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Should new businesses get Rushford's flood aid funds?

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That's why Klungveldt, who founded Rushford Institute of Nanotechnology several years ago, has taken part in bringing to Rushford a nanotechnology research lab and incubator business that can mass-produce hard, shatter-resistant cutting coatings for machinery and tools.

The new business venture, Hypersonic LLC, expects to generate more than 70 jobs in Rushford during the next five years – a much-needed opportunity for dislocated workers from last August's flood and the TRW automotive layoff a year ago.

"This is the first nanotech company in a rural area," Klungveldt said. "This is very exciting, and why anybody would be against it, I don't know."

Instead of excitement, the nanotechnology start-up initiated some controversy that has left some leaders and residents in Rushford wondering whether eagerness for job creation might be at the expense of flood victims.

The Rushford City Council approved last week \$1 million in state-backed loans to two businesses that never suffered flood damages.

Hypersonic didn't exist at the time of the flood, while Connaughty Industries – a light manufacturing and farm equipment business – plans to build a 20,000-square-foot facility to keep up with orders. Connaughty said the expansion could lead to as many as 10 new employees in two years.

Rushford Mayor Les Ladewig said the two \$500,000 business loan applications meet policy guidelines because both improve the economic base and employment in the community.

Businesses with no loss or damage by the flood are accepted under Rushford's guidelines if they commit to job creation and economic development. The unforgivable, low-interest loans are repaid into the city's revolving fund.

But others interpret the policy differently.

"Some (businesses) feel cheated ... some feel that the extra money should have been transferred to homeowners who still need help," said council member Larry Johnson.

Council member Laura Deering, the only dissenting voter, said she wanted to make sure businesses with flood damage had access to the funds first. She said the policy isn't clear about whether only businesses affected by the flood are eligible for funds.

"I don't feel comfortable with the language of the policy that they qualified for it," she said. "It's a very sensitive issue. One thing I've learned through this flood: Every purse has strings and it's knowing how those strings operate."

But Ladewig justified the allotment.

"Out of the \$17.5 million that was authorized for Rushford businesses, and you divide out \$1 million, I certainly think a large percentage of people in the community would view that as an investment of the community that doesn't cost a lot of dollars," he said. "We feel confident we will be adequately able to supply the needs of businesses that are remaining as well as help these start-up business endeavors."

Many Rushford residents like Larry Mierau found their financial packages fell short of what's been made available to businesses. And if there's state dollars leftover from flooded businesses, homeowners want a slice of the pie before nonflooded businesses.

After running through the bureaucratic hoops of federal and state funding rules, the 62-year-old said he will be stuck paying back a Small Business Administration loan until he's 92.

Mierau wondered what a spare million dollars could do for Rushford homeowners, and he's not alone.

Rushford State Bank president Ted Robertson said homeowners "got the shaft" and government policy is getting in the way of doing the right thing.

"It hasn't been any good to get the businesses rehabilitated if nobody's here," he said. "While we were working hard for a business package, I assumed the state was going to take care of the homeowners, but they did not."

It's not that Robertson and Mierau are against Hypersonic and Connaughty, but they say flood funds should go to flood victims.

Ladewig said the council wanted to use business funds for housing development, but the Minnesota Department of Employment and Economic Development told them business money couldn't be used for housing.

The state gave each city the authority to set its own policies and established a tier of assistance and eligibility through a review process, rather than the state dictating who needed what, said Paul Moe, DEED deputy commissioner.

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Moe said the Legislature allowed for transfers of funds to be used in other areas, but it has to be approved by the state finance commissioner.

Kevin Kelleher, DEED's flood relief coordinator, said transfers have been done before, but it wouldn't be easy to transfer dollars from Rushford's business account directly to housing because it could conflict with federal housing assistance. That doesn't mean it can't be done, he said.

"Administration of these funds has been under scrutiny from the get-go ... and here we sit in the middle," Ladewig said. "When we talked to (DEED), they said it's your policy, it's your flood, it's your money, do with it as you see fit."

Ladewig said it wouldn't be fair now to deny business loans for Hypersonic and Connaughty after the money has been offered. The applications are in the process of being reviewed by the city attorney before it hits DEED's desk for final approval.

The city of Rushford plans a special session at 6 p.m. Monday in the city hall for further review of applications from entities not open for business prior to the flood.

Klungveldt said he lost half his house in the flood, too, so he understands the arguments. The bigger question, he said, is how Rushford will rebuild the community for the future.

"We're not here to take money away from people... Rushford needs jobs and can't survive without jobs and we're doing it," he said. "We're bringing the best technology in the world to a flood-ravaged town."

Source information :

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