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CDFA Food Finance White Paper Series:

Food Systems & Development Finance

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Food Systems & Development Finance

The food system encompasses a highly diverse range of activities and interests that are deeply connected to every community in the United States, affecting local economies, public health, and environmental sustainability. Issues ranging from hunger to farmland preservation to food waste have resulted from the current food system, and myriad food movements have formed around the world to address these issues. Significant financial barriers limit the growth and evolution of work in the food system, yet this arena holds great economic and community development potential.

Considering all food-related endeavors as part of a broader 'system' is a more recent shift in thinking in the U.S. and there are still many ways the food system can be defined. In part because of this wide diversity and lack of clear definition, financing has been historically limited to many of the sectors connected to food. This paper makes the case for defining a food systems asset class that directs development finance to food-related activity, supporting the growth of a food system that is economically stimulating and provides community improvements.

The content below is directed towards development finance professionals as well as those working throughout the food system.



What is Development Finance?

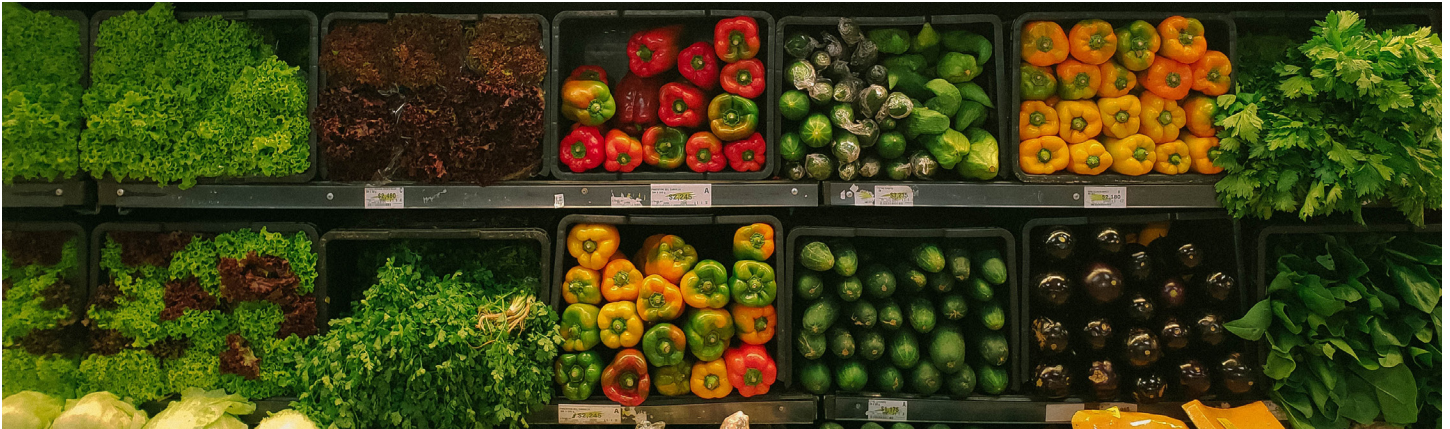
Development finance is used by local communities to encourage, support, and catalyze the physical development, redevelopment, or expansion of a business or industry. This is done through both public and private investment in projects that benefit the long-term health of a community. Development finance is used to solve challenges experienced by local businesses, industries, real estate markets, and the environment. Many of these issues can be addressed by taking advantage of specific, targeted solutions that are available through development finance. For example, dealing with the problem of environmentally contaminated land generates a unique set of solutions to connect underserved markets and industries with access to capital.

Ultimately, development finance is a proactive approach that leverages public resources to meet the needs of a community, business, or industry.

What is a Development Finance Agency?

Development finance agencies (DFAs) are either public or quasi-public/private authorities that provide support for economic development through various direct and indirect financing programs. DFAs are able to issue tax-exempt and taxable bonds; provide credit enhancement programs; and offer direct lending, equity investments, or many other access to capital financing mechanisms. DFAs can be formed at the state, county, township, borough, or municipal level. Frequently, DFAs have the authority to provide development finance programs across multi-jurisdictional boundaries.

How does Development Finance Relate to the Food System?



The Analogue: Clean Energy & Food Systems Finance

Over a decade ago the clean energy and energy efficiency sectors were characterized as risky, fragmented, and ill-defined. Measuring the reciprocal risk in relation to the relative reward of investing in this sector was difficult due to a lack of data, impact metrics, and portfolio performance. Investors viewed this as a questionable investment and avoided the clean energy sector, contributing to a lack of overall investment in the industry.

Today, the clean energy sector has been redefined as one of the most sought-out investment classes in the development finance spectrum. This industry has blossomed into one of the nation's strongest investment asset class, as a result of collaboration and the development of risk reducers, metrics and performing investments.

So, what changed?

Instead of continuing as a group of fragmented partners, players, projects, and potential investors, the sector united to build general consensus and strong performance measurements. This action demonstrated that an investment in clean energy is as lucrative an investment as other traditional projects, such as municipal bonds for infrastructure, loans for small businesses, or tax credits for community development. Instead of acting as isolated sectors – renewables, weatherization, generation, technology, markets, institutions, etc. – the industry came together and proved that clean energy offers safe, reliable, and return-driven investment opportunities.



Relationship to the Food System

Lessons learned through the emergence of clean energy finance can be applied to the challenges currently facing food system finance efforts. As with the energy sector, the food system is critical to a healthy, resilient community and it is also an economic engine, comparable to the economic output of the energy sector.

Investors perceive the food system as loosely defined and poorly organized, encompassing a multitude of disconnected food-related endeavors. As a result, traditional and institutional investors have a difficult time financing the food system and therefore it is not currently viewed as an asset class. Today's existing investment in the food system is focused on philanthropic grants, government subsidies, investor tax credits, and limited lending with high-risk loan funds. Traditional development finance tools, such as bonds, tax increment finance, and revolving loan funds, are seldom used in food system finance despite the opportunity to do so.



Defining a Food System Asset Class

If organized and defined properly, the food system can become an asset class which would establish reliable, affordable, and traditional streams of financing. With the success of these investments, continued and sustained financing would lead to greater market growth in the food system sector.

In order for this to happen, there must be a shift in perspective that places individual actors doing specific food-related work within the broader food system. This requires a more widely accepted definition of what makes up the food system, beyond the typical value-chain or issues-based conceptions. With the intention to begin creating an asset class for food, CDFA has identified six distinct areas of activity that exist within a comprehensive food system and which could be recipients of investment.

While there is an overlap between these areas of activity, this paper is oriented around the defined categories below:

- **Social Enterprise (addressing scarcity)** – An organization or initiative that works to support social objectives, such as increasing access to healthy affordable food, sustainable food, or other socially beneficial food objectives.
- **Agriculture (rural & urban)** – 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.
- **Entrepreneurs** – Individuals who create and operate businesses in the food system, such as culinary, technology, distribution, agriculture or processing businesses, in order to meet market needs and gain profits from the business.
- **Industry** – The broad range of actors who contribute, or facilitate, the process of food production and distribution to consumers. This may include food retailers, food service, processors, packagers, distributors, producers of related inputs, and more.
- **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.
- **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.

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Connecting Development Finance & the Food System

With these broad food system components outlined, it is possible to explore how traditional development finance tools can be employed to prove the viability of a food system asset class. This is where development finance in connection with the food system presents groundbreaking potential. Development finance agencies (DFAs) at the state and local level are essential conduits for channeling private capital to a public purpose. They issue bonds and provide financing to leverage private sector investments in essential economic development activities and infrastructure. DFAs often support mixed-use, mixed-income projects that contribute to important objectives, such as creating healthy and sustainable neighborhoods; reducing greenhouse gas emissions; improving energy efficiency; creating living wage jobs; expanding access to jobs; increasing educational and health care opportunities; and building the community fabric.

DFAs target specific social and environmental benefits on a greater scale than the work of local-level food systems efforts and they share many goals and methods with the food community. Though DFAs have not been fully integrated into the food community, opportunities for collaboration are increasing because of changing economic environments in which DFAs succeed by expanding products and services in places where private finance is not always readily available.

Despite the difficulties of directing investment into the food system, examples do exist across the U.S. of development finance tools being used for food systems projects. The programs and projects on the following pages showcase how development finance tools have been used to support projects within different components of the comprehensive food system and how these tools might be used more broadly in the food system going forward.



Case Studies

Social Enterprise

Michigan Good Food Fund — Diamond Place

Location: Grand Rapids, MI
Investment Area: Statewide



The Michigan Good Food Fund is a \$30 million Revolving Loan Fund created to finance projects that increase access to affordable, healthy food in low-income and underserved communities in Michigan. This includes the range of businesses that grow, process, distribute, and sell healthy food that reaches those who need it most. Loans range from \$2,500 to \$6 million with rates starting as low as 5%. New Market Tax Credits are also available for qualified projects. The fund was initiated in 2012 with a \$3 million federal Healthy Food Financing Initiative award to Capital Impact Partners, and the W.K. Kellogg Foundation has awarded Capital Impact Partners multiple grants equating to approximately \$5 million for the Michigan Good Food Fund. Other core partners are the Fair Food Network and Michigan State University Center for Regional Food Systems. The Michigan Good Food Fund has assisted dozens of food-related businesses, including a \$3.6 million loan to Diamond Place, a mixed-use housing development anchored by a community grocery store in Grand Rapids, Michigan. Located in a designated food desert, this project created healthy food access for an area that has high poverty rates. The \$42 million project created 115 affordable housing units, 22,000 square feet of retail space, and 150 permanent jobs. Construction for Diamond Place was completed in 2018.

Reinvestment Fund's HFFI — Howard Park

Location: Baltimore, MD
Investment Area: National



Reinvestment Fund partnered with PolicyLink and The Food Trust to push for smart, sustainable ways to invest in healthy food in underserved communities. The national Healthy Food Financing Initiative (HFFI) brings one-time loans, grants, and other financing to provide healthy foods to communities in need. The Howard Park neighborhood of Baltimore had been without a grocery store since 2000 and was a USDA Food Desert and a Reinvestment Fund Limited Supermarket Access area, where an estimated \$60.9 million of grocery retail demand leaked annually. In 2013, Reinvestment Fund and City First Bank partnered to provide \$14.65 million in New Markets Tax Credit financing towards the construction and permanent financing of a supermarket space for Howard Park. The 68,000 square foot supermarket opened in 2014 and created 250 jobs for neighborhood residents.

Agriculture

Next Generation Farmer Loan Program

Location: Pennsylvania
Investment Area: Statewide



Pennsylvania's Next Generation Farmer Loan Program uses the Commonwealth's private activity bond volume cap to finance first-time farmers. Using tax-exempt bonds to finance first-time farmers allows the borrower to access financing at a lower interest rate than would be available at traditional lending institutions. The maximum amount the lender can offer is \$520,000 for land, improvements to machinery or land, the purchase of machinery, or several other purchases.

Beginning Farmer Loan & Tax Credit Programs

Location: Iowa
Investment Area: Statewide



Iowa's Beginning Farmer Loan Program is financed by participating lenders or contract sellers with the issuance of federal tax-exempt bonds. The program began in 1981 to assist new farmers with land acquisition, farm improvements, breeding livestock, and machinery. The tax-exempt income allows lenders to carry an estimated one to four percent lower interest rate. Since this program began in 1981, the Iowa Agriculture Development Division has loaned over \$560 million through 4,317 individual loans for the acquisition of approximately 400,000 acres of farm land. The Beginning Farmer Tax Credit Program has issued over 10,000 tax certificates valued at \$58.3 million since 2007. This program has \$6 million available for 2019 that can be used as a 5% tax credit on cash rent leases and 15% on crop share leases.

Illinois Finance Authority 501(c)(3) Revenue Bond Program

Location: Glencoe, IL
Investment Area: Statewide



The Illinois Finance Authority helps non-profit, 501(c)(3) corporations, secure low-cost, tax-exempt financing for capital improvement projects through tax-exempt bonds. The tax-exempt financing may be used for acquisition, construction or renovation of real estate, as well as the acquisition of machinery, equipment or other fixed assets. The Illinois Finance Authority issued a \$30 million 501(c)(3) revenue bond to aid the construction of the Daniel F. and Ada L. Rice Plant Conservation Science Center in 2008. The \$28.6 million construction cost received an additional \$8 million grant from the Daniel F. and Ada L Rice Foundation to aid the project and the additional \$20 million in non-construction costs. The center houses science laboratories used for agriculture research and plant conservation.

Entrepreneurs

Real Eats in the Innovation Kitchen

Location: Geneva, NY
Investment Area: Geneva, NY



Real Eats, a vacuum-packed meal delivery service, expanded their operations using the Innovation Kitchen, a local food incubator that functions as rentable industrial kitchen space as a temporary home for emerging food entrepreneurs. With an 18-month exit plan, Real Eats plans to grow their business by providing their dinners to 25,000 to 30,000 customers, resulting in about 75,000 meals per week. As part of the City of Geneva's Grow into Geneva Food and Beverage District initiative, a \$350,000 Community Development Block Grant and a \$150,000 Revolving Loan Fund were used to move Real Eats into the Innovation Kitchen in 2017. The grant and loan funds can be used for equipment acquisition, facility rent, payroll, or working capital.

Uptown Grocery in The Village, OK

Location: The Village, OK
Investment Area: The Village, OK



Uptown Grocery Co. built a new 55,000-square-foot store in The Village, Oklahoma with help from a 12-year city Tax Increment Financing district to finance construction costs. Uptown Grocery is estimated to obtain \$350,000 in incentives for land acquisition from the TIF district from tax deferments. The Uptown Grocery's parent company, Buy for Less, will finance the rest of the development. Buy for Less was attracted to the location due to the tax incentives the area offered. The TIF district was created by The Village to find an occupant for a longtime vacant car dealership space. The new grocery is expected to bring in \$750,000 per year in new tax revenue for The Village.

L.A. Prep

Location: Los Angeles, CA
Investment Area: Los Angeles, CA



L.A. Prep, a 56,000-square-foot multi-faceted food production business incubator for local entrepreneurs and nonprofits, opened in 2015 in the Lincoln Heights neighborhood of Los Angeles. L.A. Prep operates as an accelerator for small food producers with 54 licensed wholesale food production spaces, as well as the home of L.A. Kitchen, a nonprofit who offers culinary training services to at-risk foster youth and older adults transitioning out of incarceration. The \$17.5 million project was financed by several partners, including \$16 million in New Market Tax Credits allocation from Los Angeles Development Fund and UrbanAmerica, \$11 million in leveraged debt from Capital Impact Partners, and \$5.1 million in equity from U.S. Bancorp.

Industry

Self-Help Credit Union Food System Loans

Location: Minneapolis, MN
Investment Area: National



Self-Help Credit Union uses its Food System Loans to lend to businesses and nonprofits that work to improve the food system, such as food aggregators and distributors, grocery stores and food co-ops, food entrepreneurs, and urban farmers. Self-Help offers several different types of loans, including general business loans, New Markets Tax Credit loans, SBA 7(a) loans, SBA 504 loans, and USDA Business and Industry Loan Guarantees. Their Food System Loans have rates starting at four percent, a 25-year amortization for commercial real estate projects, and loans ranging from \$50,000 to \$15 million. In 2015, Self-Help closed a \$4.6 million loan, supported by New Markets Tax Credit, to Eastside Food Co-Op in Minneapolis, MN. This loan is part of the Eastside Food Co-Op's \$6.7 million expansion, which will generate 25 jobs and allow greater access to healthy food in an economically distressed area. As of 2015, Self-Help had provided over \$15 million in financing to 34 healthy food systems projects.

Alliantgroup Research & Development Tax Credits



Location: National
Investment Area: National

Alliantgroup's mission is to strengthen American businesses by helping U.S. companies take full advantage of federal and state tax credits, incentives, and deductions that are available to them. They have helped advocate for agricultural companies to use Research and Development (R&D) tax credits for their operations. R&D tax credits can be earned through a vast variety of day-to-day activities, such as experimenting with new fertilizer, developing new harvesting techniques, creating new strains of crops, plants, or livestock, and many more. Alliantgroup has helped several food processing, agriculture, and feed mill companies receive tax credits from federal and state governments ranging from \$163,000 to \$540,000.

Institutional Buyers

The Redd on Salmon Street

Location: Portland, OR

Investment Area: Portland, OR



The Redd on Salmon Street is a food hub that provides warehousing, storage, distribution, logistics, processing, and business development support to local food business and producers, as well as event space for rent and public space for visitors. One of its primary objectives is to support local growers and food businesses to reach the scale needed for them to sell to institutional buyers, such as regional hospitals and city school districts, at a competitive price point. The Redd is a project of Ecotrust, which used New Markets Tax Credits, Historic Tax Credits, and a mixed capital stack of private equity and debt (minimum investments were \$250,000) to finance the project. In total, the project required \$28 million to acquire and renovate the two warehouses and connecting campus.

Infrastructure

Natural Harvest Food Co-op

Location: Virginia, MN

Investment Area: Virginia, MN



Natural Harvest Food Co-op, a popular natural foods grocery, had outgrown their space and was in need of a major expansion. The \$3.2 million project was primarily financed through the Co-op's equity and a bank loan from Bremer Bank partnered with the Northland Foundation. Northland invested \$330,000 and teamed up with the Entrepreneur Fund as well as Shared Capital Cooperative to provide the equipment loan. A \$213,000 grant was also provided by the IRRB, and Lake Country Power provided \$100,000 from a Revolving Loan Fund at three percent interest to be paid off within 10 years. The new 9,000 square foot LEED certified building features a new deli, catering services, and a community meeting space. The construction was completed in the spring of 2017.

The ReFresh Project

Location: New Orleans, LA
Investment Area: National



After Hurricane Katrina, community members in New Orleans started to rebuild areas of devastation. The ReFresh Project — a 60,000-square-foot healthy food hub that includes a high-quality grocery store, a teaching kitchen for Tulane University's culinary medicine program, a culinary job training and development program for at-risk youth, community meeting space, offices for other mission-aligned non-profits, nutrition classes, and an on-site urban teaching farm – is what emerged in an area of disinvestment in 2014. The \$25.8 million ReFresh project was primarily financed through New Markets Tax Credits, as well as a \$1.5 million Healthy Food Financing Initiative Loan from Low Income Investment Fund, providing gap financing to the project. JP Morgan Chase and Goldman Sachs financed \$8 million and \$10 million in NMTC financing, respectfully. Additionally, Goldman Sachs loaned \$3.1 million in a traditional bank loan. The Foundation for Louisiana invested \$500,000 in equity, while the New Orleans Redevelopment Authority issued a \$900,000 loan through a Commercial Corridor Revitalization loan. The New Orleans Fresh Food Retailers Initiative loaned \$1 million and the Newman's Own Foundation awarded a \$200,000 grant.

Kelly Market Square

Location: Worcester, MA
Investment Area: Worcester, MA



Kelley Square Market is a \$21.3 million project that secured an \$838,000 Tax Increment Financing deal from the Worcester City Council Economic Development Committee, assisting its \$16.4 million bank financing and \$3.4 million in private equity. The developer, Harding Green LLC, stated the project was not feasible without the TIF deal. The city was making about \$13,000 a year in tax revenue from the previously empty lot. Now the city expects to make nearly \$1.5 million in tax revenue in the first ten years, even with the 70% tax exemption. This 80,000-square-foot development will contain a public marketplace on the first floor and apartment units above. Inside the market will be 30 to 40 vendors and three restaurants, with a focus on ethnic food, community, and live music. This development is expected to create 124 new jobs and has the potential to assist dozens of small businesses to grow.

Conclusions and Next Steps

By developing a clear definition of the food system and recognizing the food system as an asset class worthy of utilizing traditional development finance tools, the actors in the food system can then work alongside development finance agencies to bridge the financing gap for food-related industries and businesses. The food system will be able to establish affordable, reliable, and traditional streams of financing, and therefore grow into a united, sustainable market.

This paper is an introductory paper in a series that intends to define the food system as an asset class worthy of traditional development finance. Coming research and papers will further demonstrate the ability of the food system to utilize traditional development finance tools to complete various projects in food-related industries and businesses. Future paper topics include access to capital tools, bedrock tools, targeted tools, and investment tools. The final paper in this series will discuss the future landscape of the relationship between the food system and development finance.

For more information about CDFA's work in this area, visit:

CDFA Website:

www.cdfa.net

CDFA Food Systems Finance Resource Center:

www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/foodsystems.html

CDFA Defining the Food System Asset Class:

www.cdfa.net/cdfa/cdfaweb.nsf/pages/cdfakelloggproject.html

CDFA Intro Food Systems Finance Webcourse:

www.cdfa.net/cdfa/cdfaweb.nsf/0/FEDFF21EDCBBCBAF88257C63005164F3

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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.

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