interest rates 1-2% above bank but longer term
- Grant support for business assistance to determine markets, develop business plans and package loans
- TA grants to help companies struggling to repay

**Foundation Roles:**
- Raise loan fund capital
- Grants for technical and business assistance
- Due diligence on loan requests
- Manage loan portfolio and assistance grant
Strategy 1

Roving Loan Fund

Implementation Partners
- Manufacturing companies
- Small Business Development Centers
- Locally owned banks
- Local economic developers

Costs/Sources
- Initial $2 million in loan fund capital
  - ½ state grant & ½ private foundation grant
- ~$40,000 annually to support business assistance
- Eventually raised >$10 million in capital
- Interest covered all operating costs after startup
Approach:
- Served parts of three states for needed scale
- Monthly dinner meetings around region
- Manufacturers served as board
- Initially 2.5 staff – eventually one coordinator

Foundation Roles:
- Wrote private foundation grant to get started
- Served as fiscal agent for grant
- Participated in meetings – kept finger on pulse
Strategy #2

Manufacturers Association

Implementation Partners:
- Region’s manufacturers
- MEP & others – education programs
- Local economic developers – host and attend

Cost/Sources:
- $200,000 three-year startup private fdtn. grant
- Ongoing costs covered by membership dues and meeting registration costs
Strategy #3

Workforce 2020

Approaches:
- Researched skills in short supply
- Matching grants to up-skill existing workers
- Grants to expand needed training programs
- Regional council to advise and work on “pipeline”

Foundation Roles:
- Created and staffed council
- Funded research and grants
- Hosted annual workforce solutions conference
Implementation partners:
- MEP – administered grants for upskilling
- Community colleges – expanded needing training
- K-12 – school-to-career initiatives promoting jobs
- TANF system – focused retraining $ on skill gaps

Cost/Sources:
- ~$250,000/yr in WCI grants
- $ for $ company match of upskilling grants
- Tapped into statewide welfare to work initiative for resources for additional projects and approaches
- About ½ FTE to support and coordinate
### Results

<table>
<thead>
<tr>
<th>1986</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>195,000 people &amp; trending downward</td>
<td>215,000 people &amp; trending upward</td>
</tr>
<tr>
<td>Lowest wages among 11 regions in state</td>
<td>Wages 6th among 11 regions in state</td>
</tr>
<tr>
<td>4,345 mfg jobs</td>
<td>~10,000 mfg. jobs</td>
</tr>
<tr>
<td>Ave. mfg wage - $365/wk</td>
<td>Ave. mfg wage - $761/wk</td>
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National manufacturing employment declined by 33% (1987-2009)
Regional manufacturing employment more than doubled (+104%)

National manufacturing wages fell behind inflation by 7.1% (1987-2009)
Regional manufacturing wages outpaced inflation by 13.0%
Impact on Capitals

- Loan fund invested heavily in built capital
- Huge impact on financial capital – in loan fund assets and on company balance sheets
- More than 6,000 workers increased individual capital (employment skills) and wages and benefits too!
- Intellectual capital greatly increased among manufacturers (technology, productivity, quality, etc.)
- Assn. increased mfg’s social & political capital
- Most firms remain locally owned / controlled
Impact on Foundation

- Hasn’t changed core focus or structure – foundation formed with this in mind

- Constant / incremental updating as circumstances changed on the ground – *Continuous Improvement!*

- Success attracted additional, largely unrestricted capital – probably the driving force in foundation growth and donations ($0 - $61 million in 24 years)

- Local banks became the foundation’s largest private donors – virtually all unrestricted funds
Advice for the Uninitiated

1. Don’t skimp on upfront research & ongoing evaluation
   - Places differ
   - Needs and opportunities change over time

2. Your best potential allies are local banks and MEP
   - Banks hate to say no to otherwise good projects
   - MEP is an incredible asset for helping mfg. grow

3. Ignore those that claim that foundations can or should not make loans to businesses
   - WCI has an IRS ruling saying it’s OK
   - The impact speaks for itself
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