# King County Local Food Facility
# Development Finance Roadmap

*Prepared for:*
King County, WA

*Prepared by:*
Council of Development Finance Agencies

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# About the Development Finance Roadmap

With funding from the W.K. Kellogg Foundation, CDFA is researching how development finance agencies can become more engaged in developing local and regional food systems. CDFA aims to advance opportunities and leverage existing financing streams to scale local and regional food systems by increasing access to healthy foods and creating new living wage jobs in communities across the country. As part of this work, CDFA is partnered with King County, Washington to develop a pilot project that will unlock traditional development finance mechanisms for a local food facility that will strengthen the Seattle region's local food system and increase access to healthy, affordable food for underserved communities.

The purpose of the *King County Local Food Facility Development Finance Roadmap* produced by CDFA is to identify possible financing mechanisms for this project based on the ownership models proposed by ECONorthwest. This report also provides several related case studies of multipurpose food facilities from across the country. The possible financing mechanisms proposed in this report represent a wide range of financing programs that could support the King County local food facility.

# Background & History

In 2014, King County adopted the *Local Food Initiative*[1], a guidebook for reinforcing and enhancing the local food system. A major weakness identified in the local food system is the lack of food-related infrastructure, and one key strategy in the *Local Food Initiative* is to improve infrastructure for aggregation, processing, distribution, and other food system needs.

In partnership with local food businesses, nonprofits, and other community stakeholders, King County proposed the idea of a consolidated 'local food facility.' This multipurpose food processing and distribution space will meet the needs of a broad range of food system partners and provides access to target markets, especially underserved communities. The local food facility hopes to become a pivotal hub in the King County local food network, helping to grow businesses and connect local food partners.

In the *Local Food Facility Opportunities Report*[2] produced by ECONorthwest in May 2020, three recommendations were made to address the opportunities and challenges of King County's local food system that could positively be impacted by a new local food facility. The first recommendation highlights a pathway to a successful food facility by targeting the focus of the facility in the large network of King County. The second recommendation responds to the need for local food infrastructure, particularly for helping small and medium-sized food businesses scale up with amenities like commercial production kitchen space, cold and dry storage, and flexible space for packing and other necessary activities. The third recommendation defines the need for linking and strengthening relationships and partnerships for a broad range of local food systems actors, and therefore the critical need for office and event space to nurture relationships and share knowledge. Overall, the local food facility hopes to become a pivotal hub in the King County local food network, helping to grow businesses, and connect local food partners.

These recommendations were included in the *King County Food Facility Business Report* [3]produced by ECONorthwest in September 2020. The business report explores the programmatic elements of the food facility concept, the likely operation and financial performance, the possible ownership and management structures, and how public and private capital may fund the development of the facility. This report concludes that once an ownership structure and operating model are chosen, the county can then identify potential sites for the local food facility, determine the financial expectations, develop a capital funding plan, and foster commitments from public and private funders.

The King County local food facility will be a critical piece of local food systems infrastructure as a hub for storage, processing, distribution, and networking. Physical components of the food system like this can should be understood as critical pieces of infrastructure that can receive traditional financing and be viewed as an investment in economic development. Creating and expanding localized food systems supports entrepreneurs, small businesses, job creation, community wealth, and long-term resiliency. Restoring food systems also provides the opportunity to simultaneously advance goals related to health, racial equity, job creation, climate change mitigation, farmland preservation, and more[4]. There are

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[1] *King County Local Food Initiative. King County.*

[2] *King County Local Food Facility Opportunities Report.* ECONorthwest.

[3] *King County Local Food Facility Business Report*. ECONorthwest.

[4] *Advancing Local Food Systems Through Development Finance.* CDFA.

numerous ownership models and financing strategies that could be used to produce this local food facility and support food system development in the region.

# Ownership Models

The ownership structure chosen for the local food facility will determine the financing mechanisms that can be used, and may also impact costs of the facility and which site is best suited for the project. There are four possible ownership models outlined below: nonprofit ownership, public ownership, for-profit ownership, and a public-private partnership.

## Nonprofit Ownership

Many food facilities across the country are nonprofit owned and operated. Nonprofit food facilities often work to support social objectives, such as increasing access to healthy, affordable food. From food hubs to incubation kitchens to hunger relief centers, nonprofit food facilities include a broad range of organizations.

For the nonprofit owned and operated model, a board of directors would govern the organization as an executive director and a small staff would manage the daily operations. This option brings the benefit of having a variety of stakeholders engaged in the governance of the food facility. This structure would also have the benefit of accessing a wide variety of capital, including grant funding, tax-exempt financing, philanthropic funding, tax-exempt donations, and reduced operating costs through tax exemptions.

## Public Ownership

Public ownership via King County is another option for the food facility. Public ownership would allow the County leadership to maintain control and accountability of the food facility; however, specialized skillsets would be needed from the County to operate the facility that typically may not be a part of government operations. The public ownership model would also limit many financing opportunities for the local food facility.

## For-Profit Ownership

In a for-profit model, a private entity would construct, operate, own, and manage the food facility. This option would limit King County's control of the project and could potentially prioritize profit over mission. It is also likely that this structure would be the most expensive to construct and maintain and that the for-profit entity's profit margins would be too minimal to ensure success. As outlined in the ECONorthwest business report, a for-profit entity is unlikely to have an interest in owning and operating the facility.

## Public-Private Partnership

A public-private partnership (P3) is a contractual arrangement where the County would contract with a private (for-profit or nonprofit) partner to renovate, construct, operate, maintain, and/or manage the local food facility for providing a public service. The County may retain ownership of the public facility, but the private party in P3 structures generally invests its capital to design and develop the facility or system. Typically, each partner shares in income resulting from the partnership. Such a venture can differ from typical service contracting in that the private sector partner may make a substantial cash, at-risk, equity investment in the project. The public sector also gains access to new revenue or service delivery capacity without having to pay the private-sector partner.

As a financing approach, a P3 is a complex yet useful agreement between a public agency and a private-sector entity. With the P3 model, the County would be able to transfer some of the project development risks by collaborating with private developers, construction and engineering firms, or infrastructure investors who have the private resources and expertise which the agency lacks.

In Washington State, Public Development Authorities are an option for a P3 structure. King County could form a Public Development Authority (PDA) to operate the facility under public ownership, similar to the Pike Place Market PDA or Cultural Development Authority of King County (4Culture). Local municipalities may legally form quasi-municipal PDAs to run local programs, administer federal grants, enhance government efficiency, or improve general living conditions. PDAs are established for community projects for various reasons, such as to reduce the liability for debts and obligations for the parent city or county or to develop and operate real estate.

The P3 model would help this project benefit from a private management structure and access affordable capital via the tax-exempt bond market. The P3 model offers a wide variety of financing opportunities, but those opportunities vary depending on whether the private entity is for-profit or nonprofit.

# Financing Opportunities

Food is already a key part of the local economy in King County, and contributions from mainstream development finance will support further restoration of the local and regional food system. Around the country, traditional development finance tools are being readily applied to the food system by development finance agencies - like Industrial Development Bonds for food processing plants or Tax Increment Financing for local food markets. Development finance 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.

Below are a wide range of development finance tools that may be used to support the local food facility, though the tools vary in application based on the ownership model and specific location of the facility. The project is not limited to these financing tools, but this list represents some of the most viable options for building a local food facility in King County.

## Tax-exempt Bond Financing

*Nonprofit, Public, For-profit, P3*

In its simplest form, a bond is a loan or debt incurred by a qualified borrower. The borrower can be a government entity, a nonprofit, or a private enterprise. Bonds are issued by authorized units of government and sold to the investing public. The proceeds are typically made available to finance the costs of a capital project[5].

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. 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 out investment security. Qualified PABs range in type of projects, including airports, universities, affordable rental housing, hospitals, small and midsized manufacturers, first-time farmers, and nonprofits.

A growing area of development finance is the use of public-private partnerships (P3s) in conjunction with bonds. A public-private partnership in this context is 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 own 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 access to affordable capital provided through the bond market.

Although there are many types of tax-exempt bonds, below are a few notable bond programs that may be considered for the local food facility:

> ***Qualified 501(c)(3) Bonds*** are a type of private activity bond issued by a local or state governmental conduit entity, such as the Washington Economic Development Finance Authority (WEDFA). Projects financed with 501(c)(3) Bonds are owned and used by nonprofit corporations that qualify for exemption under Section 501(c)(3) of the IRC. Organizations using 501(c)(3) Bonds may include universities, food banks, hospitals, agriculture research facilities, nonprofit food hubs, and communal kitchens.

> ***Exempt Facility Bonds*** are another type of private activity bond that can be issued for 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

[5] *Food Systems & Bonds*. CDFA.

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, as well as qualified green buildings. Exempt Facilities Bonds have a very wide scope of use, and implementation varies by state or local entity.

***Small Issue Industrial Development Bonds (IDBs)*** are a type of revenue bond issued to finance the construction of industrial facilities that are issued on behalf of a corporate borrower by a local or state development authority, but the security lies with the corporate borrower's credit. This means IDBs are not backed by the full faith and credit of the issuing body of government. These bonds would be repayable from the revenue generated by the local food facility. Most states have one or more conduit issuers who could be able to finance the project through small issue IDBs. WEDFA may be able to act as a conduit issuer for this project.

## Tax Increment Financing

*Nonprofit, Public, For-profit, P3*

Tax increment financing (TIF) is a mechanism for capturing the future tax revenues - or increment - of new development or redevelopment in order to pay for the present cost of the site improvements. TIF can be applied to a district or a single property, with legislation varying state by state. Aspects of development that increase economic activity for the property or within the district generate greater tax revenues, which then become the repayment stream for the debt used to finance those 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. This structure is set up so that the tax increment from a TIF is created without raising taxes or dipping into the base tax revenues present at the time that the TIF is established[6].

A TIF district, or the area capturing the tax increment itself, is drawn in order to direct benefits to a designated area – typically an area that is economically sluggish or physically distressed, where development would not otherwise occur. Once the TIF's geographic boundaries are established the initial assessed value of the property or 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.

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 business expansion. The flexibility of this tool makes it possible to use it on a wide variety of food system projects.

In Washington, the proper tools to implement TIF are not in place; however, there are a few variations of TIF that are commonly used in Washington State. Below is one example program that is applicable in King County:

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[6] *Food Systems & Targeted Tools.* CDFA.

***Local Infrastructure Project Area (LIPA) Financing program*** was created in 2011 to enable local governments to finance infrastructure investments and incentive development rights. This program authorizes cities to create a LIPA and allows increased in local property tax revenues generated with the LIPA to be used for payments of bonds issued for financing local public infrastructure improvements. This program is applicable in King County; however, no city has yet created a LIPA[7].

## Tax Credits

*Nonprofit, For-profit, P3*

Tax credits are one of the most accessible tools in the development finance toolbox. There is a vast number of tax credit programs available at the federal, state, and local levels, and these programs can easily be deployed to creatively fill financing gaps for many agriculture and food-related businesses[8] because they are such a flexible financing tool.

Tax credits have become increasingly popular since federal resources have diminished over the past several decades. As federal and state governments recognized the benefits of tax credits and incentives, they developed programs to address economic development needs. Over time, these programs have helped to provide a wide range of financing options for brownfields redevelopment, historic rehabilitation, low-income housing, venture capital, and job creation in a wide range of industries. They can also provide a targeted impact by addressing underserved or emerging 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 credits can be used for several purposes in development projects: 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 can be used in urban, rural, and suburban communities, and in some cases, they can be applied on a regional basis. Tax credit programs also 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.

There are a variety of tax credit programs administered at the federal and state level. Below is a prominent program that may be considered for the local food facility:

***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

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[7] *Tax Increment Financing Programs in WA.* Washington State Department of Revenue.

[8] *Food Systems & Investment Tools.* CDFA.

investments may include loans to businesses, to commercial, industrial, and/or retail developments, and to developing for-sale housing. For the purpose of 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.

## Opportunity Zone Investment

*Nonprofit, For-profit, P3*

Created as part of the 2017 Tax Cuts and Jobs Act, Opportunity Zones (OZ) are a federal economic development tool aiming to improve the outcomes of distressed communities around the country. Opportunity Zones are low-income census tracts that offer tax incentives to groups who invest and hold their capital gains in an OZ asset or property. Specific Opportunity Zones were designated by the governor or chief executive of a given state, district, or territory. All 50 states, the District of Columbia, and U.S. territories were eligible to designate Opportunity Zones and these areas can be viewed on an interactive map maintained by Enterprise Community Partners. By investing in Qualified Opportunity Zones, investors stand to gain a temporary deferral on their capital gains taxes if they hold their investments for at least 5 years and a permanent exclusion from a tax on capital gains from the OZ investments if the investments are held for 10 years.

Opportunity Zones offer communities exciting new ways to access capital and generate economic development in areas that have experienced disinvestment for decades. Understanding how to use capital from Opportunity Funds is critical to realizing a successful investment strategy that drives economic and social impact directly into communities. Because Opportunity Funds can be used to support both business and real estate projects in Qualified Opportunity Zones, it is important for communities to be proactive in identifying potential investments and coordinating with multiple stakeholders.

## Revolving Loan Funds

*Nonprofit, For-profit, P3*

Revolving Loan Funds (RLFs) are a flexible source of capital that can be used to help grow small and mid-sized businesses. RLFs are a very popular development finance tool with thousands operating throughout the U.S. and several hundred within most states. They are typically used for operating capital, acquisition of land and buildings, new construction and renovations, and purchasing machinery and equipment. An RLF is a funding pool that replenishes itself; as existing loan holders make payments, and 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 since the fund must be replenished in order to make future loans[9].

RLF loans are often issued at competitive rates but also tend to offer flexibility with collateral and terms that make them accessible to myriad small business types. Some creative loan funds also target specific areas such as food systems, minority or women-owned businesses, and environmental challenges. Below are a few loan fund options for the local food facility in King County:

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[9] *Food Systems & Access to Capital.* CDFA.

***Small Business Administration 7(a) Loan Program*** is one of the many loan programs offered by the Small Business Administration (SBA) which provides the guarantee of repayment to private lenders loaning to small businesses in the event of default. If the borrower defaults on their loan, the SBA will reimburse the lender for 75% to 85% of the loan (depending on loan size), but the borrower will still be obligated to repay the full amount of the loan. Requirements are set by the SBA for how loans covered by this program must be structured, though these remain fairly broad in order to accommodate a wide range of business types. Funds may be used for machinery and equipment, expansion and renovation, purchasing an existing business, working capital, refinancing, start-up for new businesses, and more. The maximum amount for 7(a) loans is $5 million, though rates and fees vary based on negotiation between the business and the private lender.

***Craft3 Revolving Loan Fund*** is for food and agricultural businesses, community facilities, land conservation, and general businesses. Loans may be used to purchase or renovate real estate, finance construction, or purchase equipment. In 2017, Craft3 agreed to purchase the North Central Washington Business Loan Fund, enabling Craft3's fund to provide loans that are generally $25,000 to $3 million.

***Local Support Initiatives Corporation (LISC) Loan Funds*** are a viable option for the facility. LISC is a non-profit with strong community partnerships that would connect hard-to-tap public and private resources with underinvested places and people working to access opportunities. LISC operates several loan funds to support small businesses with up to $5 million of affordable capital, including Economic Development loans, Maker Space loans, and Commercial Real Estate loans. LISC also operates a loan fund that provides working capital lines of credit and a variety of financing products for the development and/or improvement of buildings occupied by our nonprofit partners in their service provisions.

***Community Economic Revitalization Board (CERB)*** is a state board focused on economic development through job creation in partnership with local governments. The Board has the authority to provide loans and grants to finance public infrastructure improvements that encourage new private business development and expansion. In addition to funding construction projects, CERB provides limited funding for studies that evaluate high-priority economic development projects.

***Grow Seattle Fund*** is a Preferred Lender for the SBA and can work with businesses towards achieving their borrowing goals with loans from $75,000 to around $2,000,000 (more if needed). The Grow Seattle Fund provides a wide array of capital products including permanent working capital, real estate acquisition and expansion loans, tenant improvement loans and funds for the purchase of machinery and equipment.

***Enterprise Community Regional Equitable Development Initiative (REDI) Fund*** is available to finance transit-oriented developments. Eligible types of projects include community facilities, mixed-use developments, and nonprofit space for fresh food markets.

***Business Impact Northwest*** provides access to capital to startup and established businesses with loans ranging from $5,000 to $350,000. The funds may be used for equipment, inventory, real estate, working capital, and more. Although their average interest rate is high at 9.5%, Business Impact Northwest often provides loans to businesses that most banks won't.

***Washington Community Reinvestment Association Economic Development Loans*** are available to projects in low to moderate census tracts or other CRA targeted areas. The maximum loan amount is $5 million and may be used for land acquisition or rehabilitation. Ownership may be nonprofit, for-profit, or public development agency.

***BlueHub Capital Loan Fund*** is a national mission-driven CDFI that provides financing for economic and environmental vitality to create healthy communities to nonprofits, government, and businesses in low-income communities. BlueHub offers customized financing for predevelopment, acquisition, construction, and more, while also offering New Markets Tax Credit leverage lending, state tax credit intermediary lend, and bridge loans.

***Nonprofit Finance Fund (NFF)*** offers loans and other financing to assist nonprofits and social enterprises expand opportunities in low to middle income communities. From acquisition and construction loans to equipment loans to bridge loans, NFF provides a variety of financing programs and technical assistance to craft financing solutions for social enterprises.

***Impact Capital*** offers innovative, high-touch, first-in financing for nonprofits to kick-start community building projects, keep projects moving, and secure future funding. Loan products range from predevelopment, acquisition, construction, rehabilitation, and preservation.

## Other Support Tools

*Nonprofit, Public, For-profit, P3*

Support tools can come from the federal, state, or local level in the form of grant dollars, or from private or philanthropic donations. Support tools are more flexible, less complex, and more easily applied than other development finance tools. Support tools also offer gap financing as they are often applied in conjunction with other sources of financing.

Federal support tools can play a pivotal role in catalyzing new, innovative projects in a community. There are hundreds of federal grant programs that can be applied to economic development projects. Some programs provide funding directly to local governments, while others provide funding to a business, industry, collaborative, or intermediary. Below are some select grant programs that may be applicable to the local food facility:

***Port of Seattle Economic Development Partnership Grant Program*** is an annual, cooperative economic development program to help fund local economic development initiatives across King County. All cities in King County except Seattle are eligible to apply for grant funding. Cities may also contract with local non-profits to deliver projects or manage initiatives. The maximum grant allocation for each city, with populations between 5,000 and 65,000 people, is based on one dollar per resident. Grant funds require a 50 percent match of dollars or in-kind resources.

***Washington Department of Commerce Building Communities Fund*** awards state grants to nonprofit, community-based organizations to cover up to 25% of eligible capital costs to acquire, construct, or rehabilitate nonresidential community and social service centers. This is a reimbursement-style grant for capital construction projects only. Operating costs are ineligible.

***U.S. Department of Agriculture Local Foods, Local Places*** supports locally led, community-driven efforts to protect air and water quality, preserve open space and farmland, boost economic opportunities for local farmers and businesses, improve access to healthy local food, and promote childhood wellness. Eligible applicants include local governments, Indian tribes, and nonprofit organizations proposing to work in a neighborhood.

***U.S. Department of Agriculture Local Food Promotion Program (LFPP)*** offers grant funds with a 25% match to support the development and expansion of local and regional food business enterprises to increase domestic consumption of, and access to, locally and regionally produced agricultural products, and to develop new market opportunities for farm and ranch operations serving local markets.

***U.S. Environmental Protection Agency Local Foods, Local Places*** supports locally led, community-driven efforts to protect air and water quality, preserve open space and farmland, boost economic opportunities for local farmers and businesses, improve access to healthy local food, and promote childhood wellness. In selecting Local Foods, Local Places partner communities, special consideration is given to communities in the early stages of developing local food enterprises and creating economically vibrant communities. Eligible applicants include local governments, Indian tribes, and nonprofit institutions and organizations proposing to work in a neighborhood, town, or city of any size anywhere in the United States.

***U.S. Department of Housing & Urban Development Choice Neighborhoods*** program leverages significant public and private dollars to support locally driven strategies that address struggling neighborhoods with distressed public or HUD-assisted housing through a comprehensive approach to neighborhood transformation. Local leaders, residents, and stakeholders, such as public housing authorities, cities, schools, police, business owners, nonprofits, and private developers, come together to create and implement a plan that revitalizes distressed HUD housing and addresses the challenges in the surrounding neighborhood. The program helps communities transform neighborhoods by revitalizing severely distressed public and/or assisted housing and catalyzing critical improvements in the neighborhood, including vacant property, housing, businesses, services, and schools.

***U.S. Department of Health & Human Services Community Economic Development*** (CED) is a federal grant program funding Community Development Corporations that address the economic needs of individuals and families with low income through the creation of sustainable business development and employment opportunities. CED funds business incubators, shopping centers, manufacturing businesses, and agricultural initiatives.

# Case Studies

Across the country, there are many different examples of local food facilities that improve local food production, storage, distribution, and more. Local food facilities are typically nonprofit organizations that operate around a mission to increase local entrepreneurship, create job opportunities, accelerate local economic growth, and/or increase access to local and healthy foods.

There are a wide range of development finance tools can be used to finance projects within the various sectors of the food system. The vast majority of the case studies featured in the CDFA Food Finance White Paper Series utilized more than one financing tool, highlighting the importance of a diverse capital stack. The following case studies represent the flexibility and viability of using traditional financing tools for multipurpose food facilities.

## Bornstein & Pearl Food Production Center – Dorchester, MA

In 2010, Dorchester Bay Economic Development Corporation (DBEDC) purchased the former home of Pearl Meats, a meat processing company. The company had employed nearly 150 people when it shuttered the factory in 2006 and left the site vacant. DBEDC had the intention of demolishing the 36,000 square foot building and replacing it with affordable housing, but during the community engagement process, residents of the community identified job creation and economic life as their desire for the site. Through a partnership with CommonWealth Kitchen, a nonprofit commercial kitchen incubator, DBEDC transformed the site into the Bornstein & Pearl Food Production Center, a state-of-the-art food production facility. CommonWealth Kitchen was a key programmatic partner, providing financial stability as a long-term anchor tenant occupying 50% of the building, and by providing food industry expertise throughout the development of the project.

There were also several key financial partners involved in making this project and its complex capital stack a success. The City of Boston was one critical partner involved early in the project timeline, integrating the Bornstein & Pearl Food Production Center concept into their winning proposal for the HUD CHOICE Neighborhood Grant. It took approximately three more years to raise and secure nearly $15 million in public and private financing, with renovations beginning in August 2013 and occupancy beginning in May 2014. The City of Boston was also able to provide a HUD 108 Loan which provided patient, flexible, gap capital for this project.

BlueHub Capital, a mission-based lender with a willingness to invest in tough projects like this, provided the first mortgage loan. LISC's New Markets Support Corporation allocated New Markets Tax Credits with PNC as an investor to produce a key piece of financing for the project. Without this robust group of partners with the right skill sets and a variety of financing products weaved into the capital stack, this high-risk project with great mission benefits may not have been achieved.

Today, Bornstein & Pearl is home to five food companies, including CommonWealth Kitchen. Combined, these businesses employ over 200 people in a neighborhood with an unemployment rate double the national average. CommonWealth Kitchen is home to 55 start-up food businesses and also operates a commissary kitchen for small-batch contract manufacturing that enables farms and other food businesses to scale their value-added production.

| The Capital Stack | | |
|---|---|---|
| BlueHub Capital | $ 2,678,000 | First mortgage / leverage loan and acquisition loan |
| City of Boston | $ 3,474,945 | HUD 108 loan, acquisition loan, and soft debt |
| Coastal Enterprises, Inc./Wholesome Wave | $ 500,000 | Health Food Financing loan |
| Dorchester Bay Economic Development Corporation | $ 300,000 | Dorchester Bay Neighborhood Loan Fund |
| Dorchester Bay Economic Development Corporation | $ 650,000 | Developer Equity/Deferred Fee |
| LISC New Markets Support Company / PNC Bank | $ 3,761,700 | NMTC equity |
| MassWorks Infrastructure Grant | $ 1,500,000 | Grant for utilities infrastructure |
| Department of Health and Human Service - Office of Community Services | $ 788,000 | Grant to support job creation |
| HUD CHOICE Neighborhoods Grant | $ 500,000 | Grant through the City of Boston as part of the Quincy Corridor Transformation Plan |
| EPA Brownfields Grant | $ 118,063 | Grant for site clean-up |
| MassDevelopment Brownfields Grant | $ 163,500 | Grant for site clean-up |
| The Boston Foundation | $ 100,000 | Grant |
| Kendall Foundation | $ 275,000 | Grant |
| Citizens Bank Growing Communities | $ 30,000 | Grant |
| Pierce Trust | $ 10,000 | Grant |
| **TOTAL SOURCES** | **$14,849,208** | |

## Jasper Meats – Bloomingdale, IL

Jasper Meats, Inc., is a USDA-certified meat processor and has been manufacturing freshly butchered fine meats, sausages, and other foods since 1948. Jasper Meats are distributed to grocery stores throughout the Chicago metropolitan area, as well as via wholesalers to restaurants and institutional accounts.

In 2008, the Illinois Finance Authority issued $3.2 million in Industrial Development Bonds to Jasper Meats for the acquisition of 2.2 acres of land, the construction of a 25,000 square-foot manufacturing facility, and the purchase of machinery and equipment. This expansion of Jasper Meats increased production capacity, provided additional space for product development and testing, retained 16 jobs, and created an additional 19 jobs in suburban Chicago.

## Project Angel Food – Los Angeles, CA

In 2014, 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 - for the refinancing of their 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.

Volunteers and staff cook and deliver vital foods and nutritious meals, free of charge, to homes to alleviate hunger, prevent malnutrition, and return clients to health. Since 1989, Project Angel Food has served more than 9 million meals and is currently delivering more than 10,000 meals every week.

## Great Lakes Cold Storage – Solon, OH

For more than 40 years, Great Lakes Cold Storage has provided 8.6 million cubic feet of cold storage capacity to the Midwest. Their facility in Solon, Ohio tripled its revenue over the last three years and, as a result, was in need of a 56,000 square foot addition to the current 248,000 square foot space for more warehouse space, office space, and a dock. The Cleveland-Cuyahoga County Port Authority provided $8.9 million in taxable lease Revenue Bonds to assist in the financing for the $9 million project. The Port Authority acquired the project site through the utilization of a ground lease from Great Lakes Cold Storage and entered into a bondable capital lease agreement. The rent payments directly mirror the debt service payments on the bonds to include fees, costs, and expenses associated with the bonds. At the end of the lease term and full payment of the bonds, Great Lakes Cold Storage will purchase the addition and project site from the Port Authority for $1.00 and the costs of the transfer. The Solon, Ohio facility currently employs 222 people, and the facility in Cranberry Township, Pennsylvania is approximately 120,000 square feet with 24 employees.

## Portland Mercado – Portland, OR

A project to consolidate the Hacienda Community Development Corporation's three separate offices into a single site, Portland Mercado, secured $10 million in federal New Markets Tax Credits and $7 million in Oregon NMTC allocation. This new 11,000 square foot headquarters serves as administrative headquarters for the organization as well as Portland's first Latino public market. The Mercado hosts 19 small food businesses, the majority of which are minority-owned, and Hacienda also runs programs such as the Food Innovation Center program that helps train new food-business owners with workshops, seminars, and training in both English and Spanish. This project created 110 new jobs and retained 71 jobs.

## Limehouse Produce – North Charleston, SC

Greenville New Markets Opportunity II, a CDE managed by Tax Advantage Group, allocated $9 million of New Markets Tax Credits for the development of agribusiness Limehouse Produce located in the former site of the Charleston Naval Exchange Building. Limehouse Produce provides conventional row crops, local specialties, herbs, and dairy products to local restaurants, and is also a food hub with rental space, a cold storage hub, and a produce distribution facility. The total facility occupies over 175,000 square feet and created 145 direct quality jobs in a community with a 47.3% poverty rate. In addition, Limehouse provides considerable donations to local food banks, including over 400,000 pounds of food to Lowcountry Food Bank in just three years.

## Food Lifeline's Hunger Solutions Center - Seattle, WA

In late 2015, $2.6 million in New Markets Tax Credits via US Bank and CCG Community Partners, LLC was used as part of the capital stack to finance the construction of Food Lifeline's Hunger Solution Center in South Seattle. The project consisted of a new 117,500 square foot facility that includes warehouse space, storage and freezer space, classrooms, and office space for Food Lifeline's food distribution efforts. The build-out of the facility was completed in two phases, totaling about $34 million in total project costs. Food Lifeline calls themselves the "food bank to the food banks" and they needed a new, larger, and consolidated space to increase efficiencies and meet demand.

## The Hatchery – Chicago, IL

The Hatchery is a food and beverage business incubator that provides 67,000 square feet of space, facilities, amenities, and business incubation services to support a wide range of food and beverage production businesses. The City of Chicago helped this project by providing $7 million in Tax Increment Financing and securing $1.75 million in New Markets Tax Credits through the Chicago Development Fund. They also sold 12 parcels of city-owned land valued at $150,000 to the developer for $1, which were connected to the 9 parcels already owned by the developer. PNC Bank, Community Reinvestment Fund, First Pathway Community Development, and Partners for the Common Good provided an additional $8.5 million in New Market Tax Credits for the incubator. Assistance also came from private organizations providing design, financing, construction, and engineering services to this project. The building includes 54 private food-grade kitchens, 5 shared kitchen bays, dry-cold storage, loading docks for distribution and food trucks, and open office space.

## La Plaza Tapatia – Columbus, OH

La Plaza Tapatia is a local grocer in central Ohio that sought to move from an aging strip mall to a newly built and owned facility, investing $10 million into an area in need of private investment. This relocation has been supported with a TIF deal through Franklin County Economic Development and Planning that covered unexpected costs for a regional stormwater infrastructure repair project on the new site. The TIF revenue from the incremental increase in property taxes is projected to generate approximately $450,000 over 10 years.

La Tapatia also received assistance from the Franklin County Land Bank, who sold the business the new property site and also paid for the demolition of the apartment structure that was previously on the site. In addition, construction financing for the relocated grocery store building is coming from a partnership of Heartland Bank and Community Capital Development Corporation's SBA 504 loan guarantee program.

This project has been coordinated by Franklin County Economic Development and Planning to align with the Columbus/Franklin County Local Food Action Plan, which prioritizes local food system development as an economic development policy.

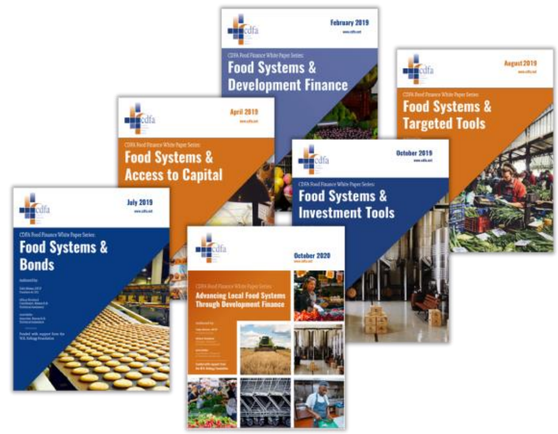
# Next Steps

King County will first need to decide on an ownership model for the local food facility based on the information outlined in the *King County Food Facility Business Report.* After the ownership model is selected, the location of the facility will then further determine the possible financing opportunities as outlined in this report. CDFA remains a partner on this pilot project and commits to assist in fostering relationships between the local food facility, King County, and local development finance agencies to support this effort.

The King County local food facility will be a critical piece of local food systems infrastructure as a hub for storage, processing, distribution, and networking. Physical components of the food system like this can receive traditional financing, as evidenced by the case studies in this report. This facility is also an example of sustainable economic development in support of entrepreneurs, small businesses, job creation, community wealth, and long-term resiliency.

# Additional Resources

## CDFA Food Finance White Paper Series:




[Food Systems & Development Finance]

[Food Systems & Access to Capital]

[Food Systems & Bonds]

[Food Systems & Targeted Tools]

[Food Systems & Investment Tools]

[Advancing Local Food Systems Through Development Finance]

## CDFA Resource Center:

[CDFA Food Systems Finance Resource Center]

[CDFA Defining the Food System Asset Class]

[CDFA Online Resource Database]

[CDFA Federal Financing Clearinghouse]

# Acknowledgments

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| *Individuals* | *Organizations* |
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The *Development Finance Roadmap* was authored by the Council of Development Finance Agencies (CDFA), a national association dedicated to the advancement of development finance concerns and interests. Learn more about CDFA at www.cdfa.net.

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The Council of Development Finance Agencies 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 public, private and non-profit entities alike. For more information about CDFA, visit www.cdfa.net or e-mail info@cdfa.net.

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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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