STRATEGIC FOOD SYSTEMS FINANCING PLAN

SOUTHEAST NEBRASKA DEVELOPMENT DISTRICT (SENDD)

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Prepared by the Council of
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INTRODUCTION

The Council of Development Finance Agencies (CDFA) developed the following strategic plan on behalf of Southeast Nebraska Development District (SENDD) to facilitate investment in the regional food system. The key outcome of this plan is to unlock capital for food and agriculture-related businesses, projects, and infrastructure to generate economic prosperity while advancing racial and social equity. Food is already a key part of the local economy in Southeast Nebraska, and contributions from mainstream development finance will support further restoration of the local and regional food system.

CDFA's recommendations for SENDD are informed by background research — demographics, geography, and economic development activities across the region — along with stakeholder interviews and a two-day strategic planning process. The recommendations include three key focus areas: Programming, Operations, and Governance. Each of these areas centers on a particular set of recommendations, and the recommendations work together to help SENDD better support access to financing for food and agriculture-related businesses in the region.

BACKGROUND

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. DFAs can be formed at the state, county, township, borough, or municipal level, and they 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 because 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 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.

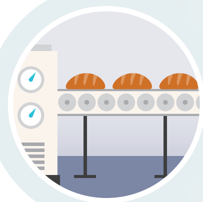
ACCESS TO CAPITAL TOOLS
Access to capital programs address small business financing needs as well as large-scale projects.

Defining the Food System

In order to establish reliable, affordable, and traditional streams of financing for a wide variety of food systems projects, there must be a shift in perspective that understands individual people and projects within the broader food system to reduce fragmentation. CDFA has identified six distinct areas of activity that exist within a comprehensive food system and could be recipients of investment. Although there is often overlap between these areas of activity, the CDFA Food Finance White Paper Series[1] is oriented around the defined components below.

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.*

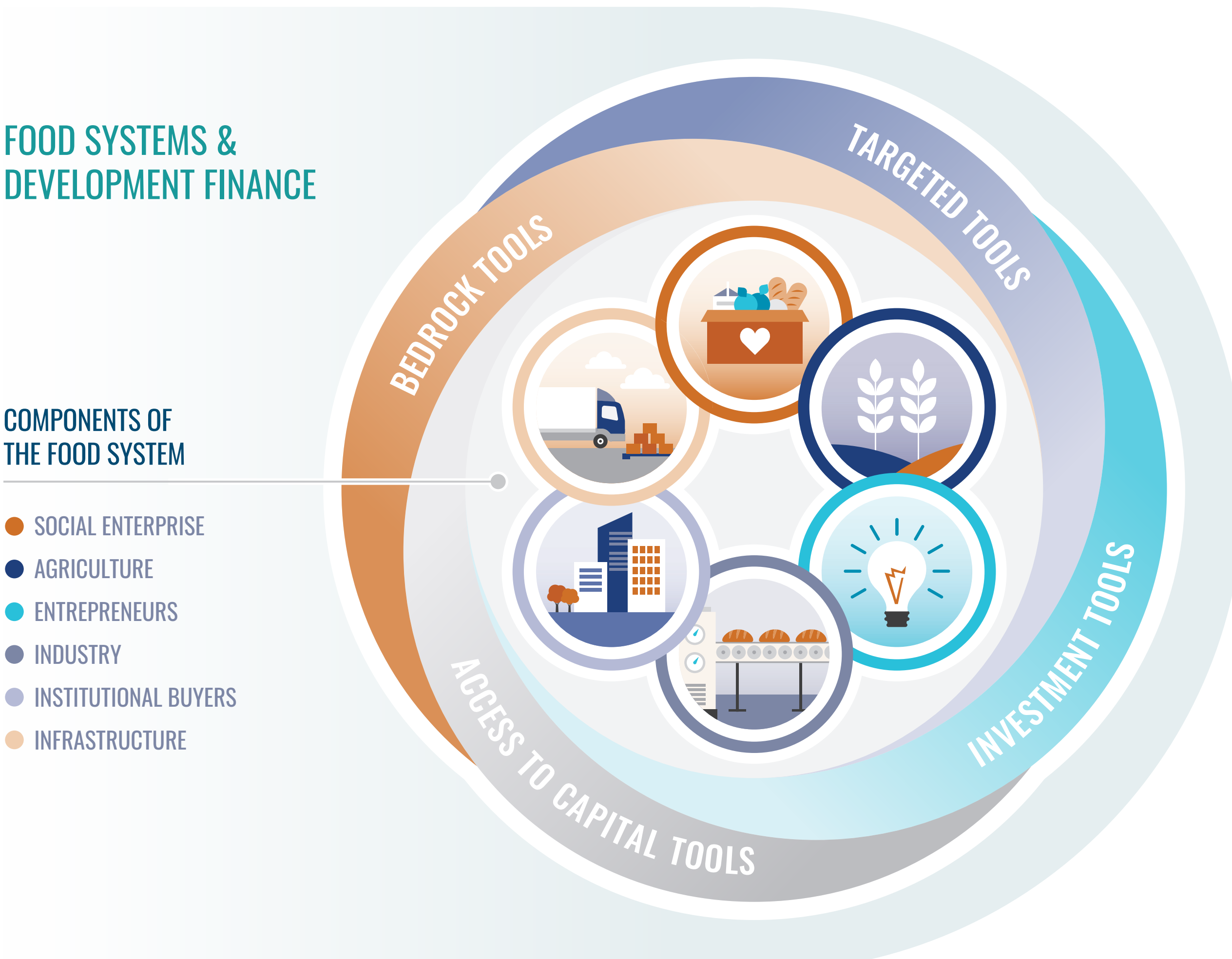
INFRASTRUCTURE *The physical facilities, as well as the organizational, technological, and relationship networks that allow for the production, processing, storage, distribution, transportation, transfer, and retail of food. Such facilities may include farm markets, food hubs, kitchen incubators, slaughter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

This definition of the food system takes a comprehensive look at the greater economic ecosystem around food production, food enterprises, and food infrastructure to reinforce the concept of an investable asset class and attract more public and private dollars.

[1] Advancing Local Food Systems Through Development Finance. Council of Development Finance Agencies.

Toolbox Approach

CDFA's toolbox approach to development finance combines the best financing concepts and techniques to respond comprehensively 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 assist numerous types of users and to maximize opportunities for growth in the local community.



Reframe, Build, Plan

Research on the current ecosystem of food systems finance has positioned CDFA to identify key strategies for the path ahead in this work. Engagement between food systems practitioners and economic development on initiatives is an important takeaway for future practice. 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, and land use — can be aligned for collaborative, impactful outcomes. **Reframe**, **Build**, **Plan** are key 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.

A COMPREHENSIVE APPROACH FOR RESTORING LOCAL FOOD SYSTEMS

REFRAME **food systems development as infrastructure and economic development**

Physical components of the food system should be understood as critical pieces of infrastructure that can receive traditional financing. Creating and expanding localized food systems must also be viewed as economic development that supports entrepreneurs, small businesses, job creation, community wealth, and long-term resiliency. Restoring food systems can be focused on goals of health, racial equity, job creation, climate change mitigation, farmland preservation, and many other goals while simultaneously being reframed as investment in infrastructure and oriented toward sustainable economic development.

BUILD **effective relationships and partnerships across the entire food system**

Connections are central to rebuilding local food systems. This includes the many actors working directly in the food system, and the most successful places are developing food systems in a supportive, coordinated manner. Networks should include members of the development finance community as well, whose mission for impactful local investment often aligns with local food projects. 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.

PLAN **for strategic food system financing**

Redeveloping food systems is a long-term effort, and planning is essential because of the many players and resources needed for success. Financing and community engagement must be integrated in these plans as early as possible. Collaborating with local finance partners creates opportunity for unlocking the necessary capital for future projects, and engaging with community members better ensures that social, economic, racial, and environmental goals are consistent with local demand. Bringing these players into alignment with local food system planning ensures a more holistic outcome, where many types of food-related businesses and projects can be successful.

CDFA RESEARCH

CDFA has researched food system financing across the nation and found that challenges facing local practitioners involving the economy, environment, and equity remain consistent in every community. Although food system advocates have taken transformative steps towards reestablishing regional food systems in recent years, there are still disparities in health and wealth to overcome. Food security, sustainable production, and public health are just some of the many issues that continue to prevail. The economic and social disruption of the recent global pandemic has made these disparities even more extreme while simultaneously exposing the fragility of our current food system. SENDD is in a unique position to help address these disparities on a regional scale and develop racially and socio-economically equitable communities. Key findings from the research below inform a path forward toward building a more resilient regional food system rooted in environmental and racial justice that strengthens local economies across the region.

Focus Groups

CDFA conducted focus groups to gain a better understanding of current conditions for financing food-related businesses and projects in Southeast Nebraska. The discussions focused on what existing financial resources are available, areas of greater need, and barriers to accessing financing. These questions were based on CDFA's knowledge of food system finance across the U.S. and were designed to provide nuance about how a DFA could advance regional food system development. Findings from these focus groups informed the programmatic framework outlined in this report.

The focus groups provided key insights about the current landscape of food system finance in Southeast Nebraska, confirming that there is a significant need for more financing in support of local and regional food system development. CDFA's primary focus was learning which components of the food system need further investment, what sources of capital are in greatest supply and greatest demand, and what types of barriers exist for accessing such resources. Findings from this research indicate that there is a significant need for expanded financing in the food system and a role for food to play in economic development (See Appendix II for focus group questions).

Strategic Planning Session

CDFA hosted a two-day strategic planning session with SENDD staff and external stakeholders. The conversation covered SENDD's strengths, weaknesses, opportunities, and threats. The group discussed who SENDD wants to serve in the region, how SENDD is best situated to support food and agriculture-related businesses, and what CDFA recommends for improving access to capital in Southeast Nebraska. The SWOT analysis outlined below shaped CDFA's recommendations for SENDD and informed the suggested timeline for action, as outlined in this strategic framework.

SWOT Analysis

The SWOT analysis is an assessment tool often adopted in strategic planning sessions to evaluate a company's position. The SWOT Analysis Matrix identifies SENDD's core strengths, weaknesses, opportunities, and threats. The SWOT approach defines these terms as follows:

Strengths & Weaknesses: internal initiatives that are well-performing or underperforming

Opportunities & Threats: external factors that either present opportunities or problems

One of SENDD's greatest strengths is its high-quality talent, dedication, and support among staff and board members. Their expertise in the field and willingness to act as a resource have helped establish a positive impression of SENDD in the region. The second prominent strength is SENDD's regional approach, fostering collaboration and connectivity, especially among other organizations focusing on food systems initiatives, like the University of Nebraska-Lincoln. Another factor that helps SENDD is its forward-thinking mindset and willingness to identify possible gaps to advance its strategy and seek new opportunities to expand the regional food system.

However, SENDD is held back primarily by the fragmentation among food system practitioners and economic development professionals which results in unmet needs in the food system. There is limited knowledge about what programs currently exist and where to find them. Maintaining an active presence in the sixteen member counties consisting of mainly small, rural communities across Southeast Nebraska with limited staff is a challenge for SENDD. This sometimes leads to an unbalanced distribution of resources and difficulties in tailoring programs that can meet the needs of all member counties.

With so many strengths inherent in the organization, SENDD has many new opportunities ahead, including a wide variety of programs, projects, and activities that SENDD can develop to reach its food systems goals. Since there is a need for further collaboration and connection among the food-focused Community Development Financial Institutions (CDFIs) in the region, SENDD can act as a convener to bring together the right resources and parties. Although SENDD already has a strong regional approach, there is room for more engagement through partnerships, regional communication, and program depth and breadth.

Notable threats that SENDD must consider in implementing the following strategic framework include competition with existing organizations and programs over capital resources, current lender attitudes towards small agribusinesses, and the "brain drain" of younger people moving out of state.

+ STRENGTHS

+ Strong staff & engaged board
+ Six current revolving loan funds
+ Forward-thinking & energy around local food
+ Regional engagement & partnerships

– WEAKNESSES

- Fragmentation in the food system
- Geographic challenge
- Staffing issues
- No statutory or taxation power
- Existing programs hard to find

S W O T

+ OPPORTUNITIES

+ Socially aware community
+ Convener role
+ New programs & services
+ Growing interest in bond financing and TIF
+ Strong CDFIs that focus on community food systems

– THREATS

- Inflation and potential for recession
- Young people moving out of the community
- Lender attitudes towards small agribusinesses
- Competition with existing organizations & programs

Education

CDFA provided education for the leadership of SENDD to demonstrate how the spectrum of development finance programs can unlock capital for the community. This training covered CDFA's core fundamentals of development finance education, which encompasses bonds, tax credits, revolving loan funds, and tax increment finance, as well as considerations related to an organization's operations, governance, and programming.

ELEMENTS OF THE PLAN

Outlined in the food systems financing plan below, CDFA is recommending three core elements to be used by SENDD. These elements include programming, operations, and governance frameworks. Each section addresses specific goals and action items that will advance the county's strategy as well as strengthen the food system in the region.

PROGRAMMING

SENDD can increase access to capital for businesses and projects in its local food system through several different programmatic approaches. CDFA recommends a combination of finance programs, network-building activities, and economic development support programs to achieve this. Some of these recommendations can be launched in the immediate term and others will require a longer timeframe for development.

While these programs can be created and administered by SENDD, it is important to engage other organizations across the region during the development and launch of new activities. Doing so will build SENDD's regional leadership and strengthen cohesion among the various sub-regions.

Finance Programs

One of the most significant challenges faced by businesses and projects in the food system is accessing affordable financing. Based on CDFA's research, we have concluded that SENDD is uniquely positioned to provide direct financing to the regional food system. CDFA recommends the following finance programs to serve businesses and projects in the food system.

Revolving Loan Funds

Access to flexible, patient capital is important for starting a new line of work, whether 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 supporting efficiencies that improve production and productivity. However, food and agriculture-related businesses are often perceived as too risky for traditional lending approaches.

CDFA's research demonstrates that food system loans perform, revolving loan funds can successfully support local food system borrowers in their communities, and small business lending is the most accessible form of financing for food-related businesses.[2] Food and agriculture businesses face a variety of barriers

[2] Debunking Risk in Food System Lending. Council of Development Finance Agencies.

to affordable capital in ways that have a high negative impact on their success. Access to capital programs that are designed to mitigate these issues are necessary to support further local and regional food system development. Establishing self-sustaining loan funds for SENDD's local food and agriculture sector will increase accessibility and capacity for new businesses to start and existing small businesses to grow.

Revolving Loan Funds (RLFs) offer a flexible source of capital that can be used to help grow small and midsize businesses. An RLF is a sustainable funding pool that replenishes itself as existing loan recipients make payments which are in turn recycled to fund new loans. Such loan programs must balance interest rates so that they are low enough to reach the desired borrower, but high enough to sustain the fund over time. RLF loans are meant to fill a gap in the lending landscape rather than compete with other forms of capital, and they help strengthen small businesses so that they can access capital from a broader spectrum of lenders. These funds can be designed creatively and carefully to meet the needs of their intended borrowers. RLFs offer flexible interest rates and terms, accept alternative forms of collateral, use character-based lending practices, and employ other approaches to make the loan fund accessible to a more diverse range of borrowers and businesses.

Food Systems Loan Fund

This fund is best suited for bankable small food businesses that are financially ready to borrow but have not been able to access capital from conventional private lenders. The RLF would be designed to fill a gap in the current lending landscape, rather than compete directly with existing funds. Financial readiness for borrowers could include having good credit, adequate collateral, sufficient cash flow, and/or a sound business plan. This RLF can expect a relatively low-risk portfolio, with an average loan default of two to three percent. The RLF could be capitalized through a state or federal grant program, partnerships with community banks, or the commitment of local funds, maintaining the most flexibility if it could be capitalized through local funds. CDFA recommends the following loan fund offerings.

RECOMMENDED FUND STRUCTURE

- **Size of Fund:** $3 million
- **Loan Amount:** $25,000 – $150,000
- **Interest Rate:** Varies based on borrower, from 6-8%
- **Term:** 5-10 years or term will align with life of asset
- **Uses:** Working capital; machinery & equipment; land & building acquisition; facade & land improvements; energy upgrades
- **Other:** Allow co-lending alongside another financial institution

Microloan Fund for Food

Creating a microfinance food program can provide small amounts of capital to the smallest businesses in and around Southeast Nebraska. This is key to creating a continuum of capital that will allow SENDD to meet the needs of all types of businesses. The microfinance program could be capitalized through a state or federal grant program, partnerships with community banks, or the commitment of local funds, maintaining the most flexibility if it could be capitalized through local funds.

RECOMMENDED FUND STRUCTURE

- **Size of Fund:** $500,000 – $1 million
- **Loan Amount:** $5,000 – $25,000
- **Interest Rate:** Varies based on borrower, from 2-4%
- **Term:** 1-3 years
- **Uses:** Working capital; machinery & equipment; facade improvements
- **Other:** Allows non-traditional forms of collateral; no application or ongoing fees, the borrower pays end of term success fee based on repayment history

FEE STRUCTURES

Loan funds have fees associated with applications, processing, documentation, licensing, closing, participation, and other activities related to managing loans. These fees cover costs that the lender incurs to review applications and support borrowers throughout the life of a loan. It is recommended that SENDD charge borrowers an application fee, a closing fee, an annual maintenance fee on the anniversary of the loan, and late fees for missed payments.

The following fee structure and recommended ranges are based on other community-based loan funds:

	Application Fee	***Origination Fee***	***Annual Fee***	***Late Fee*** *if 5 days past missed payment*
Food Systems Loan Fund	$750	1% – 2% Principal	0.1% Principal	3% unpaid portion of the payment
Microloan Fund for Food	$0 – $500, borrower pays a "success fee" over the life of the loan that is partially refunded later, based on a sliding scale relative to repayment history to incentivize timely payments			

SENDD should not adopt a policy of waiving fees because loan fees are a critical source of operating revenue for lenders and will help ensure long-term sustainability. However, the intent is not to create additional barriers to lending, so the design of the final fee structure should be appropriate for the types of small businesses that SENDD is serving.

Credit Enhancement

Credit enhancement refers to a bond issuer's purchase of outside support or an issuer's use of other sources of credit enhancement. Typically this refers to public credit enhancement programs to improve an issuer's or conduit borrower's credit standing. The purpose of credit enhancement is to improve marketability or to reduce interest costs either by improving the rating or mitigating risk on a portion of a bond issue, such as getting bond insurance for a term bond rather than the entire issue. Typical outside supports include commercial bank letters of credit, bond insurance, and guarantees.

Credit enhancement protects bondholders in the event of issuer default and bankruptcy. This includes conduit bond issue borrowers. Since the support is total, the transaction is assigned a rating reflecting the dependence on the credit enhancement. Through credit substitution, an issuer can improve the credit quality of an issue and provide support for some portion of the financing for which an issuer's resources may be inadequate. Credit enhancement may also improve marketability, as certain investors (such as tax-exempt money market funds) may be restricted to purchasing only investment-grade issues (BBB or better).

Many smaller borrowers, such as manufacturers using IDBs, are unable to access the public debt markets at all without enhancement, due to their size and lack of rating. SENDD can launch a credit enhancement program to support lenders, CDFIs, and other capital providers in unlocking capital for food-based enterprises.

RECOMMENDED PROGRAM STRUCTURE

- **Size of Fund:** $3 million
- **Term:** Credit enhancement up to 25% of issuance
- **Uses:** All allowable qualified PAB uses, contingent on food system component
- **Fees:** 1% principal amount enrollment fee

Loan Guarantee Program

Loan guarantees allow risk to be shifted from a private lending institution to a third-party participant — usually a government entity. Communities and projects that employ guarantee programs typically partner with established lending institutions that have a history of supporting economic development. In some cases, a percentage of the loan is guaranteed through phases of the project, and aspects of the guarantee expire as the loan matures. In some instances, such as financing in distressed communities, the guarantee is only necessary for the start-up phase. A typical guarantee range for small loans (those under $150,000) begins at 25 percent with a maximum of 85 percent, while loans greater than $150,000 are guaranteed up to 75 percent.

At the state and local level, guarantee programs allow governments to increase access to capital and investment in businesses, thus promoting redevelopment in their communities. Eventually, lending to businesses and projects in the community is no longer considered risky, and capital becomes more readily available. The establishment of a loan guarantee program will allow SENDD to assist in key food systems projects by acting as the conduit for the issuance of debt and reducing the costs of borrowing. This loan guarantee program will help bridge capital gaps and barriers that many minority borrowers and developers often face when accessing affordable capital for projects and businesses.

New Markets Tax Credits Approaches

Tax credits are a type of investment tool that support businesses and projects by incentivizing and enabling investment in construction, equipment, machinery, and other major developments. In the food system, investment tools can be transformational for the role that they can play in building up the infrastructure needed at all levels of the supply chain for processing, distribution, scaling-up operations, consumer sales, packaging, and more.

Tax credits are a common investment tool that can be deployed to fill financing gaps for many agriculture and food-related businesses. Based on the demand for investment across all components of the food system, this programmatic framework recommends that SENDD partner with a local or national CDFI to put together a competitive application to allocate New Markets Tax Credits (NMTC). SENDD currently has multiple strong CDFIs that focus on community food systems in their region. There are certain limitations for farming, though many projects have found creative ways to use NMTC in ways that support agricultural activities, such as food infrastructure to support the food system in Southeast Nebraska.

The NMTC program was created to generate additional capital for economic development projects in low-income communities, defined as census tracts in which the median family income is below 80 percent of the area's median family income. The CDFI Fund allocates NMTCs to designated Community Development Entities (CDEs), and CDEs use the leverage of that allocation to raise equity from investors. An investor receives a federal income tax credit equal to 39 percent of a Qualified Equity Investment (QEI) made into a CDE, which is then invested in a targeted low-income community.

SENDD can leverage NMTC investments to further its efforts. This can be done by identifying and establishing partnerships with regional CDEs that can apply for and obtain an allocation of NMTC itself. This flexible tool could allow SENDD to bring countless dollars of investment to the community.

Food Systems Convening

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. Involving community members who can represent neighborhoods or speak from a consumer perspective is key to 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.

Build a Technical Assistance Provider Network

SENDD can position itself as a regional convener of direct lenders, technical assistance providers, and food systems stakeholders. Plan 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.

Examples of these types of events include:

- **Lender Forum** that brings together all types of active lenders in the community, including banks, credit unions, port authorities, CDFIs, and others.
- **Redevelopment Gathering** to engage developers and real estate professionals, soliciting input and showcasing opportunities.
- **Entrepreneurial Event** that invites small food and agricultural businesses together, highlighting the funding opportunities available locally.
- **Annual Celebration** of community and economic development accomplishments from public and private sector food system stakeholders during the year.

SENDD should aim to host two or three of these events each year to build the network and continuously share updated resources among participants. Virtual events can be a part of this, but it will be critical to engage in person for information sharing and network building that is necessary for a cohesive regional economic approach. In-person events should be held in different locations to reinforce SENDD's focus on the larger region.

Organize & Host Educational Opportunities

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. Once an engaged network of food systems practitioners and development finance professionals is built, SENDD should recruit subject-matter experts and host a training series of four to five events focused on food systems finance.

Examples of these types of training include:

- 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

Become One-Stop-Shop for Food Financing

There is significant demand for an organization that can help individuals (1) learn the financing tools and programs available for their business, (2) identify which financial resources are best suited for their current financial condition, and (3) access appropriate technical assistance to build their business knowledge and finance-readiness.

SENDD should exist as the one-stop shop for food businesses and entrepreneurs through both in-person and online capacities. There should be staff time dedicated to assisting people through phone, email, and live meetings, as well as an online portal with aggregated, up-to-date information and resources that entrepreneurs can explore at their leisure.

CREATE AN ONLINE PORTAL

SENDD can support food and agriculture-related businesses and projects in the community by becoming an information “clearinghouse” with details about local, state, and federal financing and technical assistance programs. This platform can serve two purposes: (1) provide relevant, up-to-date information for individuals to use independently, and (2) act as the point of intake for those who require direct assistance from SENDD. The Franklin County Food Business Portal is a good example of a current program serving food-related businesses in the Central Ohio region.

Launch a Project Funding Marketplace

SENDD should build a collaborative approach to connecting food enterprises with finance and funding opportunities by creating a formal mechanism for food enterprises to pitch and interact with entities offering financing and/or funding. This acts as a Food Systems Finance and Funding Marketplace by bringing together a variety of agencies and public / private organizations to increase funding and leverage finance opportunities for projects across the region. An example of this type of funding marketplace is Food Biz Week hosted by Business Impact NW, a nonprofit CDFI that provides training and capital to meet the needs of low and moderate-income business owners and underserved areas in Washington.

Provide Direct Technical Assistance

SENDD could successfully provide technical assistance to businesses and projects, which can be used to facilitate change, build capacity, and improve the overall food system. CDFA recommends SENDD provide the following technical assistance to food systems practitioners and economic development professionals.

Develop Intake System

SENDD should develop an intake and processing system for working one-on-one with entrepreneurs and businesses, whether via in-person or virtual meetings, phone calls, and/or email. This sort of resource navigation requires a high touch to be effective but supports the economic development ecosystem by reducing the considerable burden that other organizations bear in trying to help direct borrowers to the right place for assistance.

Continued Engagement

SENDD should plan ongoing engagement with the CDFI community and focus on building relationships with new partners, as well as strengthening existing engagement with current partners, for greater impacts from financing, projects, and activities. This could be in the form of capacity building, such as a grant writing workshop to support the organization in being able to secure future funding. If there are multiple partners funded through the same program, SENDD could convene these entities for peer-to-peer learning opportunities and discussion. SENDD might also set aside funds for sub-granting flexible grant dollars to participating agencies for them to use toward continued education and training that supports their lending activities.

SENDD can use its role as a network convener through the region to stay abreast of any changes in the technical assistance and financing landscape, understand the evolving needs of businesses and borrowers, and ensure that the resources provided align with broader economic development goals across the region.

OPERATIONS

An entity's operational framework must support efficient and effective day-to-day functions that enable broader organizational strategies and programmatic expansion. Sound operations include consideration of staffing, communications, technology, human resources, banking and accounting management, marketing, and insurance. It is critical to have resources available for these basic needs and systems in place to support essential operations. These recommended actions will build the operational capacity of SENDD to support new programs and transparent governance.

Staffing Needs

This strategic plan recommends that SENDD assign current staff or hire new staff members for the following positions, with a minimum of one person dedicated to each to ensure adequate coverage of new financing and convening programs.

Revolving Loan Funds & Credit Enhancement Programs

CDFA recommends beginning in the first year by launching 1-2 new loan funds and a credit enhancement program. At least one full-time staff person must be focused solely on developing, launching, and administering the RLF(s) and credit enhancement programs in the immediate term. The more funds that SENDD can secure to capitalize and support these financing programs, the more staff will be needed to run them successfully. CDFA's research has shown that a $3 million loan fund can be operated efficiently by a single full-time employee. If SENDD launches the recommended RLFs simultaneously or is able to seed the RLF(s) with more than $3 million, an additional one or two people should be hired full-time. As more finance programs are developed and launched, these staffing needs should be revisited accordingly.

In the early stages of program development, SENDD should plan to dedicate more staff time than will be needed to administer the programs in the long term. If maintaining full-time employees for the administrative management aspect of financing is a barrier in the long term, SENDD can also explore outsourcing that work or partnering with other local organizations to share in loan origination, review, underwriting, or monitoring.

Convening Activities

A member of the SENDD staff should be dedicated specifically to the county's convening activities. Building and maintaining strong connections across the region is essential, and this aspect of economic and community development should continue to be a strong priority over time. Even as the county succeeds in running the programmatic elements of this plan, there will still be an ongoing need for outreach and engagement with new individuals, organizations, and communities throughout the region.

Additional Resources

The staff needs that are outlined above do not include the time set aside for county-level support on grant writing or additional human and financial resources provided through SENDD. Since the county already has a team member working with local communities on food systems programs and infrastructure, it might not be necessary to expand staffing in this area in the short term. Depending on the capacity of this current position for offering more services around the region, SENDD will need to assess the demand for and value-add of hiring more employees to support such efforts.

Organizational Needs

SENDD must integrate appropriate, up-to-date technology with the recommended programs. This includes an online platform for financing programs and for the one-stop-shop business portal, which should be easily accessible across the region. Investing in this technology and setting up integrated systems for program management upfront will ease the administrative burden of managing the financing and convening activities later on.

Capitalization Strategy

SENDD can draw on a variety of sources to capitalize its financing programs and acquire start-up funds. While raising funds, it will be important to consider which funds are most appropriate for which uses. For example, some financial contributors might prefer to donate to seed the evergreen, revenue-generating Revolving Loan Funds which should not require recapitalization. Some funding sources might also carry restrictions that need to be taken into account. Whenever possible, SENDD should aim to acquire unrestricted funds to allow more agency and flexibility when determining how best to utilize resources.

Philanthropic & Corporate

SENDD should develop a targeted strategic approach to engage regional foundations, corporations, and non-profit organizations as capitalization sources. It will be important to build on existing relationships with entities that share this vision of building local food systems through development finance. Corporate interests may vary from enhancing public relations to investment in communities hosting a plant or headquarters, or even include efforts to improve employee health and wellness through food system investment.

Foundations are strong supporters of mission-oriented lending and program development, and they can be important sources for start-up capital, loan fund capital, credit enhancement programs, and operating costs. Grant support is one way that foundations can contribute to programming, though many foundations are also investing in loan funds. Loan fund investments like this work well for foundations that want the impact of direct investment in local businesses without the need to build foundation capacity to deliver loans and manage loan risk. By investing in a revolving loan fund, a foundation is able to cushion financial risk by spreading the foundation's dollars over a diversified portfolio of loans, allowing them to participate in more impact investments with less risk.

Private Banks

Local, regional, and national banks can be important partners for new lending programs by making direct financial contributions to seed loan funds, loan loss reserves, and bond funds. Several banks have given a significant amount of funding to support the launch of mission-based lending, in an effort to address specific social issues. For example, in response to the increased awareness around racial and economic inequality during 2020, countless private lending institutions created or dedicated funds to loan programs that serve minority-owned enterprises. Banks working within the regional footprint of SENDD would be ideal supporters for helping to establish financing programs.

Economic Development Agencies

Statewide economic development agencies are possible partners in funding the operational and finance needs of SENDD. The Nebraska Department of Economic Development offers resources that could support SENDD. Nebraska has multiple county-level organizations, such as York County Development Corporation, that offer resources that could help support SENDD. The financing programs run by SENDD would help advance the mission of these economic development agencies by benefiting food and agriculture-related businesses and projects statewide.

Private Investment

Consideration may be given to establishing a subsidiary for-profit entity to work in conjunction with SENDD, perhaps as a Limited Liability Company (LLC), to manage the organization's assets and potentially to receive private individual investment in the enterprise as a whole. Such an entity may eventually be organized as a benefit corporation, or even a Certified B Corporation, with emphasis on the greater good of society intended by its founding.

Federal Resources

Federal Support Tools are the most flexible and often easily applied tools. A variety of loan guarantees, loan funds, grants, tax incentives, and other programs are available through various federal agencies. The U.S Small Business Administration (SBA) provides counseling, capital, and contracting expertise as the nation's only go-to resource and voice for small businesses. The U.S. Economic Development Administration (EDA) Revolving Loan Fund Program is designed to provide grants to state and local governments, political subdivisions, and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. The U.S. Department of Agriculture (USDA) provides leadership on food, agriculture, natural resources, rural development, nutrition, and related issues, as well as funding opportunities to individuals and communities through loans and grants.

Finance Program Management

How the financing programs are managed is of equal importance to the availability of capital. For SENDD to be successful in offering finance programs, the county must establish clear operational approaches to its program management.

Components of an effective management plan include:

- Marketing and outreach
- Customer intake and pre-qualification assessment
- Application review and assessment, with financial and program analyses
- Decision-making, closing, monitoring, and long-term management
- Course of action for deals that go bad
- Management of risk and portfolio makeup
- Maintenance of loss reserves

Most aspects of management will differ between direct lending, credit enhancement, and loan guarantees, yet all will require careful attention to program marketing early in the development and launch phases.

Marketing

SENDD must create a comprehensive marketing plan to target small food and agriculture-related business owners that focuses on outreach and relationship building. Marketing should be prioritized and viewed as a key strategy in achieving the purpose to expand capital access for underserved small borrowers. As SENDD launches new food system loan funds, the marketing budget will need to expand to promote these programs. At a minimum, the marketing plan should include a comprehensive outreach campaign within the borrowing community as well as two borrower education events each year.

Partnerships can be beneficial for marketing, especially to connect with other organizations that have relationships with small businesses and would be open to a symbiotic joint effort. SENDD could attend networking events, offer presentations promoting the new loan funds, and more to connect with these organizations' members.

In addition to a sound marketing plan, a realistic budget plan, and a supportive partnership, another key element in marketing is communication. In the world of information overload, people's attention is a scarce resource; therefore, strategically communicating with the desired audiences is essential for success. The first step in achieving this is identifying and defining the target audience. Second, it is important to identify the best way to reach and communicate with these audiences. Since content is the center of communication, SENDD should curate valuable and relevant content for the target groups. After sending the messages to the desired audience, SENDD could adopt analytical tools to analyze content performance.

A target audience is a segment of consumers the company aims to reach with advertising efforts. It is often defined by factors such as age, gender, and geographic location. Following the target audience identification, it is essential to identify the best and most appropriate communication channels for the delivery of the message. This requires a deep understanding of the target audience. Market research can help better understand the audience's needs.

Answering the following questions can help identify the proper communication channels:

- Who are they often connected to?
- Who do they trust?
- Where do they usually gain information?
- Do they have an online presence? If so, what are the social media platforms they often use?
- What languages do they speak?

To build trust with small business borrowers, SENDD should not only meet them where they are to promote the new loans available in the community but use the platforms they are comfortable with and the languages they speak.

In the early stage of content creation for advertising a new loan fund, the content should both increase the awareness of the program and stir the interest of the target audience. When audiences have developed an interest in the program and show a desire to learn more, the content should become more compelling to trigger action. Finally, social media analytics tools should be adopted to analyze the effectiveness of the message, which further assists in making more informed decisions to create impactful digital campaigns. Major social media platforms such as Facebook, Twitter, YouTube, LinkedIn, and Instagram have built-in free social media analytics tools, allowing individuals to measure audience engagement and content performance.

Developing a strong marketing strategy to reach target borrowers will be essential for SENDD. This strategy should center on providing value to the target audience. To achieve effective communication, SENDD should foster strategic communication by generating the right content for the right audience via the right channel.

GOVERNANCE

Governance is an often-overlooked aspect of development finance programming. Without strong governance, an organization cannot effectively fulfill its economic or community development mission. This section discusses approaches for developing program oversight, forming a Loan Review Committee, and loan fund governance.

Onboarding

As SENDD expands its services and works to rebuild trust in its direct financing programs, it will be critical that the Board is aligned with staff members and leadership throughout the process. Developing an onboarding plan for new members of the SENDD Board could include information on:

- History, mission, and goals of SENDD
- Current programs and activities
- Planned rollout of future programs and activities
- Key operational and governance details
- Overview of King County's staff and partners

Having a consistent, established onboarding agenda will make it easier to bring new members of the administration up-to-speed — especially if those individuals have not lived in the region for very long — and will help maintain the core focus of the county as time passes.

Program Governance

Organizations with transparent governance approaches are better poised for success as the organization grows and expands its programming.

Loan Fund Guidelines

Loan Fund Guidelines for lending programs are critical documents that should be created early in the life of any new program. These documents will detail the type of loans; loan amounts; vetting process; underwriting process and key documents; loan closing process; post loan closing procedures; loan committee information along with many other important requirements. These guidelines can be based on recommendations outlined in the programmatic section of this report, and final decisions should be made by SENDD leadership.

Measuring Outcomes

All access to capital financing programs should be governed by a set of key performance indicators (KPIs) to monitor progress, investments, and economic development progress. Commonly used KPIs or metrics considered include (a) quality jobs supported, (b) private capital leveraged, (c) geographic coverage, (d) participating lenders, and (e) industry coverage. For development finance agencies that offer multiple programs across several industry sectors, a diverse set of key performance indicators are often employed and vary from program to program. Regularly reporting on progress in meeting KPIs and metrics is considered a best practice along with establishing timelines for the analysis and evaluation of programs.

Risk Tolerance

A clear risk tolerance policy is important to put in place for effective governance. A philosophy around risk should be set and universally understood by those who process and make financing decisions so that the county's financing programs reflect its priorities and so the county can plan appropriately for expected losses. The risk profile should change by program with a sliding scale approach, to increase capital access for a range of borrowers and projects. Within the overall body of risky loans, there are still gradations of risk ranging from low to moderate to high. SENDD should determine what an acceptable threshold is for the portion of each portfolio that is classified as higher risk. A higher level of risk tolerance will influence the terms of each deal, as well as the loan loss reserve appropriate for each portfolio.

Operational Procedures

In addition, there should be standardized operating procedures that govern the use of each financing program or tool along with the staffing roles and responsibilities. These procedures should be aligned with recognized economic development strategies in a region, the program's objectives, and the county's goals. Furthermore, it is important to remember that procedures should be evaluated on a routine basis to ensure they continue to be relevant, applicable, and in line with the identified priorities.

Loan Review Committee

A formal review process for direct lending decisions is essential for SENDD's success in launching new financing programs. The Loan Review Committee must understand the strategic vision of SENDD as well as the risk tolerance for lending decisions. Care should be taken to balance the committee with experienced lenders, economic development experts, and community members with other appropriate skills. The committee will review loan applications and make recommendations about loan approval, which will go to the SENDD leadership for a final decision.

SENDD may find it valuable to work with a partner to use an existing loan committee as they are getting started. In this case, the Loan Fund Guidelines will serve to direct the lending framework around risk and community impact that committee members use in assessing loan applications. Education can be included for onboarding committee members, whether for a newly formed committee or an existing one, to ensure adherence to the economic development goals of the program. So long as the existing loan committee is trusted to make loan determinations in accordance with SENDD's loan policies, outsourcing a loan committee is a reduced burden when the loan fund is at its early stages and the volume of loans to review is low.

TIMELINE

The following checklist includes high-level programmatic items that SENDD can achieve over the next one to five years. Fully implementing this strategic plan will require established, efficient operations, and governance in addition to impactful programs.

Short Term – *1 to 2 Years*

- ☐ Launch 1-2 revolving loan funds
- ☐ Offer credit enhancement options
- ☐ Build a network for food system practitioners and economic development professionals

Mid-Term – *3 to 4 Years*

- ☐ Launch additional revolving loan fund
- ☐ Launch online portal to become a one-stop-shop for food businesses
- ☐ Provide educational opportunities

Long Term – *5+ Years*

- ☐ Create project funding marketplace
- ☐ Engage network and connect to additional resources

APPENDIX I:

ADDITIONAL RESOURCES

CDFA Food Systems Finance Resources

- CDFA Food Systems Finance Best Practices Guidebook
- CDFA Food Finance White Paper Series: Food Systems & Development Finance
- CDFA Food Finance White Paper Series: Food Systems & Access to Capital
- CDFA Food Finance White Paper Series: Food Systems & Bonds
- CDFA Food Finance White Paper Series: Food Systems & Targeted Tools
- CDFA Food Finance White Paper Series: Food Systems & Investment Tools
- CDFA Food Finance White Paper Series: Advancing Local Food Systems Through Development Finance

Revolving Loan Funds

- CDFA Revolving Loan Fund Best Practices Handbook
- CDFA Revolving Loan Fund Resource Center
- CDFA National Revolving Loan Fund Analysis
- Example RLFs:
    - Maryland Agricultural & Resource-Based Industry Development Corporation
    - South Carolina Community Loan Fund
    - San Diego Business Finance Loan Program
    - Center for Rural Affairs
- Example Applications:
    - Columbia County, Inc. Revolving Loan Fund
    - Invest Atlanta Loan Application
    - Oregon Business Development Fund Participation Loan Application

Credit Enhancement

- Project Finance Collateral Support Program (CSP)
- Oregon Credit Enhancement Fund
- SSBCI Program Profile: Collateral Support Program
- Credit Enhancement Overview Guide: Financing Solutions Working Group

Loan Guarantee

- Food Systems & Access to Capital
- Missouri Agricultural and Small Business Authority
- Heifer Impact Capital

New Market Tax Credits

- CDFA Tax Credit Finance Resource Center
- Travois New Markets, LLC
- Michigan Community Capital
- Florida Community Loan Fund

Federal Resources

- U.S. Department of Agriculture
- U.S. Economic Development Administration
- U.S. Small Business Administration
- CDFA Federal Financing Clearinghouse

One-Stop-Shop Resources for Small Business

- The Franklin County Food Business Portal
- U.S. Small Business Administration-Business Guide
- State of California Department of Industrial Relations-Small Business Portal
- Governor's Small Business Resource Portal
- Business Oregon
- Grow Nebraska

APPENDIX II:

FOCUS GROUP TEMPLATE

Q1: Let's start by talking about the types of financing programs that are available to food and agriculture-related businesses in the Southeast Nebraska region.

(Counties: Polk, Butler, Saunders, York, Seward, Lancaster, Fillmore, Saline, Otoe, Thayer, Jefferson, Gage, Johnson, Pawnee, Richardson, Nemaha)

What do you think the region does best?

What programs are strongest?

Are these resources local, state or national?

Q2: Now let's shift to discussing the capital needs for food and agriculture-related businesses in the region.

Where are there gaps in financing for food and ag-related businesses?

Are there specific challenges and/or barriers for food and ag-related businesses in accessing capital?

Is there a need for changes to the way folks currently access capital?

- more flexible terms?
- affordability?
- larger or smaller loan amounts?

Q3: Based on what you just described, what improvements would you like to see regarding financing for food and ag-related businesses?

What opportunities are there for the region?

What would help businesses the most right now?

Q4: What role do you think SENDD could play in addressing some of these gaps or challenges?

Note: SENDD currently has loan programs available to member communities

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Q5: Is there anything else about financing food system development in Southeast Nebraska that you would like to share?

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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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