

NEW HAMPSHIRE COLLEGE C.E.D. PROGRAM

PROJECT IN C.E.D.

F I N A L R E P O R T

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REDUCING JOBLESSNESS ON THE RESERVATION

Indian Township Passamaquoddy reservation is located in remote Washington County, near Princeton, Maine. The remoteness of the reservation has contributed to its inherent high unemployment which, historically has been many times the state average. Lack of education and training opportunities for tribal members have until recent years, have been practically non-existent. The few jobs that were available to tribal members were often menial, seasonal and temporary. Many Indian families grew to depend on the limited public assistance provided by the State Department of Indian Affairs. Alcoholism was a convenient and predictable response for a number of tribal members, who might have opted for work had it been available.

By the early 1970's, tribal leaders decided to utilize outside professionals to help them address the problems of alcoholism, substandard housing, high unemployment and the loss of tribal lands. Many non-Indian professionals assisted the tribe with little financial support. A minority of them did so with greater financial aims in mind. Tribal leaders were quick to distinguish who was who.

Also in 1970, old documents presented to a young attorney by one of the tribal elders marked an important turning point for the Passamaquoddy Tribe and other tribes indigenous to Maine. The ensuing ten-years of legal research, oral arguments and legal maneuvers resulted in a massive claim by the tribes for nearly two-thirds of the state of Maine. Both the tribes and the State opted to settle out of court, rather than engage in a protracted legal battle, in which clouded title within the claim area would continue to impede the sale of municipal bonds, private and commercial mortgages, and commercial investments.

Equally important to the tribe during this period were the doors that were opened with respect to gaining federal recognition by the U.S. Bureau of Indian Affairs. Eligibility for technical assistance, as well as grants and loans for economic development was an important part of this growth period. The tribe was among other federally recognized tribes eligible for grants through the H.U.D. Office of Indian Programs and the Indian Health Service.

The Passamaquoddies were quick to take advantage of the programs for which we were eligible, frequently employing the best technical consultants we could find, since few of us had the expertise and educational background. Eventually, we secured our first housing project, which resulted in immediate temporary employment for a number of tribal members at the federal wage scale for the first time. Jobs at last! Soon, we achieved our first community facilities project. More jobs! Then, another housing project the following year. The tribal council was pleased. Those finding jobs were pleased. And, their families were pleased.

Within the span of fifteen years or so, we effectively rebuilt or replaced 99% of the reservation's substandard housing stock and constructed water & sewer projects, medical, municipal and tribal administrative facilities. All of which, created over-lapping, short term employment and training opportunities. In the meantime, the tribe's financial consultants were re-acquiring undeveloped forestland and assisting the tribal leaders in acquiring several successful business enterprises. These investment opportunities, however, occurred much too far from the reservation for any practical employment benefit to the reservation. On-reservation unemployment vacillated between 28% during the periodic construction projects to over 50% when no construction activity was present.

We, in effect, dug ourselves into a "hole" by: a) depending almost entirely on outside consultants who favored housing and

community facilities projects to stimulate local employment within a specific time frame; and, b) lulling ourselves into the belief that "community development" was the long-term solution to local employment needs of the reservation.

After a period of social and academic growth among tribal leaders, punctuated by several changes in tribal administration, it began to occur that our energies should be re-directed toward a more permanent solution. And, at last, our early business ventures since the land claims settlement had begun to generate "positive vibes" within the business community. Our initial overtures toward a prospective business venture which was willing to entertain the idea of a limited partnership with the tribe proved to be a promising and educational exercise. Our new goal was to find a firm that was willing to establish a satellite manufacturing operation on the reservation, which would provide permanent "good" jobs to the community.

The initial prospect occurred near the beginning of the C.E.D. year, when I was in the process of selecting my project. It looked very promising at that time. The deal eventually fell through, due to changes proposed by the prospective partners which would limit their risk and liability to a point which was very disproportionate to the tribe's. The initial deal involved 51% tribal ownership. The tribe would provide manufacturing space on reservation. The partners would provide the machinery for the manufacturing operation, and management and marketing expertise for the business. The product to be manufactured was childrens' clothing for a national franchise. Childrens' clothing would also be manufactured and marketed under under a tribal trademark. Tribal planners, consultants, and tribal leaders were very excited about the prospect of such a venture being located on the reservation. Fortunately, we tempered our optimism with caution. We wanted to develop local employment, but not at any cost.

The projected income statements generated by the partners app-

eared unduely optimistic. However, the break-even point for the business suggested there was ample margin for error. During the latter part of the negotiations however, the partners desired to have the tribe underwrite the manufacturing machinery as well as the facility. It was also indicated that the product would first be test-marketed and manufactured in South Carolina under the tribal trademark for at least a six-month period. It began to look more and more as if the prospective partners did not have sufficient confidence in the success of the proposed venture. It began to appear that the partners were perfectly willing to profit from a joint venture in manufacturing childrens' clothing under our label, but were not prepared to lose any money in the event the business failed. Based on the collective recommendation of tribal planners and consultants, the tribal council declined further negotiations with respect to this particular venture.

Meanwhile, the tribal administration, in it's desperation to create any form of gainful employment for jobless households on reservation, hired more and more tribal members with limited backgrounds to do a wide variety of work for the tribe. This compromise was intended as a temporary measure which would serve as an alternative to the wide-scale public assistance most often resulting from unemployment among the heads-of-households. But this temporary measure could not be sustained for a long period, due to the enormous tribal deficit it would eventually generate.

Among some of the other important priorities of the tribe was one to establish a supermarket on the reservation. Such a project would generate about eight full-time jobs which would reduce the burden on the tribal government, and on general assistance. Financing a 100%-owned tribal enterprise appeared far more attractive than subshedizing jobs, or perpetuating welfare through the public assistance program. So, while the manufacturing enterprise fell through, interim efforts continued toward reducing joblessness until a more promising opportunity could be realized.

Among the numerous issues and questions we were faced with in regard to developing the supermarket was: How does one start a supermarket from scratch? We decided that we would approach several suppliers to ascertain what infrastructure and basic equipment would be required to operate a state-of-the-art supermarket facility. At the same time we entertained proposals from each supplier to assist the tribe with general design and format for the proposed foodstore. Happily, each supplier expressed eagerness to assist, if for different reasons. The company which supplied the line for the closest competition was eager to take on our account in order not to be faced with the direct impact of a competitive force. And, of course, the suppliers of competing lines were extremely eager to have the opportunity to have an inroad against the competition. If we hadn't settled the important question of financing yet, it seemed that people were falling over each other to lend us whatever technical assistance we needed with respect to how the supermarket facility could and should be developed. It was "capitalism" at it's best.

After a number of sessions with several suppliers, we settled on one which had consistently demonstrated patience, genuine interest, and an unswerving sense of reality as it applies to the food business. It happened to be a competing supplier to what would be our closest competitor. The significance of this is that the food industry is very much a "penny-profit" enterprise. And, in this rural setting, there may not be room for two large foodstores within close proximity. Our competition would be less than one mile away. The competition was well-established for a number of years. It had the loyalty of customers from several towns, including the reservation. Even food customers from the reservation would take considerable coaxing to sever the habit of going accross the bridge for food. This issue will resurface later in the report.

By now, the food supplier provided us with all the costs ass-

ociated with shelving, freezers and other infrastructure necessary to operate a full-scale supermarket. We were also provided with costs of stock and operational costs. An industry break-even figure, adjusted to the local area would be the critical focus in the initial months of operation.

An existing frame structure, last used as a tribal headquarters was centrally located and could easily be renovated at a cost of about \$120,000. A similar amount would be needed for equipment and inventory. An additional \$10,000 was projected for advertizing, initial wages and other start-up costs. A financing package for \$250,000 was submitted to a commercial bank familiar with doing business with the tribe. The package was developed and submitted by Tribal Assets Management, Inc., in our behalf, as it is they whom the banks are familiar with in financing tribal ventures. Our several successful business enterprises in other parts of the state since the Land Claims settlement, made financing the Supermarket project an easy ordeal.

Training of store personnel was handled through the tribe's personnel and training department. Several O.J.T. slots were obtained from the county. Two more were designated by a joint tribal training program. The training was coordinated by the food supplier at their centralized training facility. Training occurred concurrently with the store renovation activities. Five temporary construction jobs were created in the renovation of the store. All of these were tribal members. The Indian Township Shop & Go project was initiated in February, 1987 and completed for opening in July, 1987. It is the first of two commercial business ventures to have been initiated on the reservation. The non-Indian community, not to mention the banking community, is curious to see to what extent the businesses might succeed or fail. And, indeed, so are we.

An unexpected side issue may have an important impact upon the success of the tribal Supermarket. This occurred when the question of the sale of beer & wine came up prior to the store's

opening. A tribal council approval is necessary for any sale of beer & wine on the reservation. While alcoholism on the reservation has substantially declined in recent years, the subject remains an emotional social issue. Community opinion ranges from the extreme that alcohol is evil, and those that sell it are evil, to those of us who doubt that the sale of beer & wine would have a substantial negative effect if sold, nor a significant positive effect if not sold. Unfortunately, the emotional nature of the issue tends to cloud the more elementary issue at hand: Can the store be competitive enough with non-alcoholic sales, when virtually every other supermarket, superette and corner store in the adjacent communities sell beer & wine? It is, after all a question of competition. It would have much the same effect that not selling steak. People who like steak would likely shop where steak is sold. So far however, beer & wine is not sold in the tribal Supermarket.

Aside from the remoteness of the reservation, another key factor which makes prospective business interests somewhat hesitant to locate on the reservation is the relative absence of other successful commercial business enterprises which are run by the tribe. We now have not only the Supermarket, but we have developed a rather impressive satellite cable television system, which is being run by the tribe as a commercial enterprise. The system, like any commercial-grade CATV system features seven satellite channels and seven terrestrial stations. The installation of the system generated short-term employment for four tribal members. Three part-time, and one full-time job was provided for tribal members. But, neither the few jobs, nor the popular service to the reservation the project provides may be as important as the impression the CATV system leaves with business representatives as we invite them to on-site visits to the reservation. We can now point to two successful tribal enterprises, which were developed independantly of any outside assistance. The system cost approximately \$200,000 to install. The project was part of the

same financing package presented for the tribal Supermarket.

Where the CED Project is concerned, the two projects just mentioned were interim activities between our initial objective of a manufacturing enterprise which did not succeed and the next available opportunity. Such an opportunity presented itself late in the '88 CED year. A firm called the Strong Group, Inc., of Gloucester, Mass. was in the process of expanding it's leather goods manufacturing operations. Having experienced a labor shortage about the Gloucester area, representatives of the Strong Group approached the tribe on the assumption that the tribe might possess three important factors of production: Land, labor and capital. They were right. And, we as tribal planners were delighted. None, more than I, because it so fit the specific objectives of my CED project as well.

The key selling point of this opportunity was that it involved a well-established, on-going business enterprise. The company had been making belts, holsters and other leather goods for law enforcement agencies and the military for over 18 years. While the proposed deal is yet to be finalized between the tribe and Strong Group, Inc., a lot of ground has been covered in a relatively short period of time.

Preliminary discussions indicated a 51% tribal ownership of a satellite manufacturing facility which the tribe would build on the reservation. The new facility would initially generate about forty jobs, with an immediate potential for one-hundred jobs. Some of these would be within management in management training positions. As the required pro forma information was generated by Strong Group, Inc., on-site visits took place by our key players to view the manufacturing operations and to execute a due diligence investigation to ascertain if the numbers were right. We were assisted by accounting staff from one of the tribe's major businesses. They determined that Strong's pro forma was slightly optimistic. And, that due to excessive growth and some more minor

factors, the cash flow of the company was neither positive, nor negative. To insure that the tribe would have control over the growth, profits and cash-flow, it was decided by the tribal leadership to acquire 100% of the Holster division. A letter proposing this acquisition was sent to Strong Group , Inc. last month. We anticipate an 80% probability that the proposal will be excepted. If it is excepted, it is the tribe's intention to finance a portion of the acquisition via a Bureau of Indian Affairs(BIA) loan guarantee, and a UDAG loan. There is some confidence that the Economic development Administration (EDA) will participate in a project to construct the necessary manufacturing facility on the reservation.

The Strong Leather & Holster Division represents the most promising opportunity for the tribe to reduce joblessness on the reservation. Once the deal between the tribe and Strong Group, Inc. succeeds, the tribe's Personnel division will initiate action for training workers, and managers. The tribe will enter into a management contract with Strong to help guarantee that the new manufacturing facility operates smoothly and efficiently.

As with several other of the tribe's business enterprises in other parts of the state, a Board of Directors made up of tribal members shall be appointed by the tribal council for the important policy decisions which have to be made. In-as-much as the business shall be owned by the tribe, and tribal members will be employed by the business, this could be interpreted as a form of worker-ownership. Not all of the employees however, would be members of the tribe. And, therefor, they would have no official say in the policy matters.

While the Strong leather goods manufacturing enterprise is very much at the point of acquisition, another firm has approached the tribe for a possible partnership in manufacturing. This second firm is a Maine-based business that manufactures synthetic liners

and other interior components for the automotive industry. It is a growing business. And, the current manufacturer has difficulty in keeping up with current orders. They, too, are looking for a combination of labor, land, and capital in the hopes of expanding their production capability. We are in the very initial stages of negotiations with the firm's official representatives. Over the coming weeks, we will be engaged in the scrutiny of the company's cash-flow, business plan, and the proposed business arrangement. The foremost priority of the tribal government, coinciding with the stated goal of my Project in CED, is to reduce the high unemployment on the reservation by creating an environment which would attract outside investment to the reservation. What the CED program at New Hampshire College has given me, is the knowledge that not every opportunity that comes along is necessarily an appropriate investment for the community. The program has helped me understand what to look for in a prospective business, and how to evaluate proposed partnerships and joint ventures.

While only about ten permanent jobs were created as a result of CED project activities in which I participated, I am at the very least confident that we are on the right track. And, I am optimistic that the persistent application of the methods and principles learned in CED will pay-off in the end. The tribal leadership is generally confident that an appropriate business arrangement between the tribe and a manufacturing concern will be secured within the coming months. And, with my newly-earned credentials as a CED practitioner, I am certain to be a part of it.