

Community

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Houghton Michigan: Community of Economic Excellence

Houghton, Michigan owes its existence to copper. Even the name Houghton links the town and the metal—Douglass Houghton was Michigan's first state geologist, whose documentation of the Keweenaw Peninsula's Copper Range deposits led to the nation's first mineral rush.

From the 1850s until the 1880s, the Copper Range was North America's leading copper producer. However, by the end of the nineteenth century, production had begun to decrease which, along with increasing mechanization, led to local population decline on the Copper Range. By the 1910s, that decline was pervasive.

During this period there was some growth in wood-based industry, and with the automobile came increasing tourism. But neither was enough to offset mining declines and between the 1920s and 1970, Houghton lost 51 percent of its population.*

Despite these setbacks, Houghton survived. But city and community leaders were aware that businesses continued to disinvest, and without improving the city's aging infrastructure, it would be impossible either to preserve existing business or to encourage new business starts. They faced the important fact that the city needed to envision its future and develop a plan.

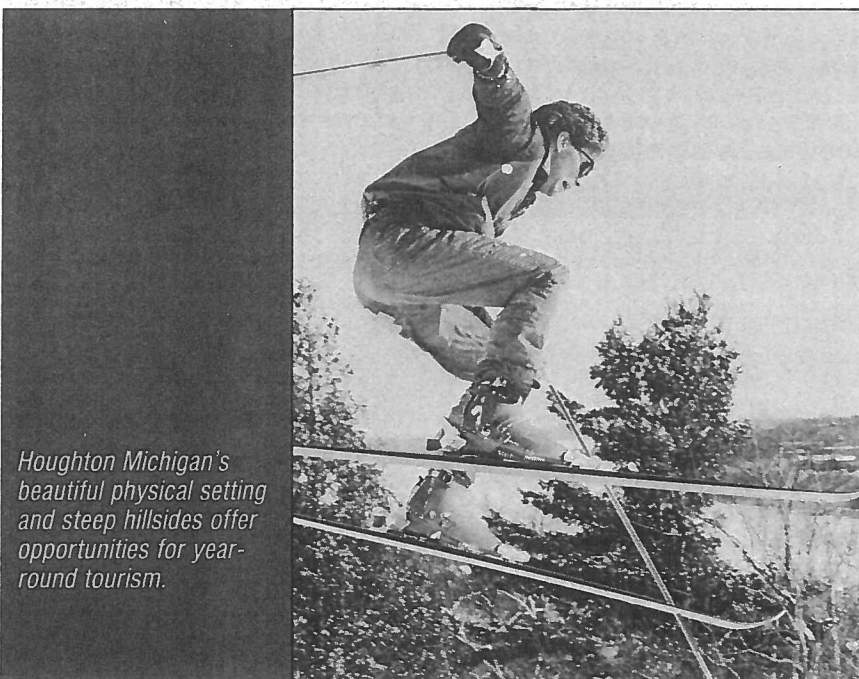
When Houghton began its planning process, city leaders looked inward to assess the town's strengths. Preeminent among them were Michigan Technological University (MTU); the town's unique physical setting with steep hillsides, historic buildings and the waterfront; and, finally, the scenic and historic environment of the Keweenaw Peninsula.

These resources became the basis for Houghton's development strategy. During the late 1960s, Houghton participated in the HUD 701 planning program. The program, which has been consolidated into the Community Development Block Grant (CDBG) program, was designed to assist state and local planning efforts. The city subsequently implemented many of the plan's recommendations, including improving the transportation system, the town's central business district and waterfront, and the water and sewer systems.

Houghton then developed and continues to utilize a two-part approach to economic development that is designed to build on the community's assets: to maintain the sound relationship with the university and to improve tourism-related facilities to promote year-round travel.

City-University Link

Houghton's own planning process coincided with increased enrollment and a building boom at MTU. Founded in 1885 as a school for studies in mining technology, MTU has become a leading institution in the fields of engineering, science and research.



Houghton Michigan's beautiful physical setting and steep hillsides offer opportunities for year-round tourism.

Courtesy of MTU/Publications-Photo Services

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Houghton Michigan, continued

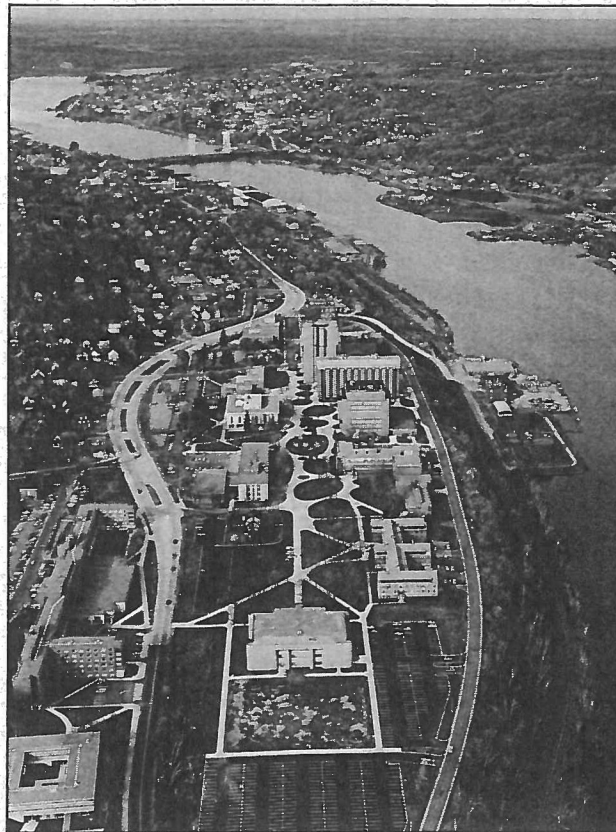
Michigan Technological University has a strong commitment to working with government and industry to transfer technology out of the university and into the marketplace in order to increase the nation's competitiveness. (See box, next page.) This commitment shows in partnerships between the university and northern Michigan communities and businesses. As an example, MTU President Dale Stein cites Peninsula Copper Industries in Hubbell, which uses an MTU process to recover copper from scrap, circuit boards, pans and almost anything else.

Michigan Technological University, though, has a special relationship with Houghton. According to Dale Stein, the city's major contribution has been the "Houghton—a Good Place to Live" campaign. This is more than a simple slogan for Houghton. Development has been geared toward community vitality in general, but in particular toward making Houghton an attractive place for the university community. Stein says the effort has a major impact on the university's ability to attract top students and faculty.

Houghton National Bank President Alex Sample says that the town could hardly exist without the university and attributes the success of the partnership largely to MTU's Dale Stein, but he also quickly credits the city with helping maintain this vital partnership.

Financing Development

The city has been aggressive in its pursuit of other development opportunities, as well. Since the city committed to participate in financing economic development, it has been involved with a number of projects and has grown in its sophistication at facilitating development. During the 1970s, the city used its bonding authority and grants to complete infrastructure improvements and other development. In 1979 Houghton created a Downtown Development Authority and tax increment financing plan, and successfully sought grants for additional infrastructure development. In 1983 the city began assisting business through financial participation. Using Community Development Block Grants and Urban Development Action Grant (UDAG) funds from 1983 through June 1987, the city provided gap financing in the form of low-interest loans to five



Preeminent among Houghton's assets are the scenic waterfront and Michigan Technological University (foreground).

Courtesy of MTU/Publications-Photo Services

private development projects. The city created a revolving loan fund from CDBG and UDAG repayments and recently, in partnership with MTU, used the fund to participate in a major hotel expansion in downtown Houghton.

The principal financing tools used by the city include the following:

■ Urban Development Action Grant Funds

The city has received six UDAGs which are typically used for gap financing.

■ Community Development Block Grant Funds

CDBG proceeds have been used for gap financing or to provide infrastructure in connection with a development project.

■ Economic Development Administration Funds

EDA funds have been used for infrastructure, utilities and site improvements at Houghton Development Park.

■ Revolving Loan Funds

A city revolving loan fund has been established with UDAG and CDBG

repayments. The fund will receive over \$2.5 million in payments through the year 2007.

■ Revenue Bonds

Houghton has established an Economic Development Corporation which has the authority to issue industrial revenue bonds. IRBs provide long-term, below-market rate financing for businesses.

■ Tax Increment Financing (TIF)

TIF districts provide infrastructure support for economic development projects.

A Community of Economic Excellence

In 1987 Houghton received an Overall Excellence Award from the Michigan Community of Economic Excellence Program (CEEP). The CEEP program was created in 1983 to recognize communities and individuals that play a unique role in economic development. Press releases from the governor's office cited Houghton's "total community approach to economic development."

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Houghton Michigan, continued

It's not difficult to see what makes Houghton work. City leaders initially made a realistic assessment of the city's assets. Second, even though they used a variety of financing sources and mechanisms, the town's development plan centers on those "home-grown" advantages. Third, the development plan is comprehensive and long-term, rather than emphasizing ad hoc or short-term results. In addition, through hands-on experience, city development

officials have become very skilled at using a wide variety of financial enhancements designed to meet their particular financing needs.

Last, the city doesn't plan to rest on its accomplishments, but has charted an aggressive course for the future aimed at maintaining a climate attractive to business and technology-related industry, providing amenities that will attract tourists and improve residents'

quality of life, and continuing central business district revitalization.

*John R. Borchert, America's Northern Heartland. Minneapolis, University of Minnesota Press, c1987.

Ventures Group—A Unique Development Tool

Michigan Technological University does not actually participate in development initiatives. This role belongs to Ventures Group, a for-profit subsidiary of the Educational Services Institute (ESI), a nonprofit organization formed for the sole benefit of MTU. Gifts of money to the university go to ESI; but Ventures Group can accept a gift of a business and, by assigning that business to an operating division, continue to operate it rather than liquidate it with the resulting loss of jobs and disruption in the community.

MTU President Dale Stein acknowledges that reaction to Ventures Group is varied, and that initially, the reaction was that "this can't work." However, Ventures Group, which started with a \$250,000 investment, now has \$70 million in assets. The Group has 14 businesses.

For more information, write to Dale F. Stein, President; Michigan Technological University; Houghton, Michigan 49931.

Revolving Loan Funds and Economic Development: South Dakota's REDI Fund

A carefully constructed revolving loan fund (RLF) can be an effective economic development tool, in particular because of RLFs' flexibility and wide array of uses. RLFs can be funded from a variety of sources, including grants or tax revenues. RLF dollars are often blended with bank funds to lower the bank's risk or assure a reasonable rate of return. The funds are designed to recapture the principal investment—hence the use of the term "revolving."

The REDI Fund

South Dakota's Revolving Economic Development and Initiatives (REDI) Fund was created to address the need for new primary jobs in South Dakota communities. The Fund was authorized by the 1987 South Dakota Legislature which approved a one percent sales tax for one year to raise money for a revolving, low-interest loan fund. The tax was removed two months earlier than expected, after the \$40 million needed to support the fund was raised.

The legislation authorized a new Board of Economic Development (state board) to develop and implement the criteria for making loans from the REDI Fund.

Loans for permissible activities are made to any for-profit business or nonprofit business cooperative that is either a start-up business, an existing business or a business relocating into South Dakota that will create new primary jobs.

The REDI Fund may provide up to 45 percent of the total project cost and requires applicants to secure the

matching funds before applying to the Board of Economic Development for the REDI Fund. The applicant must make a ten percent minimum equity contribution. The rest of the funds come from private lenders.

The REDI loans are amortized over a period of up to 20 years, with five-year balloon payments to keep the fund revolving.

The Application Process

Not every project qualifies for REDI financing. For REDI funds to go into a community, the most important factor is submission of a good application which includes a thorough business plan and feasibility studies. It also addresses several other points, including the following:

- the intent of the applicant to create new primary jobs;
- the expectation that the business will have a positive impact on the community; and
- the reasonable likelihood that the loan will be repaid.

The state board reminds those communities and ventures that are not initially successful that the Fund is revolving. If a business was not ready for funding during REDI's first year, it may be ready later; and as loans are repaid, there will be more funds in the future for more businesses.

For more information, contact Troy Jones, Jr., Director of Finance at 605-773-5032, 1-800-952-3625 (within South Dakota) or 1-800-843-8000 (out-of-state).

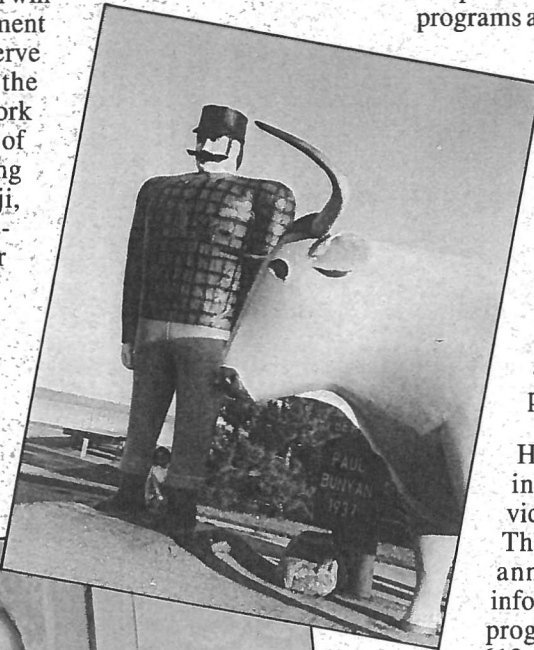
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■ A primary function of the Community Affairs Division is to gather and share information which will help banks address their communities' reinvestment needs. In November, 1988, the Federal Reserve Bank of Minneapolis in cooperation with the Minnesota Bankers Association Enterprise Network and state and federal agencies, presented a series of conferences on economic development financing tools. The conferences were held in Bemidji, Alexandria and Mankato, Minnesota. The objectives were to increase the use, in greater Minnesota, of federal and state funds, to show how to blend these funds with private dollars, and to provide banks an opportunity to establish working contacts with participating agencies.

Richard K. Einan, Community Affairs Officer, and Carolyn P. Line, Community Affairs Coordinator, were among the featured speakers. Other participants included the Economic Development Administration (EDA), Farmers Home Administration (FmHA), Minnesota Department of Trade and Economic Development (TED), U.S. Small Business Administration (SBA), and U.S. Department of Housing and Urban Development (HUD).



Bottom: Bob Glover, Director of Consumer Affairs, FRB Cleveland and Rosie Burditt, Community Affairs Specialist, FRB Chicago prepare to go on stage for a skit, "To Lend or Not to Lend," at the December housing conference.



■ In December, the Federal Reserve Banks of Minneapolis, Chicago, Cleveland and St. Louis cosponsored a workshop on effective housing finance programs and related lending techniques.

Featured speakers included representatives from the Federal National Mortgage Association (FNMA) and the Federal Housing Administration (FHA). Lenders, city officials and nonprofit organizations offered their perspectives on the housing development process. Carolyn Line and Dick Einan also participated in the program.

Housing conference proceedings should be available on video tape within several weeks. The price of the tape will be announced at that time. For information about these or other programs, phone Carolyn Line at 612-340-2048.

Top: Paul Bunyan and Babe the Blue Ox, Bemidji, Minnesota, site of a lenders conference in November 1988.

COMMUNITY welcomes your comments and observations. You are also invited to share your community reinvestment program or community development initiatives with COMMUNITY by writing Carolyn Line, Community Affairs Coordinator, Federal Reserve Bank of Minneapolis, 250 Marquette Avenue, Minneapolis, MN 55480, or telephone 612-340-2048. To make address changes or to order additional copies, contact COMMUNITY at the same address.

This newsletter is designed primarily to assist financial institutions in the Ninth Federal Reserve District in developing creative responses to consumer issues and to the goals of the Community Reinvestment Act.

COMMUNITY is produced under the direction of Richard K. Einan, assistant vice president and community affairs officer, and Carolyn P. Line, community affairs coordinator.

COMMUNITY is available without charge from the Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota 55480 (telephone 612-340-2048).

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