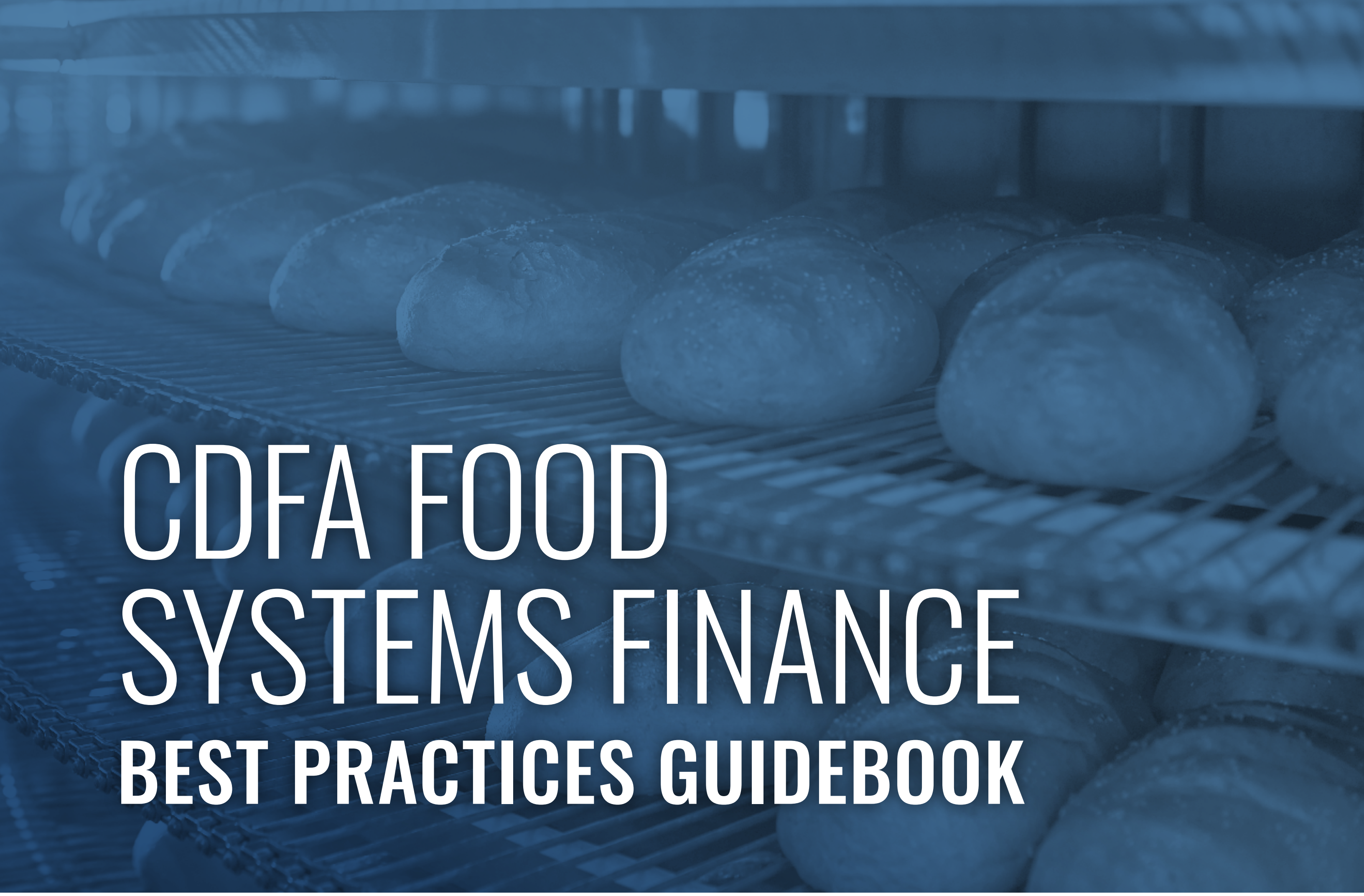

CDFA FOOD SYSTEMS FINANCE

BEST PRACTICES GUIDEBOOK

Funded with support from the W.K. Kellogg Foundation

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THERE IS FIRM EVIDENCE SUGGESTING THAT **FOOD-RELATED PROJECTS AND BUSINESSES ARE WORTHY OF INVESTMENT** FROM PUBLIC AND PRIVATE DEVELOPMENT FINANCE SOURCES.

INTRODUCTION

The *Food Systems Finance Best Practices Guidebook* is designed to help food systems practitioners learn more about finance and for economic development professionals to learn more about the role of food systems in building local economies. This guidebook defines how traditional development finance tools can be used to successfully invest in and strengthen food systems, catalyzing the growth and expansion of food businesses and projects. It provides a brief introduction to development finance and the food system, then dives deep into the toolbox approach to outline several development finance tools that can be used to respond to capital and resource needs throughout the food system. Included are examples of food system projects financed using the tools from the development finance toolbox, as well as action items that can be taken right now to create successful food systems finance programs.

What is Development Finance?

Development finance is used by local communities to encourage, support, and catalyze the physical development, redevelopment, and expansion of a business or industry. This is done through public and private investment in projects which benefit the long-term health of a community. Development Finance Agencies (DFAs) act as a conduit for channeling these investments for a public purpose. DFAs are either public or quasi-public/private agencies that provide support for economic development through various direct and indirect financing programs. Generally, DFAs can be formed at the state, county, township, borough, or municipal level, and often have the authority to provide development finance programs across multi-jurisdictional boundaries. DFAs are uniquely positioned to provide a significant amount of financial support to local economic development as DFAs may issue tax-exempt and taxable bonds, provide credit enhancement programs, and offer direct lending, equity investments, or a broad range of access to capital financing mechanisms. There are already countless DFAs around the country that are connecting local food businesses and projects with financing.

DEVELOPMENT FINANCE TOOLS

BEDROCK TOOLS
Bonds are the bedrock of public development finance. In its simplest form, a bond is a loan that is incurred by a government entity to finance governmental or private activity.

TARGETED TOOLS
Targeted tools are direct financing tools with unique structures that drive investment and development in specific geographic areas or difficult to finance sectors in a community.

INVESTMENT TOOLS
Investment tools provide incentives for individuals and companies to invest in new machinery, technology, construction, and more to help catalyze growth.

ACCESS TO CAPITAL TOOLS
Access to capital programs address small business financing needs as well as large-scale projects.

What is the Food System?

CDFA's definition of the food system takes a comprehensive look at the greater economic ecosystem around food production, food enterprises, and food infrastructure to reinforce that this sector is worthy of traditional investment from public and private dollars. The definition of the food system includes six components outlined below.

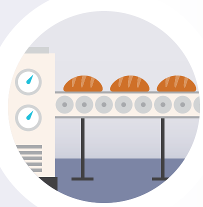
The food system is made up of different sectors and activities, and each offers significant potential for economic development. CDFA views the broader food system primarily through the lens of economic development, though most food system-related efforts are driven by a range of interests that include access to fresh foods for families and children, creating high-quality jobs in underserved communities, developing socially and racially equitable communities, ecological wellbeing, cultural preservation, and more.

Food and agriculture should be key components of local and state economic development strategies because of the potential for interrelated benefits. Small businesses and local entrepreneurs keep dollars circulating in a region's economy, building wealth and expanding economic opportunity. Agriculture and food industries operating on a more localized scale increase economic and environmental resilience within communities. Approaching economic development comprehensively ties these many goals together, while maintaining a strong emphasis on the viability of food system investment.

CDFA has identified six distinct areas that exist within a comprehensive food system that can and should receive investment. CDFA's food systems work is oriented around six components.

COMPONENTS OF THE FOOD SYSTEM

SOCIAL ENTERPRISE *An organization or initiative that works to support social objectives, such as increasing access to healthy food, affordable food, sustainable food, or other socially beneficial food objectives.*



INDUSTRY *The broad range of actors who contribute to, or facilitate, the process of food production and distribution to consumers. This may include food retailers, food service, packagers, producers of food-related inputs, and more.*

AGRICULTURE *The cultivation and harvesting of primary consumable food products (plants, animals, and their byproducts), as well as the acquisition and management of agricultural land, research & development, production, support, and operations, regardless of physical location or scale.*

INSTITUTIONAL BUYERS *Public or private institutions, such as schools, universities, hospitals, or prisons, that purchase wholesale, prepare and serve large amounts of food to meet internal demand within the food system.*

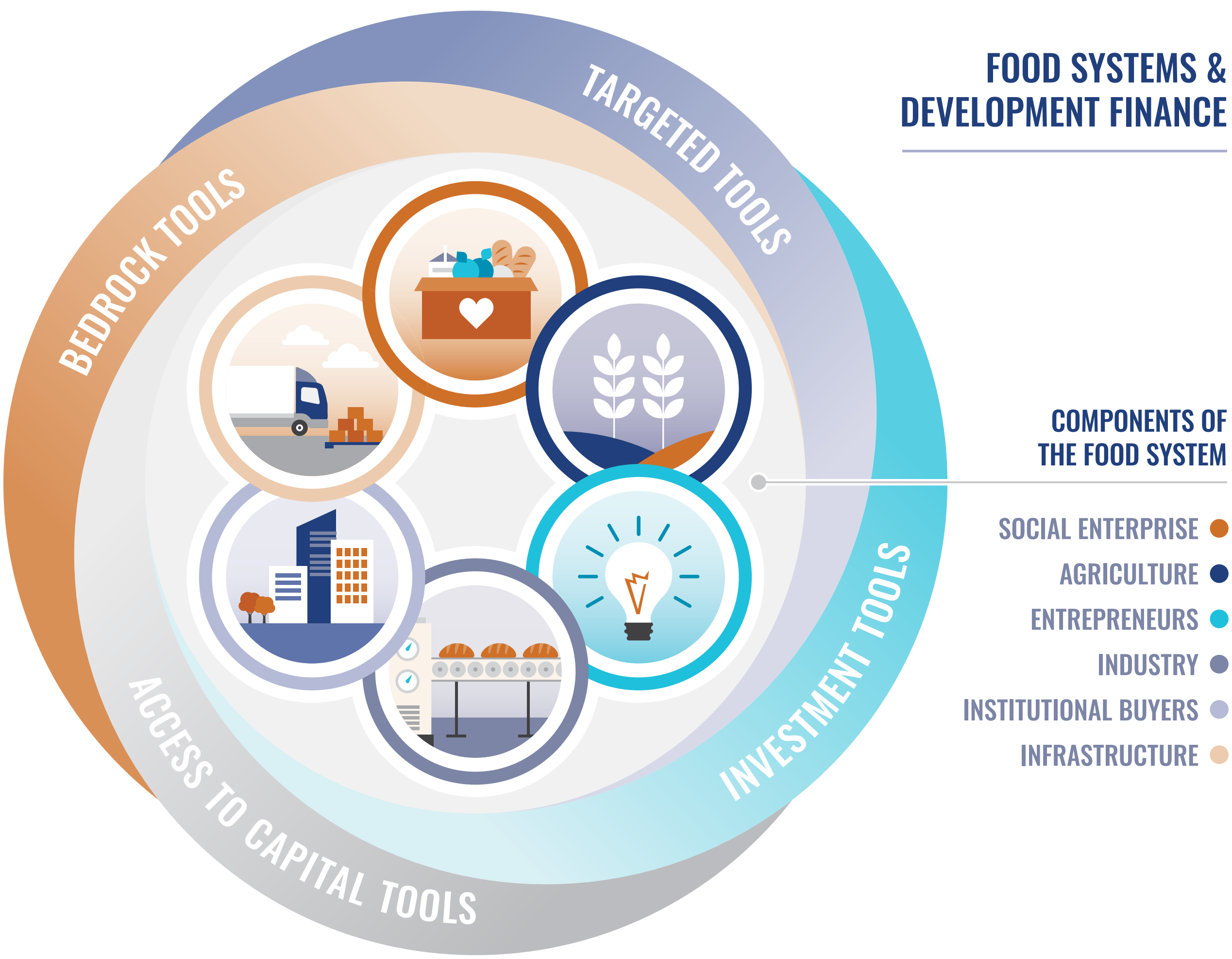
ENTREPRENEURS *Individuals who create and operate businesses in the food system to meet market needs and gain profits from the business, such as culinary, technology, or agricultural businesses.*

INFRASTRUCTURE *The physical facilities, as well as the organizational, technological, and relationship networks that allow for the production, processing, storage, distribution, transportation, transfer, and retail of food. Such facilities may include farm markets, food hubs, kitchen incubators, slaughter facilities, and more.*

A VARIETY OF TRADITIONAL FINANCING TOOLS CAN BE **UNIQUELY DEPLOYED TO SUPPORT LOCALIZED FOOD SYSTEMS**, WHICH IN TURN LEVERAGES ADDITIONAL CAPITAL.

TOOLBOX APPROACH

CDFA's toolbox approach to development finance brings together the best financing concepts and techniques to provide a comprehensive response to capital and resource needs. The toolbox approach offers programs and resources that harness the full spectrum of financing options. This tactic requires a commitment to public-private partnerships, and the creation of niche programs to assist different types of industries and enterprises. Whether assisting large-scale industrial development projects — such as food processors or packaging facilities — or small, micro-enterprise business development — such as food trucks or urban farms — the toolbox method is designed to provide assistance to numerous types of users and to maximize opportunities for growth in the local community.



Bedrock Tools

Bonds are the bedrock tools of public development finance, dating back to the early 1900s, with tax-exempt bonds included in the country's first federal tax code. Bonds have been used to help build roads, bridges, sewers, dams, city halls, prisons, schools, hospitals, libraries, low-income housing, and thousands of other public and private projects. Bonds are a beneficial source of financing, especially for large projects, because they offer a low-cost source of capital. With more than a hundred years of historical success in the U.S., they are easy to promote and provide opportunities for engaging investors from both public and private institutions. Having supported infrastructure, industry, and agriculture for over a century, bonds are a natural source of financing for these sectors of the food system.

Bonds

In its simplest form, a bond is a loan or debt incurred by a qualified borrower. This can be a government entity, a non-profit, or a private enterprise. Bonds are issued by authorized units of government (known as Issuers) and sold to the investing public. The proceeds are typically made available to finance the costs of a capital project. If the bonds are being issued for the benefit of a non-governmental borrower, the proceeds are often loaned to the borrower. Then the borrower makes loan payments corresponding to when principal and interest are due. Bondholders (investors) receive interest payments over the term of the bond, and the interest payments are exempt from federal, state, and local income taxes, making them an attractive investment option for investors of all kinds.

Following is a high-level explanation of bond categories, followed by a list of the types of bonds that are most likely to be relevant to food system projects.

Categories of Bonds

There are two categories of tax-exempt bonds: General Obligation Bonds (GOs) and Revenue Bonds. GOs are bonds backed by dedicated revenues, generally tax revenues, and are used to finance public purposes — such as highways, schools, bridges, sewers, jails, parks, and government buildings. Private entities may not significantly use, operate, control or own the facilities that are being financed by GOs. Conversely, Revenue Bonds are issued for income-producing projects with the promise that the debt will be repaid by the revenues generated from project operations. Private Activity Bonds (PABs) are a subset of Revenue Bonds, as PABs benefit private entities. In the economic development sector, PABs are the development finance mechanisms that drive projects involving both the public and private sectors. Many food-related businesses have utilized PABs to construct facilities, expand their operations, and purchase equipment or real estate.

GOs and qualified PABs are both tax-exempt bonds, meaning the interest that accrues to the investor is exempt from federal taxation. The tax-exempt nature of bonds makes them a highly sought investment security. Qualified PABs range in types of projects, including airports, universities, affordable rental housing, hospitals, small and mid-sized manufacturers, first-time farmers, and not-for-profits.

A growing area of development finance is the use of public-private partnerships (P3s) in conjunction with bonds. A public-private partnership is generally a contractual agreement where a government entity contracts with a private partner to design, build, finance, operate, or maintain a project that provides a public service. The government agency may retain ownership of the public facility or system, but the private party generally invests its capital to design and develop the facility or system. Typically, both partners share income resulting from the arrangement. While not all P3s utilize this tool, the vast majority do so because P3s are a natural fit for bond financing; projects can benefit from the private management structure and the access to affordable capital provided through the bond market.

Types of Qualified Private Activity Bonds

AGGIE BONDS

Aggie Bonds, also referred to as Beginning and Expanding Farmer Loan Programs, are small issue bonds that exist at the state level to support qualified farmers and ranchers with eligible purchases of farmland, equipment, buildings, and livestock. As the average age of U.S. farmers increases, these financial tools are needed to encourage beginning farmers to start or take over agricultural businesses. Aggie Bonds provide an attractive, affordable source of capital for first-time farmers looking to invest in a new business venture by allowing the lender to avoid paying income taxes on interest. These programs are often managed by the state agriculture department or a similar authority, and while any state can establish one of these programs, currently about half of U.S. states have active Aggie Bond programs.

» WALT MOORE HOLSTEINS, INC. | COCHRANVILLE, PA

The Chester County Economic Development Council (CCEDC) assisted Walt Moore Holsteins, Inc., located in Cochranville, PA in acquiring two loans through The Next Generation Farmer Loan Program. Funding was used to build a new 8,800 sq. ft. heifer barn, which allowed a 36% increase in herd size, and a new milking parlor, which increased milking capacity by 175%.

FRAMING FOOD AS ECONOMIC DEVELOPMENT CREATES **OPPORTUNITY FOR SUPPORTING SMALL FOOD BUSINESSES** BY SITUATING THEIR EFFORTS IN A LARGER STRATEGY.

INDUSTRIAL DEVELOPMENT BONDS

Industrial Development Bonds (IDBs), also referred to as Manufacturing Bonds, are the most frequently used bond tool for financing the manufacturing sector and are a key economic development tool for many states. IDBs are issued for qualified manufacturing projects, with a total bond issuance limit of $10 million. These bonds can support expansion and investment in existing manufacturing facilities, as well as the development of new facilities and the purchase of new machinery and equipment. IDBs may be used for food-related manufacturing, processing, and agricultural facilities.

» A&W INVESTMENTS, LLC | SACRAMENTO, CA

The California Infrastructure and Economic Development Bank (IBank) issued $8,000,000 in Industrial Development Bonds to acquire, construct, and equip an addition to A & W Investments, LLC's manufacturing facility in Sacramento. Capital Corrugated, a packaging manufacturer of corrugated materials, uses the building to manufacture containers, trays, and retail displays. The project created 16 new full-time and 242 construction jobs.

501(C)(3) BONDS

Projects financed with 501(c)(3) Bonds are owned and used by not-for-profit corporations that qualify for exemption under Section 501(c)(3) of the Internal Revenue Code (IRC). Due to the relative affordability of this type of financing, 501(c)(3) Bonds have gained in popularity over the past several years. Organizations using 501(c)(3) Bonds may include: universities and private colleges, independent and charter schools, food banks, hospitals, agriculture and food research facilities, not-for-profit food hubs, and communal kitchens.

» PROJECT ANGEL FOOD | LOS ANGELES, CA

The California Infrastructure and Economic Development Bank (IBank) issued $3.1 million in 501(c)(3) Bonds to Project Angel Food, a grassroots nonprofit agency with the mission to feed and nourish the sick as they battle critical illness. Bond proceeds were used to refinance their existing 17,400 square foot building that includes a commercial kitchen and office space. These tax-exempt bonds assisted Project Angel Food in fulfilling its mission to produce and deliver nutritional meals for underserved people who are too sick to shop or cook for themselves. Since 1989, Project Angel Food has served more than 9 million meals and is currently delivering more than 10,000 meals every week.

EXEMPT FACILITY BONDS

Exempt Facility Bonds finance a wide variety of projects, including airports, docks, mass-commuting facilities (such as high-speed rail), water and sewage facilities, solid waste disposal facilities, qualified low-income residential rental projects, facilities for the furnishing of electric energy or gas, qualified public educational facilities, and qualified highway or surface freight transfer facilities. These bonds may also be used for hazardous and agriculture waste facilities and qualified green buildings. Exempt Facilities Bonds have a very wide scope of use, and implementation varies by state or local entity.

» COLUMBIA PULP | COLUMBIA COUNTY, WA

The Washington Economic Development Finance Authority (WEDFA) issued $147.6 million in Environmental Facilities Revenue Bonds to Columbia Pulp, a company in Eastern Washington that turns agricultural waste from wheat into paper pulp. The $183.9 million dollar project also secured $20 million in New Markets Tax Credits from CEI Capital Management for the construction of a 140,000 square foot pulping facility.

FOOD IS ALREADY A PROVEN ECONOMIC DRIVER, AND IT CAN BE **FURTHER INTEGRATED INTO OTHER ECONOMIC DEVELOPMENT STRATEGIES** FOCUSED ON GROWTH, DIVERSIFICATION, OR RESILIENCE.

How Bonds are Sold

New issues of tax-exempt bonds are sold by one of three methods: competitive, negotiated, or private placement. In a competitive offering, underwriters bid to purchase bonds. The issuer typically engages a financial adviser to work with bond counsel to perform tasks necessary for a competitive bid. In a negotiated sale, the underwriter is selected before bonds are sold and is given the exclusive right to purchase an issuer's bonds at agreed-upon prices. In return, the underwriter provides financial services and assumes responsibility for marketing bonds to investors. Private placements are bond sales transacted directly between the investor(s) and the issuer. Unlike competitive and negotiated sales, where bonds are purchased by an underwriter and resold to investors, private placements are directly placed with the investor(s).

In relation to food system development efforts, the bonds outlined above offer a significant, concrete, and readily available source of public finance. The use of PABs has increased exponentially over the past two decades, and today, they serve as the primary source for financing many types of projects, including infrastructure, industrial development, and urban development. Although the execution of a bond deal can be complex, a major opportunity exists for building and expanding local and regional food systems with this financing tool.

Targeted Tools

Targeted financing tools differ from other tools because they target specific geographic areas or difficult-to-finance sectors in a community, offering incentives, tax rebates, credits, and unique financing structures that drive investment and development within a geographic footprint. The goal of targeted tools is to catalyze investment and transform the actual or perceived real estate values within these areas.

Types of Targeted Tools

Targeted financing tools typically fall into two categories. The first category of tools is designed to generate new taxes in a geographic area through improvements to the built environment. These improvements increase property, sales, or other taxes, which can, in turn, be used to finance some of the improvements. The second category of tools allows businesses and industries to generate funds through tax assessments, often self-imposed, which raise specific taxes to finance improvements in the geographic area. Both categories of Targeted Tools are summarized below along with the tools that have been most successful when applied to projects within local and regional food economies.

Tax Increment Financing

Tax increment financing (TIF) is a mechanism for capturing the future tax revenues, or increment, of new development or redevelopment to pay for the present cost of site improvements. TIF can be applied to a district or a single property, as governed by state legislatures. As development increases economic activity for the property or within the district, greater tax revenues are collected which become the repayment stream for the debt used to finance the improvements. The life of a district can be anywhere from 10-40 years, depending on how much time is needed to pay back the costs or bonds issued for development.

A TIF district, or the area capturing the tax increment itself, is drawn to benefit a designated area, typically one that is economically disadvantaged or physically distressed. Most states required a “but-for” test to prove that the area would not experience development without the use of TIF. Once the TIF’s geographic boundaries are established, the initial assessed value of the land of the property or in the district can be determined. Then, an analysis of current tax revenue from property tax, sales tax, and other taxes is conducted to benchmark the existing tax level.

Costs related to new development or redevelopment may include public infrastructure, land acquisition, relocation, demolition, utilities, debt service, planning costs, or a variety of other site improvements. Economic development priorities are often advanced using TIF, such as:

- Guiding public finance dollars towards targeted investment and development
- Developing industries and opening new markets for services that do not exist in a given geographic area Supporting overall development within a specific geographic area
- Reusing existing infrastructure and cleaning up polluted or brownfield land
- Creating or retaining jobs and supporting industrial development

Any of these uses of TIF can apply to food sector projects that require development on a specific site.

Tangible improvements could include the construction of a parking lot for a new grocery store, renovations to turn a historic structure into a food hall, or connecting a site to city water and gas to support a commercial kitchen and business incubator. TIF can also support intangible needs such as architecture or site planning costs associated with redevelopment or the purchase of property needed for a business expansion. The flexibility of this tool makes it possible to use it on a wide variety of food system projects.

There are thousands of TIF districts in place today making improvements in local communities across the country. In general, TIFs adhere to a similar structure and function regardless of geography, though specific rules and regulations vary across the 48 states and the District of Columbia that have laws allowing the use of TIF as a tool.

» EDGEWOOD LOCKER | EDGEWOOD, IA

This facility provides beef and pork processing to livestock producers and manufactures meats for sale to wholesale and retail customers in Edgewood, a town of about 600 people in eastern Iowa's Clayton and Delaware counties. The company's expansion, a nearly $8.44 million investment, was awarded just over $472,000 in tax benefits by the Iowa Economic Development Authority, and over $600,000 from the City of Edgewood in TIF, to build a new facility to help quadruple its volume of wholesale business, increasing the production of products such as jerky and sausage, and create 14 new jobs at a qualifying wage of $17.86 an hour.

CDFA'S INITIAL RESEARCH UNCOVERED **MORE THAN $1 BILLION IN TRADITIONAL FINANCING** USED TO DEVELOP LOCALIZED FOOD SYSTEMS IN 27 STATES.

Special Assessment Districts

Every state provides some form of special assessment district financing and most states offer more than one option. These tools are known by a variety of names and can be structured in different ways, but there are two predominant methods. The first method is the assembly of business and neighborhood groups into a district to generate funding for projects and programs. The second approach is a directly targeted assessment program organized by the local government. In the business/neighborhood-focused model, a local nonprofit or development agency manages the district, while in the government-focused model the local government manages it. With both structures, funds are pooled for local economic development and made available for many types of projects and programs that often include food-related endeavors. Storefront improvements could help draw in more customers to a 'mom and pop' market, small business programs support the growth of local breweries, or place-making efforts might rebuild sidewalks so that restaurants can expand their outdoor seating. The following is an overview of these two approaches.

BUSINESS AND NEIGHBORHOOD DISTRICTS

Business and neighborhood-focused districts are usually run by property owners in the district. These owners impose self-assessed taxes on themselves to generate funds for physical improvements or other amenities directly benefiting their businesses or neighborhood. Some examples of these programs include:

- Business Improvement District (BID)
- Special Improvement District (SID)
- Community Improvement District (CID)
- Neighborhood Improvement District (NID)

» NEWPORT BEACH RESTAURANT ASSOCIATION (NBRA) | NEWPORT BEACH, CA

NBRA was founded as an official Business Improvement District (BID) of the City of Newport Beach, CA. NBRA is a nonprofit organization that brands the dining experience in Newport Beach and promotes the commercial welfare of restaurants and the local food service industry through marketing, social events, and business resources. An annual assessment is levied for each business stakeholder in the NBRA BID, ranging from $150 to $600 per year; however, certain businesses in the district are exempt from paying an assessment, such as farmer's markets, mini-marts, and banquet facilities. Since 1995, the NBRA has been successful at creating a cohesive brand for Newport Beach's dining opportunities by using the special assessment financing for marketing, programs, and improvements to the neighborhood, therefore making Newport Beach a desirable destination.

Local governments establish these districts in cooperation with the district's property owners, and, once the district is authorized, the property owners or businesses pay an assessed tax to the local government. This special assessment is then returned to the district's management entity, typically a non-profit or redevelopment agency, and the funds can be used to finance improvements. Such districts have supported local businesses by financing revolving loan funds or other lending programs. Other districts have created programs that cover costs of marketing, physical improvements to buildings and storefronts, or other economic development services.

GOVERNMENT DISTRICTS

Government districts often provide services that are similar in scope to those provided by business districts, though the work of these districts is directed by government entities. Examples include:

- Special Services District (SSD)
- Special Assessment District (SAD)
- Community Development District (CDD)
- New Community Authorities (NCA)

Such government-directed programs tend to focus on infrastructure development, such as transportation, roads, sewers, and community amenities like schools and public facilities.

These districts are often formed in undeveloped or underdeveloped areas where commercial and residential development cannot otherwise be supported. Government-focused districts also allow for a wider array of financing options, including the use of bonds. Some of these districts can be used in conjunction with other tools or established alongside neighboring jurisdictions to help local governments work together on projects.

» BRIDGE STREET | DUBLIN, OH

The Bridge Street District is a mixed-use development along the Scioto River in Dublin, OH that includes restaurants, shops, offices, and residential units, along with several community amenities including parking and a new library. The Bridge Park New Community Authority, established in 2015, charges 0.5% on gross receipts at restaurants and retail businesses and 1% on hotels and collects an additional real estate tax from property owners for Bridge Park's ongoing infrastructure improvements, including new garages, streets, and a public market.

Tax increment financing and special assessment financing are most beneficial when focusing on a specific geographic area or specific industry or investment cluster because they are flexible and can be used in conjunction with other tools such as bonds, tax credits, and revolving loan funds. This makes them well-suited for use with food system businesses and projects.

Investment Tools

Unique financing solutions provide incentives for individuals and companies to invest in new machinery, technology, and construction. Individual states have created programs that allow taxpayers and entrepreneurs to develop new industries in a community, while federal programs help to catalyze investments in historic rehabilitation, environmental remediation, affordable housing, and renewable energy. While each program is different, they have a shared outcome: catalyzing investment.

Tax Credits

Tax credits are one of the most accessible tools in the development finance toolbox. There are a vast amount of tax credit programs available at the federal, state, and local levels, and these programs can easily be deployed to creatively fill a financing need for many agriculture and food-related businesses.

To mobilize investment on the local level using tax credits, it is critical to understand their history and impact. Tax credits have become increasingly popular as federal programs have diverted away from direct grants and subsidies. Instead, tax credits and incentives were created to award investors and developers once projects were completed or investments were made, making them an ideal fit to address economic development needs. Over time, these programs have helped to provide a wide range of financing options for brownfield redevelopment, historic rehabilitation, low-income housing, emerging markets, venture capital, and job creation in a wide range of industries.

Tax credits can be used for several purposes: to provide an increased internal rate of return for investors, to reduce the interest rates on a particular financing package, and perhaps most importantly, to provide a repayment method for investors in place of cash. In the latter case, tax credits can often be transferred on the secondary market to generate income.

Tax credits are flexible. They can be used in urban, rural, and suburban communities, and in some cases, they can be applied on a regional basis. They can also provide a targeted impact by addressing many different community sectors, such as low-income neighborhoods, historic districts, and underserved markets that present opportunities for new investment. Food systems development is one such market that offers a diversity of projects in which tax credits can be used to support a project and further investments.

Tax credit programs bring many different stakeholders to the table, thus leveraging their impact. They may attract investors, businesses, government entities, nonprofits, community development organizations, industrial development authorities, economic development corporations, financial institutions, pension funds, universities, foundations, state governments, and the federal government. In addition, tax credits do not disappear during economic downturns, unlike many other financing programs. Tax credit programs tend to be both dependable and politically popular.

How Tax Credits Work

A tax credit is a dollar-for-dollar reduction of a taxpayer's liability. A tax credit is different from a deduction because it works by directly reducing tax liability. For example, if a taxpayer has $100,000 of tax liability (after deductions are considered) and $50,000 in tax credits, the taxpayer will then have $50,000 of net tax liability.

Tax credit programs allow businesses and investors to claim a tax credit for committing resources to a project or business. The resources committed to the project could be an investment in a brick-and-mortar real estate project or a cash investment in a business. The distributor of the tax credit must evaluate the resources committed by the business or the investor based on the specific qualifications outlined for that tax credit. If the project qualifies, the distributor may then issue the tax credit to the business or investor.

Tax credits are government vehicles designed to encourage investment in socially or economically disadvantaged areas, industries, or activities. This allows for tax credit programs to act as a catalyst for public-private partnerships and achieve public policy objectives.

Federal Tax Credits

Tax credit programs cover dozens of industry and business types, including many of the sectors that make up the food system, such as processing plants, commercial kitchens, and markets. This section will cover the primary federal tax credit programs that are best suited for food system development projects.

NEW MARKETS TAX CREDITS

The New Markets Tax Credit (NMTC) program was created to generate additional capital for economic development projects in low-income communities. The Community Development Financial Institutions Fund (CDFI Fund) allocates NMTCs to Community Development Entities (CDEs). The CDE then leverages the allocation of NMTCs to raise equity from investors. An investor receives a federal income tax credit equal to 39% of a Qualified Equity Investment (QEI) made into a CDE which is then invested in a targeted low-income community.

NMTC investments may include loans to businesses, commercial, industrial, and/or retail developments and to the development of for-sale housing. For the NMTC program, low-income communities are considered to be census tracts in which the median family income is below 80% of the area median family income.

» GOODNEWS BAY REGIONAL PROCESSING PLANT | PLATINUM, AK

New Markets Tax Credits supported a $42 million project to construct a 37,800 sq. ft. salmon processing building and maintenance building for Goodnews Bay Regional Plant in Platinum, AK. The tax credits included an NCB Capital Impact NMTC loan of $13.7 million and an additional $26.3 million in financing from Travois New Markets, a Community Development Entity based in Missouri, and Waveland Ventures, a Community Development Entity based in Texas. These NMTC investments financed construction of the plant, infrastructure improvements, roads to transport the fish to a nearby airstrip, and the purchase of the processing equipment, including machines, belts, and freezers. The plant supports a network of almost 600 local fishermen in a remote region along the Bering Sea that has a 25% poverty rate and an 18% unemployment rate.

HISTORIC TAX CREDITS

The Federal Historic Preservation Tax Incentives program (commonly referred to as Historic Tax Credits) was established by Congress with the Tax Reform Act of 1976 and is administered by the National Parks Service and Internal Revenue Service (IRS). The goal of the program is to discourage unnecessary demolition of historic buildings and to slow capital flight from historic urban areas. This type of incentive offers a tax credit against the total federal income taxes owed and is taken over five years. The tax credit is equal to 20% of qualified rehabilitation expenditures devoted to the rehabilitation of a certified historic structure.

Federal historic tax credits are available through a non-competitive, open application process. Several basic criteria must be met to claim the credit, such as the building must be income-producing and a registered Certified Historic Structure by the National Register of Historic Places. There are also requirements for rehabilitation unique to each building that must be done according to the Secretary of the Interior's Standards for Rehabilitation. The purpose of the criteria to claim federal historic tax credits is to ensure the rehabilitation is done in a way that preserves the historic integrity of each unique, individual building.

Historic tax credits are popular and widely used, especially in states where there are state programs that aim to complement the federal program. These state-level programs are typically used in conjunction with federal historic tax credits on a given project to provide additional incentive to invest in historic rehabilitation projects within that state.

» BUDD DAIRY | COLUMBUS, OH

The Budd Dairy building, located in Columbus's Italian Village, dates back to the 1890s and once served as a milk processing and distribution facility. Budd Dairy now features nine chef-driven restaurant partners, along with its Hatch space, which hosts a rotating selection of pop-up concepts. The entire project cost $25 million and was awarded Federal Tax Credits and $2 million in Ohio Historic Preservation Tax Credits.

STATE TAX CREDITS

Nearly every state, as well as the District of Columbia, offers an array of tax credit programs that can often be combined with federal tax credit programs for maximum investment. These programs address several different investment areas, including venture capital investment, low-income housing, job creation, machinery and equipment, targeted area redevelopment, brownfield cleanup, wage adjustment credits, and other industry-specific credits, including food system development projects. State tax credit programs have grown significantly over the past ten years, and innovative and targeted programs are spread throughout the country.

Tax credits help to support projects while providing benefits to a wide range of investors, developers, banks, and other key players. Putting such programs to work in a community takes time, patience, and dedication to program development. However, once established, these investment tools will prove critical to fostering economic development.

» MYCOPIA MUSHROOMS | SCOTTVILLE, MI

Mycopia Mushrooms operates in a former green bean cannery plant that closed after nearly 100 years of operation in the small town of Scottville, MI. The State of Michigan awarded $750,000 in tax credits to cover the cost of demolishing the plant and cleaning up the leaking fuel tanks left behind. The current farm produces, harvests, packages, and ships 30,000 pounds of mushrooms each week, to sell to restaurants and retailers in the region and nationwide.

Access to Capital Tools

Access to Capital Tools represents the resources for supporting small businesses, entrepreneurs, and microenterprises to unlock capital for growth. Examples of such tools include Revolving Loan Funds (RLFs), loan guarantees, microlending, as well as many others. One of the largest challenges faced by businesses, especially small businesses, has always been access to working capital to operate, grow, invest and create jobs. Working capital allows small businesses to pay their bills while investing in future growth. Many food businesses are small, making working capital critical for their businesses and projects. Access to capital is important for getting started in a new line of work, whether that entails opening a new business or successfully launching a new product or service within an existing organization. Access to capital is also critical for investments into value-added, enterprise growth opportunities or to support efficiencies that will improve the production and productivity of a business.

Revolving Loan Funds

Revolving Loan Funds (RLFs) are resources that help businesses gain access to capital on a broad scale. RLFs are a flexible and popular source of capital that can be used to help grow and develop small-sized businesses. RLFs are a very popular development finance tool with thousands operating throughout the U.S. and typically several hundred within each state.

RLFs are most often used for operating capital, acquisition of land and buildings, developing new construction and renovations, as well as purchasing machinery and equipment. An RLF is a sustainable funding pool that is self-replenishing; as existing loan holders make payments, the payments are recycled to fund new loans. This structure requires that RLF programs balance the provision of attractive interest rates with the need to earn a reasonable rate of return so that the fund is replenished to make future loans.

RLF often issue loans at competitive rates but also tend to offer flexibility with collateral and terms that make them accessible to an extremely wide range of businesses. The majority of RLFs support myriad small business types, though some creative loan funds target specific areas such as food systems, minority or women-owned businesses, or environmental challenges.

Capitalizing an RLF

Numerous sources exist for capitalizing or “seeding” an RLF including the federal government, such as the EDA, EPA, USDA, and HUD, state and local governments, foundations, banks, crowdfunding, bond issuances, tax set-asides, annual dues, ratepayer revenue, and appropriations. To establish an RLF, the capital typically comes from a mix of public sources (local, state, and federal governments) and private sources (financial and philanthropic institutions). This funding is often provided as a grant that does not need to be repaid. To fund an RLF, state and local governments use a combination of tax set-asides, general obligation bonds, funds appropriations from state legislatures, annual dues from counties or municipalities, and state lottery funds.

RLF Characteristics

Loan interest rates and terms can typically vary from very low to market rate and above. It is important to realize that RLFs are not free money, but are loans with an expectation of repayment. RLFs require traditional lending procedures including credit analysis, underwriting, packaging, closing, servicing, monitoring, collections, and workouts. RLFs should be staffed by financial and/or lending professionals or should involve partnerships with banks, credit unions, and other lending institutions. They also carry the risk of default and are a risk lending instrument. Furthermore, RLF policies and approaches should reflect the relative risk profile of the loan fund and adhere to decision-making that reflects the goal of the program. RLFs are intended to be “evergreen” meaning that the program revenue (fees and interest) earned on outstanding loans replenishes the fund to allow for ongoing new loans.

RLF Distinctions

The key to a successful program is flexibility, adaptability, aggressiveness, and efficiency of the program. Flexibility consists of working with borrowers to craft a loan and repayment structure that works for the borrower's growth needs. Adaptability is the willingness of fund managers to change with the economy and the local lending environment to fill the needs of borrowers at any given time. Aggressiveness is the effort made by a loan fund manager to market programs, catalyze leads, and understand the needs of borrowers in the local market. The final key to a successful program is efficiency which is the ability of funds to be nimble, easy to use, and available in a reasonable timeframe.

» SAVE A LOT GROCERY | COLUMBIA, SC

This urban supermarket is part of a neighborhood redeveloped by the Columbia Housing Authority in the early 2000s, which also incorporates housing and access to community services like a credit union and health center. The 12,000 SF grocery store was developed by Honor Capital, a veteran-owned business, and located in a building owned by the Columbia Housing Authority, which leased the space to Honor Capital at a favorable rate. $500,000 in financing from the South Carolina Community Loan Fund was used to finance machinery and equipment to outfit the store.

MICROLENDING & MICROLOANS

Microlending and microloans are a form of revolving loan funds, structured in a manner that allows for major flexibility to the borrower. Microlending provides access to capital for the smallest businesses, which are commonly referred to as "microenterprises" and defined as small businesses with less than five employees, capital needs around $5,000 to $35,000, an average loan size of $7,000, and consists of borrowers who are non-traditional. They do carry a higher risk profile so risk should be expected. Lenders often perceive these companies as having a high level of risk due to their small size and entrepreneurial nature, making microlending an important tool in supporting the growth of microenterprises.

Most microlending programs also include mandatory technical assistance for businesses, usually in partnership with the local Small Business Development Center, that assist with management, marketing, or financial issues. The goal of microlending is to help businesses grow and to create bankable borrowers.

» HORSESHOE RANCH | CHESTER COUNTY, PA

This regenerative poultry and livestock farm expanded its pastured-egg production with the purchase of a mobile coop business. The $165,000 loan for that expansion came from a group of 128 individual lenders through Steward, a lending platform that brings together sustainable farms in need of funding with individuals who support regenerative agriculture. The concept is similar to crowdfunding in that the financial goal requires the collective participation of many individuals to fund secured loans and their contributions are repaid with interest. Steward's agricultural borrowers fill out an application much like they would for a bank, detailing their financial information, revenue and the purpose of the loan, which could be anything from purchasing equipment or land to improving infrastructure.

Credit Enhancement / Guarantees

A credit enhancement is a method businesses use to improve their credit profile. Using this method typically provides protection in the form of financial support. Loan guarantees shift the risk of a loan from the private lender to a third party — often a governmental entity — that must be willing and able to repay the borrower's obligations to the lending institution in the event of a default or loss. Loan guarantees do not always cover 100% of losses; instead, they often cover a portion of losses in the event of a default or loss. Having this guarantee reduces the risk for private lenders, which encourages them to make loans and other sources of capital more available for small businesses at more attractive rates than traditional lending institutions.

Loan guarantees are considered a win-win for government and lending institutions when projects are successful because both parties earn returns on their investment. Communities and projects that employ guarantee programs typically partner with established lending institutions that have a history of supporting economic development. These programs allow local and state governments to promote redevelopment in their communities, encourage public-private partnerships, and invest in businesses. There are many types of guarantee programs, each with its own rules, regulations, and characteristics.

» GRASS ROOTS FARMERS' COOPERATIVE

Heifer Impact Capital provided a $600,000 direct loan with 3% interest to be paid over six years to Grass Roots Farmers' Cooperative, a co-op of farmers in eight states across rural America, to improve meat processing facilities at a site owned by Natural State Processing Company — a joint venture between Grass Roots Farmers' Cooperative and Cypress Valley Meat Company located in Pottsville, AR. Heifer Impact Capital also guaranteed a $600,000 loan made to Grass Roots Farmers' Cooperative by a local financial institution to purchase 49% interest in Cypress Valley Meat Company. This transaction provided a key link in the meat processing value chain, making cost-effective, independent processing available to small-scale farmers for the first time.

FRAMING FOOD AS ECONOMIC DEVELOPMENT **CREATES OPPORTUNITY FOR SUPPORTING SMALL FOOD BUSINESSES** BY SITUATING THEIR EFFORTS IN A LARGER STRATEGY.

RESTORING LOCAL FOOD SYSTEMS THROUGH FINANCE

Engagement between food systems practitioners and development finance professionals is a critical component for ongoing and long-term investment opportunities in a local food system. There are common approaches among successful projects and programs, but the most effective examples understand how the needs of communities — job creation, racial equity, local investment, access to healthy food, land use, etc. — can be aligned for collaborative, impactful outcomes.

Reframe, **Build**, and **Plan** are three success factors that should be implemented simultaneously for restoring local and regional food systems. Every organization, community, economic development agency, and small business working in the food sector should adopt this approach to expand financing and drive capital into the local food system.

Reframe

Food should be a strategic focus area for local economic development because food businesses are a critical part of every community. Reframing food as economic development creates opportunities for supporting small food businesses by situating their efforts in a larger strategy. Food is already a proven economic driver, and it can be further integrated into other economic development strategies focused on growth, diversification, or resilience. While a restaurant or an independent grocery store might normally be seen only as a small business, defining the food system as its own market sector demonstrates the value of all the projects and businesses within this broader system. This approach also identifies where there are gaps and possibilities for further expansion. For this to happen, there must be a shift in perspective through conversation and education with economic development professionals and food system practitioners about the critical role that food and agriculture already play in their local economy.

Start a Conversation

Connections are central to rebuilding local food systems. Networks should include the many actors working directly in the food system, and members of the development finance community as well. Involving community members who can represent neighborhoods or speak from a consumer perspective is also key for building equitable, sustainable food systems. Bridging gaps between these many groups will establish a more robust network with the resources, skills, and vision needed for local food system restoration. Encourage regular engagement by planning network-building events and activities that bring together lenders, neighborhood groups, representatives of state and federal agencies, specific demographic groups, and others involved in food systems and economic development in the community or region. Aim to provide two to three engagement events each year.

- Launch a lender forum that brings together all types of active lenders in the community, such as banks, credit unions, port authorities, CDFIs, and others.
- Organize a redevelopment gathering to engage developers and real estate professionals, soliciting input and showcasing opportunities.
- Coordinate an entrepreneurial event that invites small food and agricultural businesses together, highlighting the locally available funding opportunities.
- Host an annual celebration of community and economic development accomplishments from public and private sector food system stakeholders during the year.

Start an Educational Series

Understanding the tools in the development finance toolbox and how they can be applied to various types of food businesses and projects is critical for incorporating food system restoration and local economic development. Now that you have built an engaged network of food systems practitioners and development finance professionals, host a series of four to five learning experiences focused on food systems finance education. Recruit subject-matter experts in the following topics:

- Understanding the development finance toolbox
- Understanding food systems finance, the players, and needs
- Using bonds to finance food system infrastructure projects
- Innovative approaches for financing the food system
- Food systems financing with targeted tools
- Federal financing programs for food-related projects
- Learning how to use access to capital tools for food-related businesses

Build

Comprehensive local food system development calls for a variety of skills and experiences, which can be brought into these efforts by expanding relationship building beyond existing networks. People with backgrounds in finance, real estate, market analysis, agriculture, and supply chain management, as well as members of the community, and partners with knowledge of the local food system, can be a critical part of bringing new developments to fruition and should be sought out to balance project teams. Coordination among local actors supports food economies by reducing duplication and increasing compatibility as different parts of the food system are built. Bridging the gaps between players within the food system is a key step in unlocking the continued development of this sector. As efforts to restore localized food systems become better organized, relationships beyond food-related networks can be more easily built with DFAs and other partners.

Build a Food Systems Finance Landscape Map

The purpose of a landscape map is to highlight possible financing resources at the local, state, and national levels that can be brought into coordination with existing efforts to rebuild the local food system. For development finance professionals, this includes demonstrating the significance of incorporating local food systems efforts into local economic development agendas. For local food system practitioners, this means highlighting the importance of engaging local development finance agencies in the work to restore healthy, sustainable, and equitable food systems. Most stakeholders would be surprised to find that a wide variety of loans, grants, technical assistance programs, and other funding resources are already working towards this goal. A landscape map can also help to identify financing gaps, including structural barriers and social and racial inequities that prohibit certain borrowers from accessing capital. Additionally, there can be gaps in market segmentation where capital is not flowing to businesses that fill a certain consumer need, such as a local meat slaughter and processing facility.

Start by identifying traditional development finance tools already available at the local, state, and national levels that can be used to strengthen the region's local food system. Be sure to include general financing tools that other states operate at a national level, as well as federal programs. Many traditional financing approaches can be utilized for food-related efforts, and the toolbox approach can help to identify all the tools within a community that could be applied to food systems. Some of these tools, such as Revolving Loan Funds, are best suited for small businesses and entrepreneurs in the food system. Other mechanisms, like Private Activity Bonds, are likely to be a better fit for large projects or food system infrastructure.
Once the landscape map is created, it can be used to inform a strategic food financing plan that coordinates investment throughout different food system sectors and builds up the system as a whole.

Plan

Restoring strong local and regional food systems will require strategic financial planning by identifying or creating a diverse array of financing opportunities for producers, infrastructure, industry, entrepreneurs, institutional buyers, and social enterprises. Much like master plans and economic development planning, goals and objectives need to be backed by sound development finance strategies. Too often, communities set admirable food systems goals only to neglect the question of how to fund their plan. Developing these financing plans should happen in tandem with city, county, or state food system planning efforts wherever possible. They can also be conducted as an addition to existing plans that focus on food, economic development, or sustainability. Unlocking capital from the broad spectrum of options already available for local projects and businesses as identified in the landscape map is key. These approaches should be deployed before resources are directed toward creating new or separate financing programs.

Create & Implement a Food Systems Finance Strategic Plan

A food systems finance strategic plan offers guidance for directing and/or establishing financing programs for businesses and projects that operate in and support the local food system. The key outcome of this type of plan is to build a more robust food system by unlocking capital for food-related businesses, projects, and infrastructure to generate economic prosperity in a community. Strategic financing plans for food systems should include:

- Analysis of strengths, weaknesses, opportunities, and threats (SWOT)
- Partnership development strategies
- Governance and decision-making processes
- Risk profiles and policies
- Capitalization strategy
- Framework to identify types of financing programs
- Programmatic development goals for each type of financing
- Clear, direct objectives that tie goals with development finance tools
- Policies and procedures to guide investment decisions
- Events and activities to drive program and project growth
- Implementation timelines
- Strategic plan review process

Engagement with a range of food system players and with local development finance agencies is especially critical for creating successful strategic financing plans. These relative interests need to be involved throughout the planning process to capture necessary information, perspectives, needs, challenges, and opportunities. This also includes community members who can be engaged as consumers and as representatives of their neighborhoods, both of which are key stakeholder groups in an equitable food system. Ideally, all parties can be included from the beginning of plan development, but if new partnerships are formed after planning has begun, these new organizations or individuals should be added to the team.

REDEVELOPING FOOD SYSTEMS IS A LONG-TERM EFFORT, AND PLANNING IS ESSENTIAL BECAUSE OF THE MANY PLAYERS AND RESOURCES NEEDED FOR SUCCESS.

THE DEVELOPMENT FINANCE INDUSTRY HAS AN IMPORTANT ROLE TO PLAY IN **CURRENT AND FUTURE GROWTH OF THE FOOD SYSTEM**, CONTINUING TO PROVE THE VIABILITY OF FOOD SYSTEM RESTORATION AND ATTRACTING INTEREST FROM BOTH PUBLIC AND PRIVATE INVESTMENT.

HOW TO BEGIN

Linking development finance and food systems together can be a daunting project to undertake. Below are action items (in no particular order) to catalyze a conversation and create successful food systems finance programs at the local level.

1. Identify the community bond issuers and establish a bond program to finance food manufacturers, processors, nonprofits, etc., or consider a partnership with an organization that already has a bond program in place.
2. Create a Tax Increment Finance (TIF) partnership with local jurisdictions to connect a food-based economy to local redevelopment efforts.
3. Assemble business and neighborhood groups into a district to generate funding for projects and programs, and have a local nonprofit or development agency manage the district.
4. Meet community development entities (CDEs) who have access to New Market Tax Credits (NMTCs) and identify projects that can be incorporated into the NMTC pipeline. If no CDEs are investing locally, consider applying for an NMTC allocation.
5. In areas designated as historic, ensure tools like the Federal Historic Tax Credit are used to revitalize food-based projects in a manner that protects the historic integrity of unique, individual buildings and places.
6. Start a food-based Revolving Loan Fund (RLF) or create partnerships with existing RLFs to funnel food-based enterprises toward their programs
7. Launch a credit enhancement program to support lenders, Community Development Financial Institutions (CDFIs), and other capital providers in unlocking capital for food-based enterprises.
8. Create a microfinance program to provide small amounts of capital to small businesses. The microfinance program could be capitalized through a state or federal grant program, partnerships with community banks, or the commitment of local funds.
9. Launch an online food financing portal that connects food-based borrowers with financing opportunities.
10. Get started! Visit **www.cdfa.net** to learn more.

RESOURCES

CDFA Food Finance White Paper Series

The CDFA Food Finance White Paper Series is the foundation of CDFA's food systems finance research. This six-part series defines how traditional development finance tools can be used to support businesses and projects within local food systems and presents comprehensive case studies that have successfully utilized each of these financing tools. To access the CDFA Food Finance White Paper Series, and learn more about CDFA's work in this area, please visit **www.cdfa.net**.

CDFA is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing thousands of public, private and non-profit development entities.

Members are state, county and municipal development finance agencies and authorities that provide or otherwise support economic development financing programs as well as a variety of non-governmental and private organizations ranging from regional and large investment banks to commercial finance companies to bond counsel, bond insurers, trustees, venture capital companies, rating agencies, and other organizations interested in development finance.

The Council was formed in 1982 with the mission to strengthen the efforts of state and local development finance agencies fostering job creation and economic growth through the use of tax-exempt and other public-private partnership finance programs. Today, CDFA has one of the strongest voices in the development finance industry and regularly communicates with Capitol Hill, state and local government leaders and the Federal Administration. The Council provides a number of avenues for assisting the development finance industry including education, advocacy, research, resources and networking. Learn more and join at **www.cdfa.net**.

The W.K. Kellogg Foundation (WKKF), founded in 1930 as an independent, private foundation by breakfast cereal innovator and entrepreneur Will Keith Kellogg, is among the largest philanthropic foundations in the United States. Guided by the belief that all children should have an equal opportunity to thrive, WKKF works with communities to create conditions for vulnerable children so they can realize their full potential in school, work and life.

The Kellogg Foundation is based in Battle Creek, Michigan, and works throughout the United States and internationally, as well as with sovereign tribes. Special attention is paid to priority places where there are high concentrations of poverty and where children face significant barriers to success. WKKF priority places in the U.S. are in Michigan, Mississippi, New Mexico and New Orleans; and internationally, are in Mexico and Haiti. For more information, visit **www.wkkf.org**.

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