

# INTEGRATED FINANCE FOR CED & CED-HFFI PROJECTS

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Division of Community Discretionary Programs  
Office of Community Services

September 17<sup>th</sup>, 2015



**CED**

Community Economic Development

# Welcome & Introductions

- Introductions
  - Matthew Lee, HomeGrown Advisors
  - Gerald Shanklin, Office of Community Services
- Panel Presentations
  - Jela Ellefson, Eastern Market Corporation, Detroit, MI
  - Brahm Ahmadi, People's Community Market, Oakland, CA
  - Bob Porter, Pacific Community Ventures, San Francisco, CA
- Q & A Session

**Red Truck Fresh Produce:  
Detroit Eastern Market  
Partnerships and Collaborations**

# Detroit Eastern Market

## Healthy Metropolitan Food Hub



# Eastern Market

Good food and conviviality since 1891



# Regional Food Hub



# Eastern Market Corporation

Non-profit manager since 2006

Not one but many markets. . .



- Seasonal Wholesale Market



- Year Round Saturday Regional Market



- Seasonal Tuesday Market



- Seasonal Sunday Street Market



# Red Truck Fresh Produce

- Conversion of an underutilized space within the Eastern Market District into a green grocer
- Increasing access to fresh and nutritiously dense foods year-round
- Building upon a strong history of partnerships
- Leveraging philanthropic, corporate, and federal grant funds

# Red Truck Fresh Produce





# Red Truck Fresh Produce Funding

FUNDING SOURCE	PURPOSE	AMOUNT
DHHS CED HFFI Grant (3 years)	Construction, Programming	\$600,000
W. K. Kellogg Foundation (2 years)	Construction, Programming	\$500,000
Bank of America Foundation (2 years)	Development, Construction, Programming	\$88,000
Comerica Bank Foundation	Development, Programming	\$5,000
Detroit Economic Growth Corporation	Construction, Programming	\$30,000
United Way For Southeast Michigan (2 years)	Programming	\$65,000
EMC Operating Support		TBD
<b>TOTAL</b>		<b>\$1,288,000</b>
JPMorgan Chase Line of Credit	Cash Flow Bridge	\$250,000

# DHS CED HFFI Grant Objectives

1. Provide the infrastructure needed to support Detroit area farmers and food entrepreneurs in taking a pivotal step toward building a comprehensive food-based economic revitalization strategy for Detroit.
2. Hire and train 15 low-income community residents for retail jobs.
3. Launch 18 new low-income food entrepreneurs.
4. Make healthy food available and affordable to thousands of food insecure residents, including those who live in food Detroit's 19 food deserts.
5. Replicable and sustainable model, catalyzing revitalization in Detroit and transforming the city - and the state - by increasing food security, empowering people to choose healthier diets, growing a shared sense of community and building a strong connection between Detroit consumers and producers across the Great Lakes State.

# Red Truck Fresh Produce Partnerships

- Staffed through a Goodwill Industries workforce development program focused on veterans
- Financial literacy from Comerica Bank
- Predevelopment research from United Way for Southeast Michigan
- Promotion and marketing by Detroit Lions
- Featuring “Grown in Detroit” (Keep Growing Detroit) and “Made in Detroit” (FoodLab Detroit) produce/products
- Operated by Community Growth Partners

# Thank you!

Jela Ellefson

Eastern Market Corporation

2934 Russell

Detroit, MI 48207

[jellefson@easternmarket.com](mailto:jellefson@easternmarket.com)



# **People's Community Market**

More than a Grocery Store

## **Integrated Finance** AKA "How We Gotta Do It"

- Direct Public Offering (DPO)
  - Real Estate Financing

# Barriers to Private Capital

- Few private investors interested in startup and low-margin food businesses.
- ROI targets exceed abilities of low operating and net margins.
- Desire for short-term investments and rapid scaling conflicted with growing organically and locally
- Liquidity/exit events conflicted with goals for local ownership and mission retention



# Direct Public Offering (DPO)

- Public offering of securities to both accredited and non-accredited investors
  - AKA “Investment crowdfunding”
- Offered on a State-by-State basis
- Can market publicly by any means

- Word of mouth
- Public speaking
- Online & print ads

- BART poster ads
- Social Media
- News Media



# Terms of the Offering

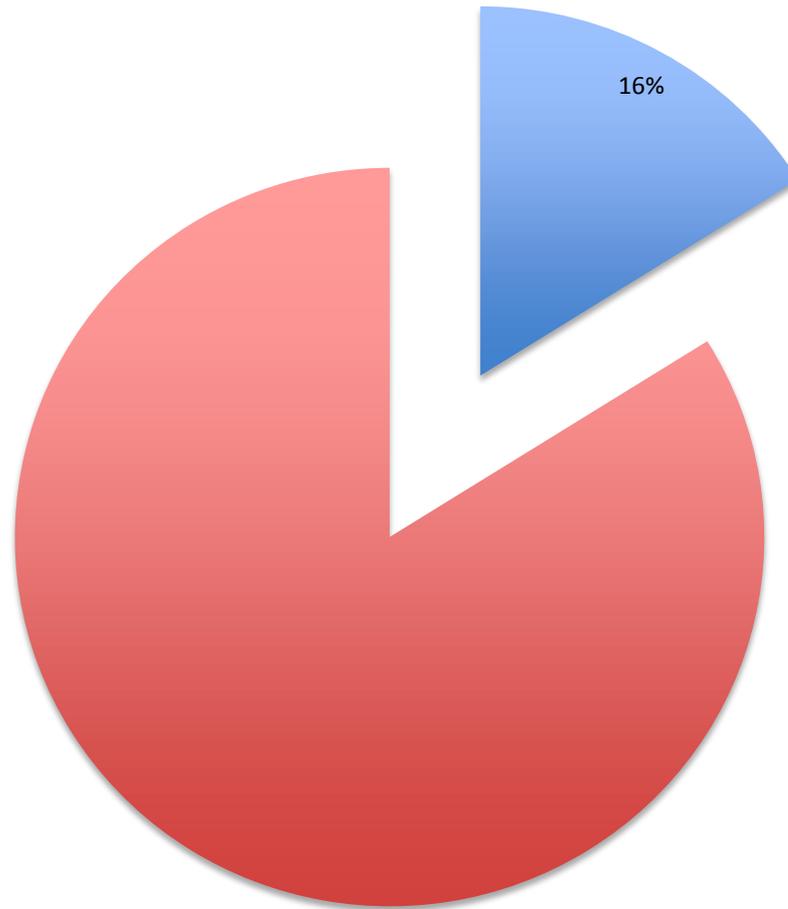
- 1,000,000 Series A preferred shares
- \$2.00 per share
- Minimum investment levels:
  - \$1,000 for unaccredited investors
  - \$5,000 for accredited investors
- 3% cumulative & compounded dividend
- 1% annual store credit (non-cumulative)
- 7 year payback period
- Redemption optional for both parties
- Shares are non-voting, non-convertible



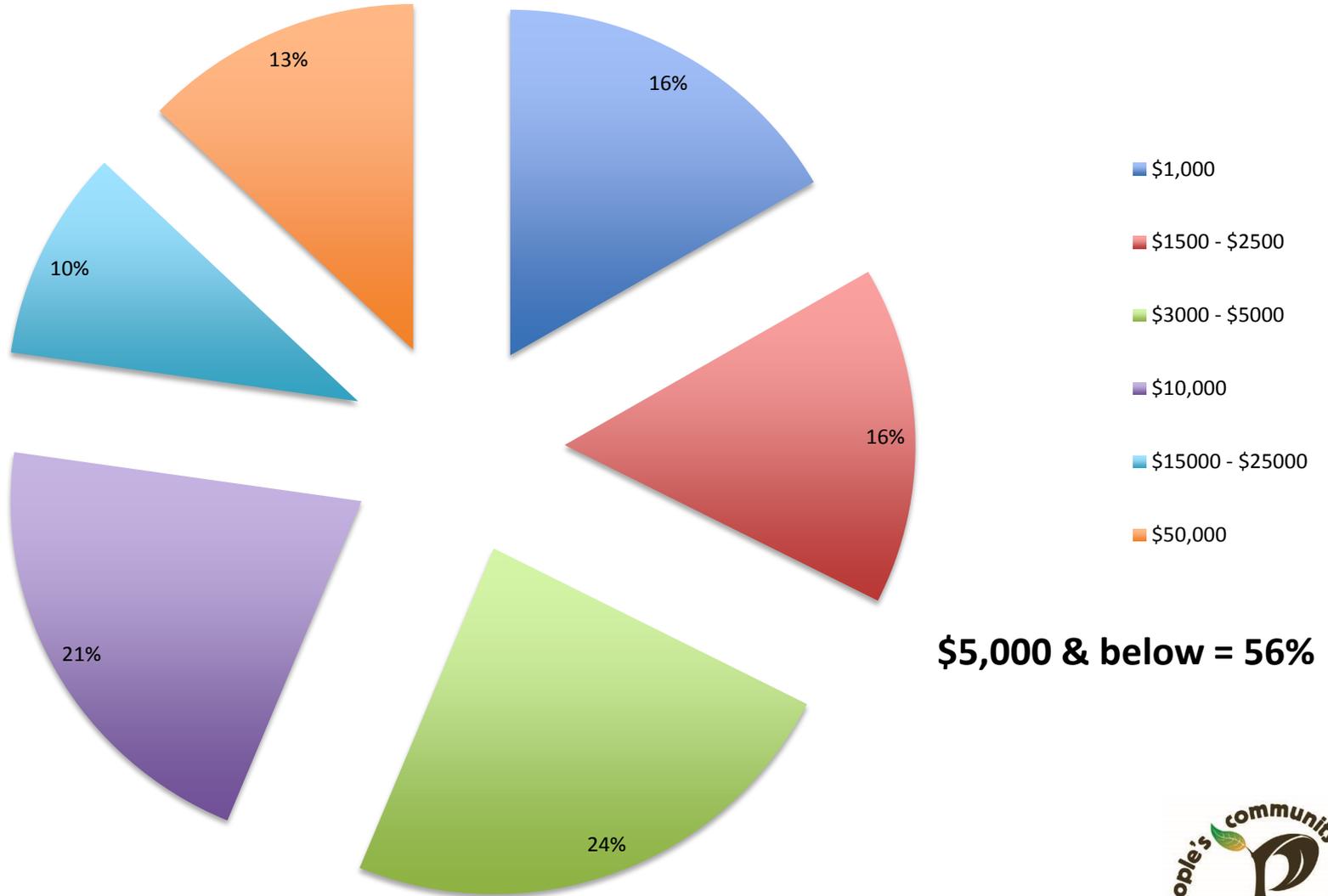
# Total Subscriptions: \$1,221,948

## 404 Shareholders

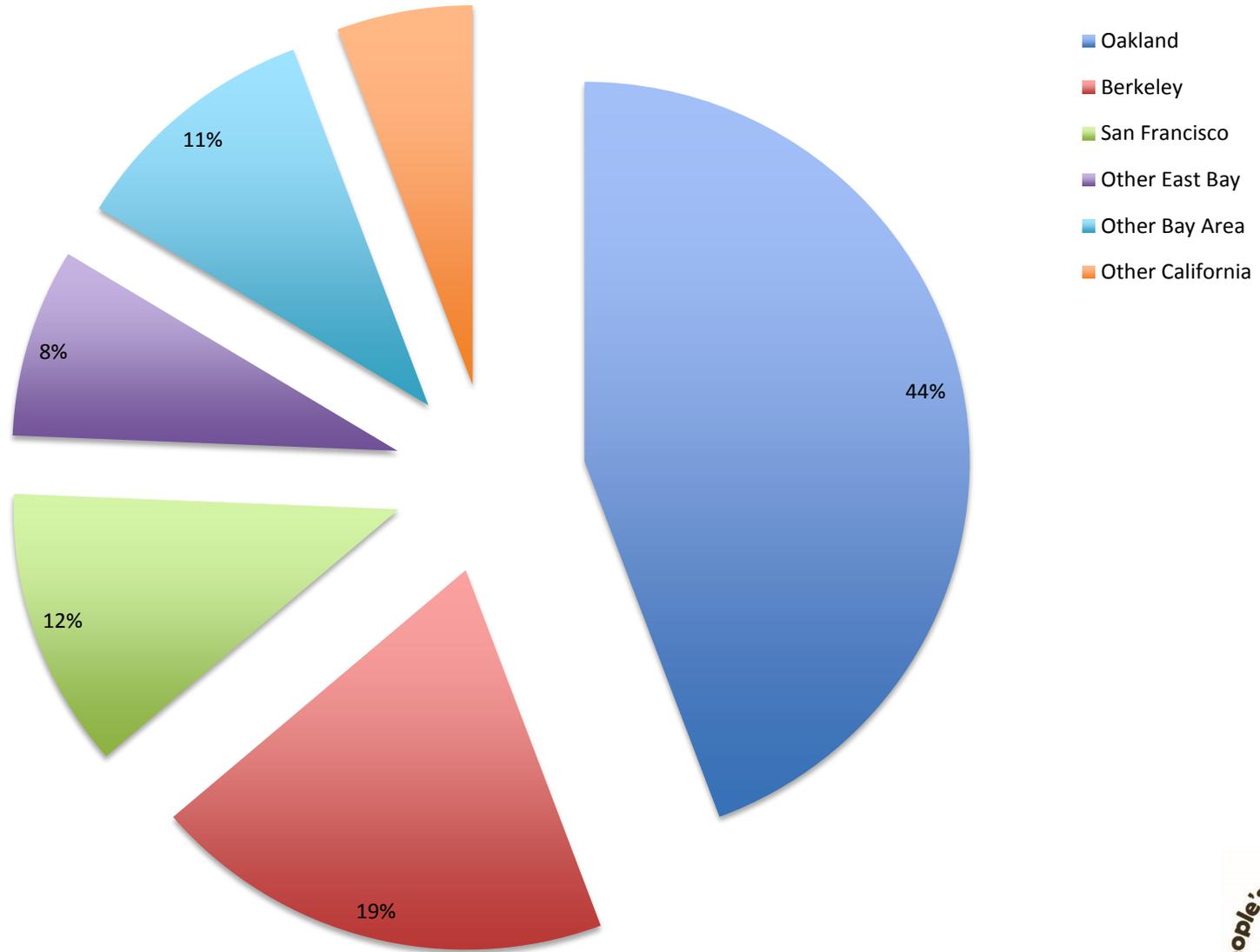
■ Accredited Investors    ■ Unaccredited Investors



# Capital by Amounts



# Investors by Location



# Real Estate Financing

- Speculative landowners asking 200% - 300% above market value
- Unable to secure institutional financing
  - Unviable lease rates and terms



# Real Estate Financing

- Cash investor motivated by mission, need and impact
- Acquires site(s) at rates up to 200% of market value (capped at \$3mm)
  - Acts as landlord
- Open-ended agreement to exit investor by year 10



**Bob Porter**  
**Managing Director**

**Pacific Community Ventures**  
**San Francisco, CA**

**415-442-4319**

**[rporter@pcvmail.org](mailto:rporter@pcvmail.org)**

**[www.pacificcommunityventures.org](http://www.pacificcommunityventures.org)**

# DEFINITION of 'Community Development Financial Institution - CDFI'

- A private sector financial institution that focuses on personal lending and business development efforts in local communities. CDFIs can receive federal funding through the U.S. Department of the Treasury and can also receive funding from private sector sources such as individuals, corporations and religious institutions.
- **CDFIs focus on** serving the needs of the poor and working class within urban and poor rural communities, as many of these **citizens are underserved or ignored by traditional commercial banks and lending processes**. The goal is to help these people to become financially self-sufficient, allowing them to increase their contributions to national economic growth and to rebuild run-down communities.

There are hundreds of chartered CDFIs operating in the United States, each with the goal of **fostering economic growth** within the local community **through innovative (and often less stringent)** lending practices, educational efforts and small business lending.

CDFIs tend to be controlled locally, without interference from the federal government or national corporate hierarchy.

# Lending Guideline Comparison

## **Pacific Community Ventures (PCV)**

- 18 months in business
- Profitable 12 months
- Collateral not required
- 500+ credit score
- Bankruptcy/Foreclosure ok
- Debt Service Coverage > 1.10
- Loan to value up to 100%

## **Traditional Bank**

- 36 months in business
- Profitable 24-36 months
- Collateral required
- 640/660+ credit score
- No Bankruptcy/Foreclosure
- Debt Service Coverage > 1.25
- Loan to value up to 80%

## Example of a Non-Profit Partnership

A SF Bay Area start-up from an entrepreneur who has had 2 successful start-ups in the past. \$600K in funding is needed but there is very limited personal or funded future collateral.

- PCV will fund \$200K in debt
- Fund Good Jobs will fund \$200k in debt
- Fund Good Jobs will structure \$200k in convertible debt

## Example of a CDFI Funding Healthy Foods

- LISC (Local Initiatives Support Corp)
  - Loans of \$25k to \$3M for non-profit and for-profit operators of healthy food businesses
  - 4.5% - 6% fixed rate
  - Flexible terms
  - Flexible underwriting

# Questions?

The screenshot shows a Microsoft Office meeting window with a Q&A sidebar on the left and a presentation slide in the center. The sidebar has a 'Q & A' tab and a 'Manage' button. The presentation slide is titled 'INTEGRATED FINANCE FOR CED & CED-HFFI PROJECTS' and includes the text 'Community Discretionary Programs' and 'Community Services'. The CED logo is at the bottom right of the slide, with 'CED' in large letters and 'Community Economic Development' below it. The date 'September 18th, 2015' is also visible. Three callout boxes provide instructions: one points to the Q&A input field, another to the 'handouts' icon in the top right, and a third to the 'shared notes' icon in the top right.

Click the “handouts” icon to download supporting materials

Type your question here at any point during the presentation

Click the “shared notes” icon for a list of related links

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# Upcoming CED Webinars

## **Performance Progress Report: Fall 2015 Refresher**

*October 8, 2015, 2-3 PM Eastern*

This webinar will provide current CED/CED-HFFI grantees with a review of the PPR timeline and key dates; overview of the OLDC; summary of available resources and support; and the opportunity to ask questions.

## **CDFI Funding for CED/CED-HFFI Projects**

*October 22, 2015; 2-3 PM Eastern*

Since its creation in 1994, the CDFI Fund has awarded more than \$1.9 billion to CDFIs, community development organizations, and financial institutions. In FY 2015, the HFFI will serve as a supplemental funding opportunity through CDFIs for healthy food-focused activities. This webinar is an opportunity to hear from a panel of CDFI experts and grantees about how CDFIs can support your communities and projects.

*Register on the Upcoming Webinars webpage:*

*<http://www.acf.hhs.gov/programs/ocs/resource/upcoming-ced-and-ced-hffi-webinars>*