



Testimony of John Mickelson

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BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX, AND CAPITAL ACCESS HEARING ENTITLED "A REVIEW OF THE SBIC PROGRAM"

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Good morning, distinguished members of the subcommittee, my name is John Mickelson and I am the Co-founder and Managing Partner of Midwest Growth Partners, located in West Des Moines Iowa, with an additional office in Omaha, Nebraska.

Midwest Growth Partners is a USDA licensed Rural Business Investment Company (“RBIC”) and we raise dollars from the private sector to make succession planning and growth investments in food & agricultural, manufacturing, and distribution businesses in rural communities in the United States. Like the Small Business Investment Company program, Rural Business Investment Companies make investments in small businesses where institutional capital is scarce, particularly in non-coastal communities. Our investors include members of the farm credit system, rural electric co-ops, ag trade organizations such as the Iowa Corn Growers, commercial banks, and successful private citizens – most of whom own businesses involved in food & agricultural production.

Rural businesses are underserved by institutional capital for succession planning and growth capital and that fact was the core thesis when founding Midwest Growth Partners in 2013. At the time, potential investors asked if there would be enough opportunities to evaluate for investment and we hypothesized that we would see 100 opportunities each year and likely execute on one or two. In our first full year in business, we evaluated 230 investment opportunities, validating our thesis of rural and non-coastal communities needing an institutional capital source, and that number has continued to grow each year. This year we will evaluate more than 800 opportunities. All told, we have made 19 investments in rural areas, deploying more than \$100 million of much needed private capital that has been used to grow businesses and provide a next generation future of ownership.

Starting with seven after our first acquisition in 2014, our portfolio companies today have over 2,600 employees employed in and often living in rural communities. These jobs all pay above the living wage, provide benefits, and generated more than \$7 million in federal, local, and state withholding taxes for their local communities in 2020. While we are proud of the impact our portfolio company jobs provide, we are just as proud knowing that many of the jobs provide off-farm income, allowing one spouse to remain farming, while the other spouse secures benefits for the family and additional income. Since inception, Midwest Growth Partners has grown the employment at its portfolio companies by 25%, on average, from the date of its original investment.



A real-life example of Midwest Growth Partners capital at work is our investment in Fast Ag Solutions located in Windom, Minnesota, population 4,400. Fast Ag manufactures sprayers and liquid fertilizer applicators from its 100,000 plus square foot facility in Windom. Midwest Growth Partners partnered with the Fast Ag management team to purchase the company from the previous owners in the fall of 2020 and have grown full-time employment from 52 to 73 during that time, all of which are working overtime.

This type of economic development in rural areas would not be possible without programs like the Rural Business Investment Program, and more can be done. Since the great recession in 2008, rural job creation has contracted by 4.2%. According to the USDA, metropolitan areas, where most institutional investment capital is concentrated, has poverty rates of 12.6% compared to 16.1% in rural areas. With 19% of people in the US living in rural areas, this shortage of capital is critical for millions. Providing support for the Rural Capital Access Act, which would enable Rural Business Investment Companies to utilize leftover federal funds from the SBIC program, is one clear path to ensuring improved the lives of these 19%. The Rural Capital Access Act would put additional capital into experienced fund managers hands who live in, are from, and are operating their businesses near the rural areas that so desperately need investment capital. Other policy enhancements that would improve rural and underserved investment areas within the structure of the successful existing SBIC program include the creation of a MicroSBIC license, which will create a more inclusive pool of talented entrepreneurs to invest in underserved communities, the creation of a SBIC working group to increase the number of SBIC applicants, specifically those located in underserved communicates and underlicensed states, and the creation of the SBA office of Rural Affairs.

Unfortunately, all the success that has been made and the promise of critical programs mentioned above to accelerate that success could be muted because of current issues facing small business. PPP was a critical lifeline during the COVID-19 pandemic in 2020, but now businesses are facing a new set of challenges in 2021 and 2022.

Our portfolio company partners are facing 30-40% price increases in raw materials used to make goods – and that is if they are able to secure the materials at all. Existing supply chain constraints are having a direct impact on sales and profit margins, which constrict the ability to reinvest in our businesses and hire more employees.



Attracting and retaining talent, which was already difficult, has become a crisis as uncertainty looms surrounding vaccine mandates. Many companies are facing the realization that they could lose up to 50% of their workforce overnight and will not be able to fulfill the orders and contracts they have already agreed to.

The prospect of higher taxes, of all forms, is delaying business decisions necessary for long-term business planning. Midwest Growth Partners has experienced these challenges daily in the work we do in rural communities with small businesses. On the pass-thru income tax side, these proposals aren't impacting only billionaires, but small business owners, who when faced with the prospect of even a small tax increase will forgo the hiring of additional workers, even one or two, or an investment in capital goods, such as something as simple as a forklift. Possible increases to capital gains rates or changes to the existing 1202 code have already created unnatural business outcomes as owners and investors accelerate or indefinitely delay decisions related to their personal succession planning or growth investment strategy. Possible changes to the carried interest model will disincentive fund managers from making investments in all areas, including rural and other underserved communities.

Businesses in rural areas, and small business generally, already face a scarcity of capital access, negatively impacting the lives of millions of Americans. As we near the hopeful end of the COVID-19 pandemic, these businesses are optimistic to grow and create prosperity for their employees and communities. Small and rural business owners and investors are used to facing headwinds in their business – no day is ever easy – but adding additional regulatory and cost burdens is not in their best interest and definitely not in the best interest of the communities they operate in and the millions of employees who provide goods and services which make our country the land of opportunity.

Thank you and I would welcome any questions you have.