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ECONOMIC DEVELOPMENT FINANCING PLAN for

The Ohio State University's Initiative for
Food and AgriCultural Transformation



INITIATIVE FOR FOOD+AGRICULTURAL TRANSFORMATION
AT THE OHIO STATE UNIVERSITY®

Prepared by the
Council of Development Finance Agencies

www.cdfa.net

ACKNOWLEDGEMENTS

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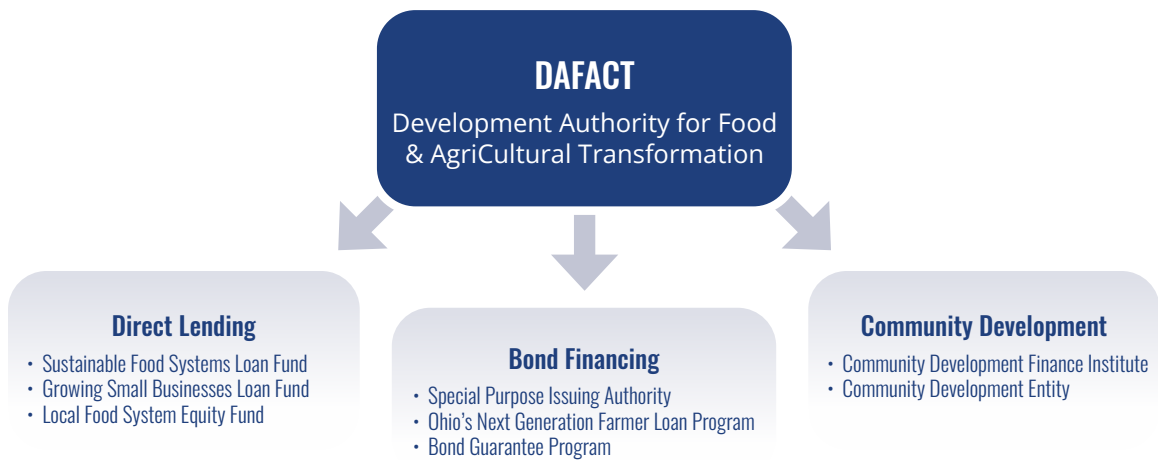
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EXECUTIVE SUMMARY

Small businesses, infrastructure projects, and community development efforts throughout the food system face significant barriers to the capital needed to grow strong local food economies. Minority entrepreneurs and developers often experience substantially greater disparities accessing affordable capital. This challenge presents an opportunity for The Ohio State University to demonstrate national leadership and impact through innovative thinking and bold action.

The following plan describes a pathway for The Ohio State University's Initiative for Food and AgriCultural Transformation (InFACT) to create a self-sustaining development finance agency that provides affordable capital for equitable food system development, while also generating funding for interdisciplinary research and supporting the Ohio State land-grant mission. Through data collection and stakeholder engagement, CDFA and InFACT identified the current financing landscape for food and agriculture businesses which informed the recommended financing programs needed to better serve businesses and increase investment in regional food system infrastructure.



Through this work – in mutually supporting relationship with InFACT's research and technical assistance – Ohio State can unlock capital for food-related businesses, projects, and infrastructure to generate economic prosperity while advancing racial and social equity. Creating a development finance agency dedicated to this mission is key for building a more robust food system that strengthens urban and rural economies alike.

Ohio State is positioned to be the first university in the country to take this low-risk, bold action to foster equitable economic growth and resiliency through strategic investment and support of the regional food system that builds on its traditional role of providing research, education, and outreach. This framework is well-aligned with President Kristina M. Johnson's vision to commit to four kinds of excellence: academics; research and creative expression; entrepreneurship and partnership; and service to Ohio, the United States and the world.¹

¹ State of the University 2021. President Kristina Johnson. <https://www.osu.edu/features/2021/spread-opportunity-more-widely.html>

INTRODUCTION

This plan was prepared by the Council of Development Finance Agencies (CDFA) for The Ohio State University's Initiative for Food and AgriCultural Transformation (InFACT) to provide planning services to facilitate investment in food systems research and development throughout the State of Ohio. This approach focuses on how InFACT can create a new financing entity to meet the research, infrastructure, agriculture, and small business needs in support of regional food system innovation.

This report offers guidance for establishing and operating a self-sustaining development finance agency that will provide financing programs to businesses and projects that operate in and support the food system in Ohio, with opportunities for students from many colleges to learn while providing technical assistance in a clinic setting, and while returning financial support for the ongoing interdisciplinary research coordinated by InFACT. The key outcome of this project is to build a more robust food system in Ohio by unlocking capital for food-related businesses, projects, and infrastructure to generate economic prosperity while advancing racial and social equity. The formation of a development finance agency is intended as a key strategy for funding necessary food system improvements.

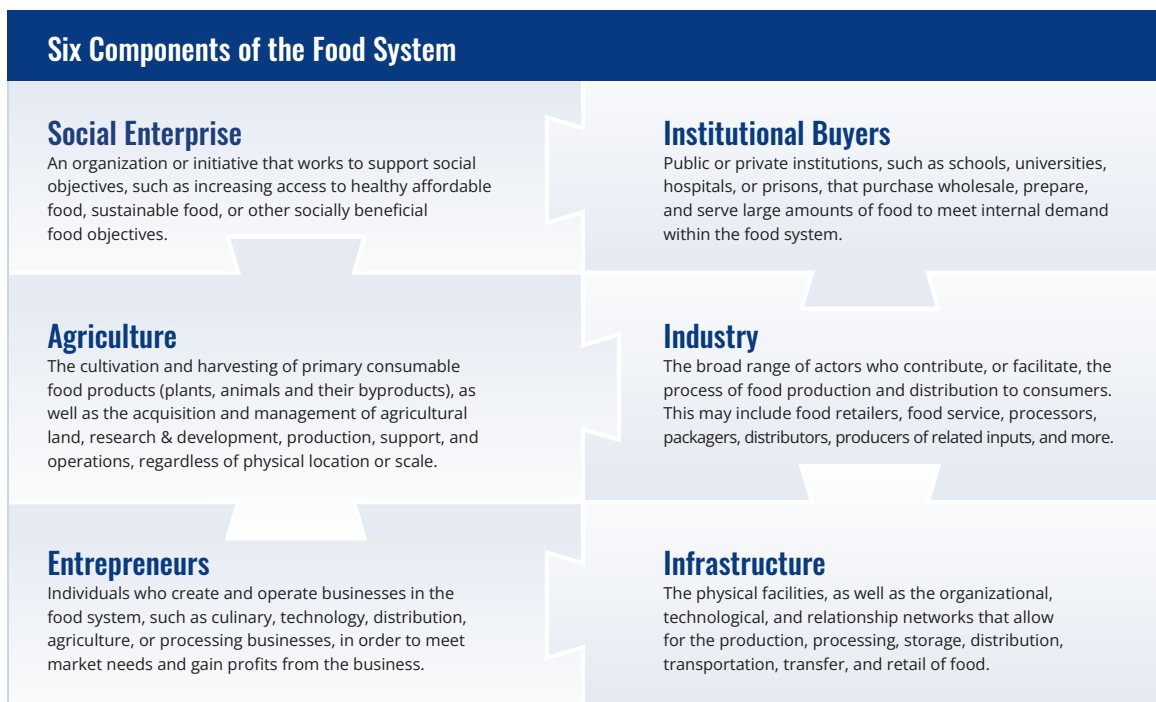
The recommendations in this report were informed by members of a CDFA-InFACT Working Group, composed of prominent development finance professionals from CDFA's network, strategically selected faculty from the university, and community representation invited by InFACT. This working group met regularly over the course of nine months to help CDFA understand the local needs and development components of the plan. Stakeholders of this group shared significant insight about the current funding needs and lending landscape for food-related businesses and projects throughout Ohio. They emphasized the importance of creating a more racially and socially just food system by developing the first of its kind financing agency with its own unique programming to unlock capital for underserved communities, businesses, and industries. They also examined the importance of investing in sustainable businesses and projects throughout the entire regional food supply chain. Lastly, they discussed the ability for Ohio State as a land-grant university to become a role model and change agent for enhancing regional food systems through traditional development finance while also supporting the InFACT operating budget in support of transdisciplinary research. The working group gave critical feedback on the programmatic, operational, governance, and capitalization strategy, as well as the overall mission of this plan.

BACKGROUND

Defining the Food System

The food system is comprised of different sectors and activities, and each offers significant potential for economic development. In framing food systems for research, the activities that comprise food system function are often categorized as those related to availability (including production and harvesting), access (including processing, preservation, and distribution), and utilization (including preparation and health-related impact of diet). Each set of activities must function well to ensure food security for all, and each presents ample opportunity for economic development. CDFA's vision for the broader food system is focused on economic development, though most food system-related efforts are driven by a range of interests that include access to fresh foods for families and children, creating high-quality jobs in underserved communities, developing socially and racially equitable communities, ecological wellbeing, cultural preservation, and more. Food and agriculture should be a key part of local and state economic development strategies because of the potential for these varied benefits. Small businesses and local entrepreneurs keep dollars circulating in a region's economy, building wealth and expanding economic opportunity. Agriculture and food industries operating on a more localized scale increase economic and environmental resilience within communities. Approaching economic development comprehensively ties these many goals together, while maintaining a strong emphasis on the viability of food system investment.

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 which could be recipients of investment. Although there is often overlap between these areas of activity, the CDFA Food Finance White Paper Series² is oriented around the defined components below:



² Advancing Local Food Systems Through Development Finance. Council of Development Finance Agencies. <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=KelloggWhitePaper6.html>

This definition of the food system takes a more 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. There are a variety of development financing tools can be uniquely deployed by Development Finance Agencies (DFAs) to support localized food systems, which in turn leverages additional capital.

What Is Development Finance?

Development finance is used by local communities to encourage, support, and catalyze the physical development, redevelopment, and expansion of a business or industry. This is done through public and private investment in projects which benefit the long-term health of a community. Development Finance Agencies (DFAs) act as a conduit for channeling these investments for a public purpose. DFAs are either public or quasi-public/private agencies that provide support for economic development through various direct and indirect financing programs. Generally, DFAs can be formed at the state, county, township, borough, or municipal level, and often have the authority to provide development finance programs across multi-jurisdictional boundaries.

DFAs are uniquely positioned to provide a significant amount of financial support to local economic development as DFAs may issue tax-exempt and taxable bonds, provide credit enhancement programs, and offer direct lending, equity investments, or a broad range of access to capital financing mechanisms. There are already DFAs around the country that are connecting local food businesses and projects with financing.

The Toolbox Approach

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

- **Bedrock Tools** are the foundational public financing tool known as bonds. Over 10,000 bonds are issued annually to finance infrastructure, housing, agriculture, manufacturing, healthcare, nonprofits, and more.
- **Targeted Tools** target specific geographic areas by allowing for direct reallocation of specific taxes to pay for the current cost of the development. Tax Increment Financing (TIF), Special Assessment Districts, and Property Assessed Clean Energy (PACE) Financing are common tools in this category.
- **Investment Tools** encourage private sector engagement in projects and businesses by attracting investors. Tax Credits and Opportunity Zones are the tools that drive this sector.
- **Access to Capital Tools** represent the resources for supporting small businesses, entrepreneurs, and microenterprises. Revolving Loan Funds, Loan Guarantees, Microlending, and Venture Capital are all examples of tools in this category.
- **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.

There are a wide range of development finance tools that can be used to finance projects within the various sectors of the food system. Certain tools in the toolbox are extremely versatile and can be used for many types of projects, while others are best-suited for a specific type of business or project. By employing the toolbox approach, economic development professionals can combine various tools and programs to fill financing gaps and support regional food systems development.

CDFA RESEARCH

CDFA conducted survey-based data collection to gain a better understanding of current conditions for financing food-related businesses and projects in Ohio. The survey focused on questions about existing financial resources, 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 designed to provide nuance about how a new DFA could advance regional food system development. Findings from the survey informed the programmatic framework outlined in this report and guided further inquiry around the process for operationalizing and governing this DFA.

Issues Across the Food System

As CDFA has researched food system financing across the nation, challenges facing local practitioners involving economy, environment, and equity remain consistent in every community. Although food system advocates have taken transformative steps towards reestablishing regional food systems throughout 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 current global pandemic has made these disparities even more extreme while simultaneously exposing the fragility of our current food system. The Ohio State University is in a unique position to help address these disparities on a statewide scale and develop racially and socio-economically equitable communities. Key findings from the research below inform a path forward towards building a more resilient regional food system rooted in environmental and racial justice that strengthens local economies across the state.

Methodology

CDFA created an online survey to research the existing landscape of food system finance across the state. The 15-question survey was shared with a targeted list of recipients that included broad representation from both food system practitioners and financing agencies. Using InFACT's stakeholder list from its statewide initiatives and CDFA's extensive contact database, over 1,000 individuals were invited via email to participate in the survey and CDFA received 98 responses total. Approximately 40 percent of those who filled out the survey work for organizations that provide some form of direct financing.

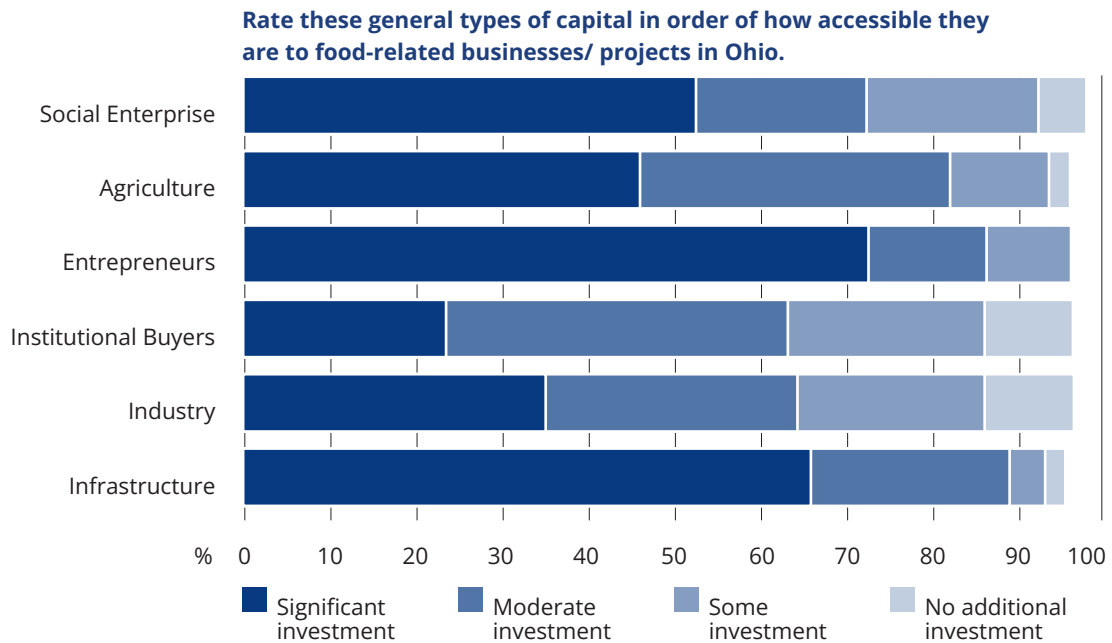
Survey replies came from individuals living in 28 different Ohio municipalities, as well as individuals living outside the state with direct knowledge of the Ohio food system. Respondents were asked about the geographic level at which their organizations primarily work, and there was a fairly even spread across representation of food and finance work happening at city, county, regional, statewide, and national levels. The smallest percentage came from national organizations (14 percent) and the largest percentage came from county-level organizations (26 percent). These organizations were primarily nonprofit (42 percent), governmental/ quasi-governmental (35 percent), and for-profit (15 percent), with the remaining respondents representing universities/ colleges or community organizations.

Findings

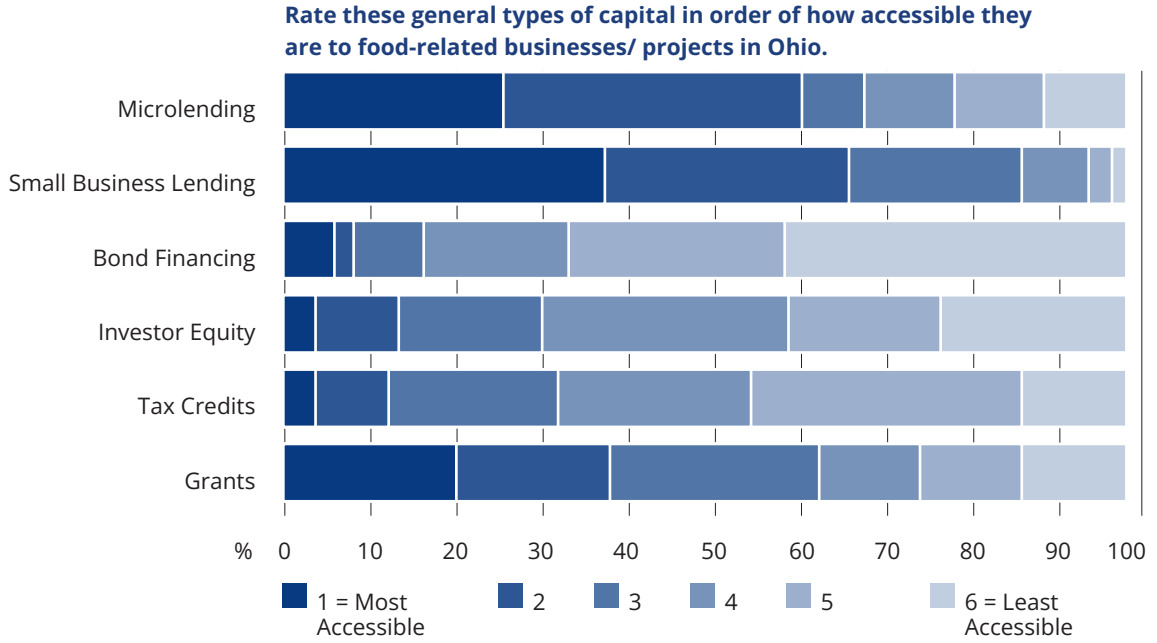
The survey provided key insights about the current landscape of food system finance in Ohio, confirming that there is significant need for more financing in support of local and regional food system development. CDFA was primarily focused on learning about which components of the food system need further 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.

Nearly **three-quarters of respondents said that food-related businesses and projects are already foundational to their local economy.** The remaining replies stated that such enterprises are not currently but could become so, and no respondents replied that they do not see food enterprises as foundational components of their local economy.

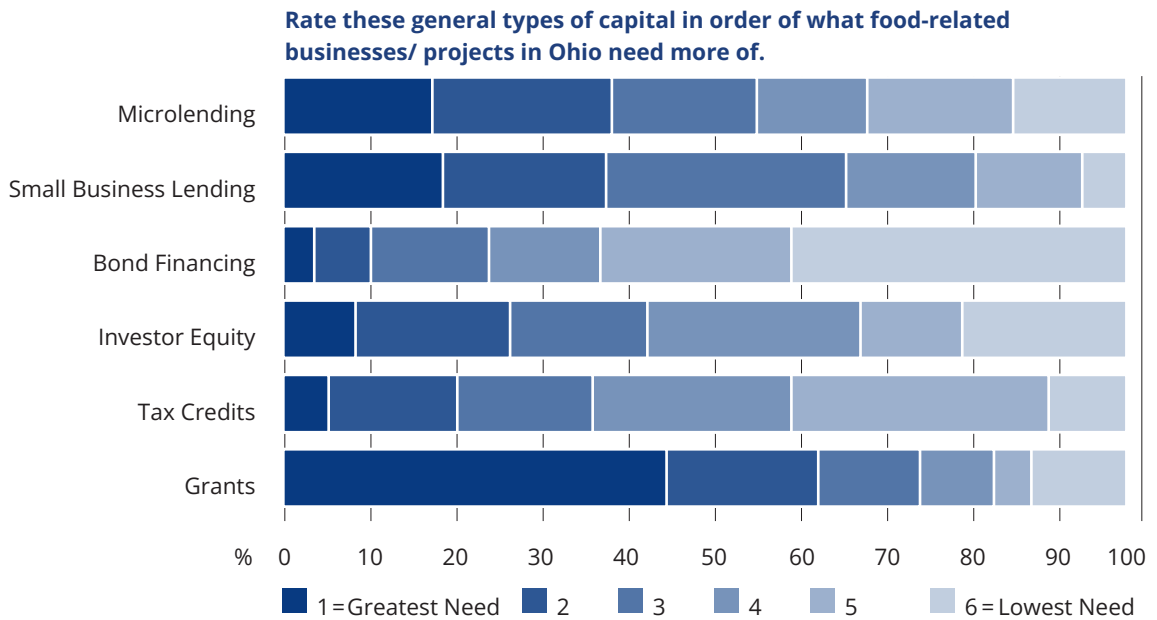
Food system infrastructure and entrepreneurs were identified as the areas most in need of significant additional investment in Ohio. However, over half of respondents indicated a need for moderate to significant additional investment across every food system component.



Respondents were also asked about which types of capital are necessary for further investment in Ohio's food system. **Small business lending, microlending, and grants were rated the most available and also most needed form of capital to support food-related businesses and projects.**

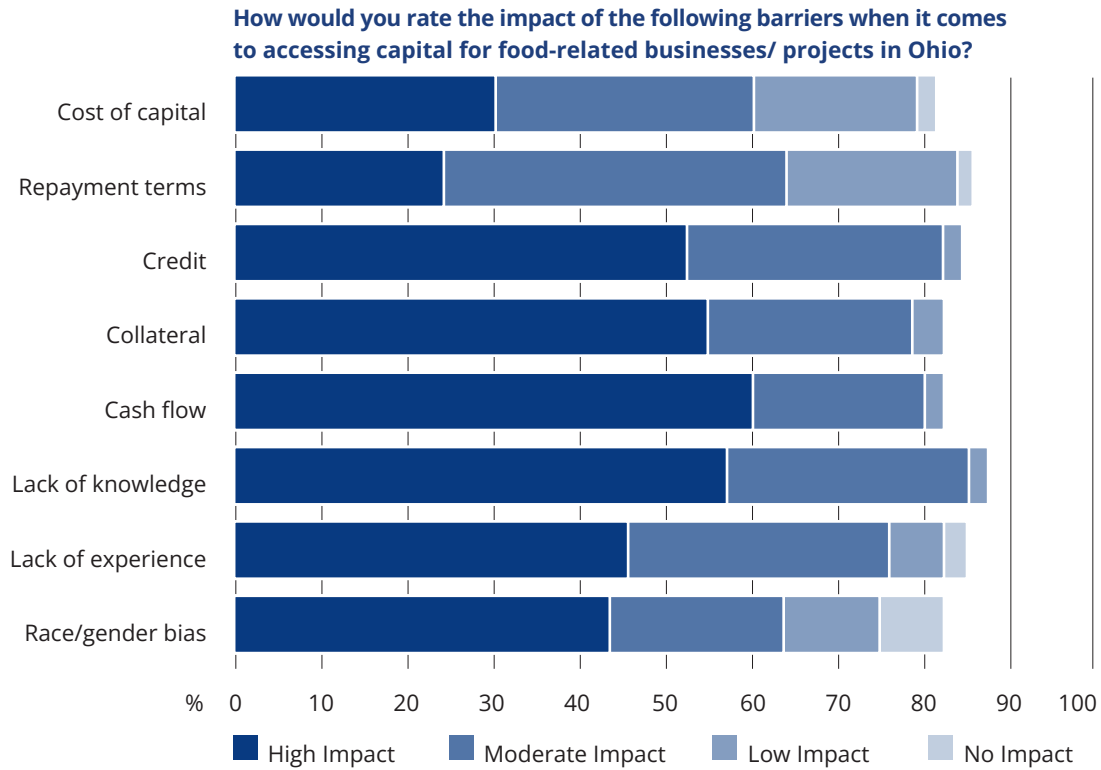


Bond financing was rated as the least accessible form of financing, as well as the lowest in terms of need by respondents; however, infrastructure was identified as an area in great need of significant investment and bond financing is often best used for larger-scale infrastructure projects. CDFA's research in food systems finance elsewhere in the country has shown a lack of awareness about what bonds are, how bonds work, and where bonds can be accessed for economic development efforts, and this data reflects a similar pattern in Ohio. Therefore, CDFA interprets these contradictory responses as a result of lack of knowledge of bond financing and the various forms of affordable capital needed to construct complex capital stacks for large-scale food systems infrastructure projects.



Interpreting these results requires a holistic assessment of what food system components need investment and what types of capital are available and in need. Small business lending is in high demand and that aligns with the desire for more investment in entrepreneurs; this information can translate directly to the programmatic framework. However, the need for investment in food system infrastructure calls for larger scale financing programs such as bonds and tax credits, which were both ranked low in terms of need but are also less commonly understood among the general population.

Survey data also illustrate how **common barriers to capital have an extreme impact on food-system businesses and projects.** Every barrier included in the survey was rated as having a moderate or high impact on the food system by 75 percent or more of respondents.



Lack of knowledge about available sources of capital for food-related businesses and projects was rated as a high impact barrier by two-thirds of respondents, who were also asked to choose the top three best ways to receive information about financing. Using the internet to search for information ranked highest (52 percent) followed by email communications, social media, and word of mouth, which had response rates above 40 percent.

Cumulative findings from this data collection demonstrate the need for further investment in Ohio’s local and regional food system. Responses indicate a strong demand for financing to develop food-related infrastructure and support entrepreneurs with diverse forms of capital. Programs created to fill the current gaps must be intentionally designed to remove barriers and to advance equitable, sustainable economic development in the food system.

ORGANIZATIONAL FRAMEWORK

Vision

The Initiative for Food and AgriCultural Transformation (InFACT) is a transdisciplinary program at The Ohio State University aimed at designing and implementing food systems that are sustainable, defined as achieving a balance of ecology, economy, technology, and culture to promote the overall well-being of people, animals, and the natural environment. The program's mission is as follows:

InFACT will transform the way we grow, process and distribute our food, leading to vibrant, sustainable and resilient agriculture that places nourishing food at the center of just and vital communities in Ohio and beyond.³

This plan envisions InFACT as the change agent needed to catalyze the growth of a robust regional food system in Ohio and the Midwest, as a model to be shared globally. By unlocking capital for food-related businesses, projects, and infrastructure, this organization will generate economic prosperity that is built on ecological principles and racial and social equity, in accordance with the following core values adopted by the InFACT Executive Committee:

- **Innovation, Leadership and Ecological Awareness** in our academic endeavors and engagement with communities
- **Equity and Social Justice** for all
- **Diversity, Transparency, and Continuous Improvement** in farming and food systems
- **Scientific Discovery** balanced with **Indigenous Knowledge** to honor diverse sources of knowing as well as generations of students, teachers, communities, families, and farmers working together

Key to the overall plan is a strategy to build a threefold organization that combines **transdisciplinary research** and **technical assistance** to support the knowledge discovery, culture change, and new food systems referenced in the mission and core values. But to really drive this agenda forward there is one additional element that is critical, which is **innovative financing** to assure that the infrastructure needed for transformational change can be built. To that end, InFACT intends to pursue a development finance approach with the dual intent of funding necessary food system infrastructure, working with community-based partners and entrepreneurs throughout the target region, and the underpinning research to improve chances of success.

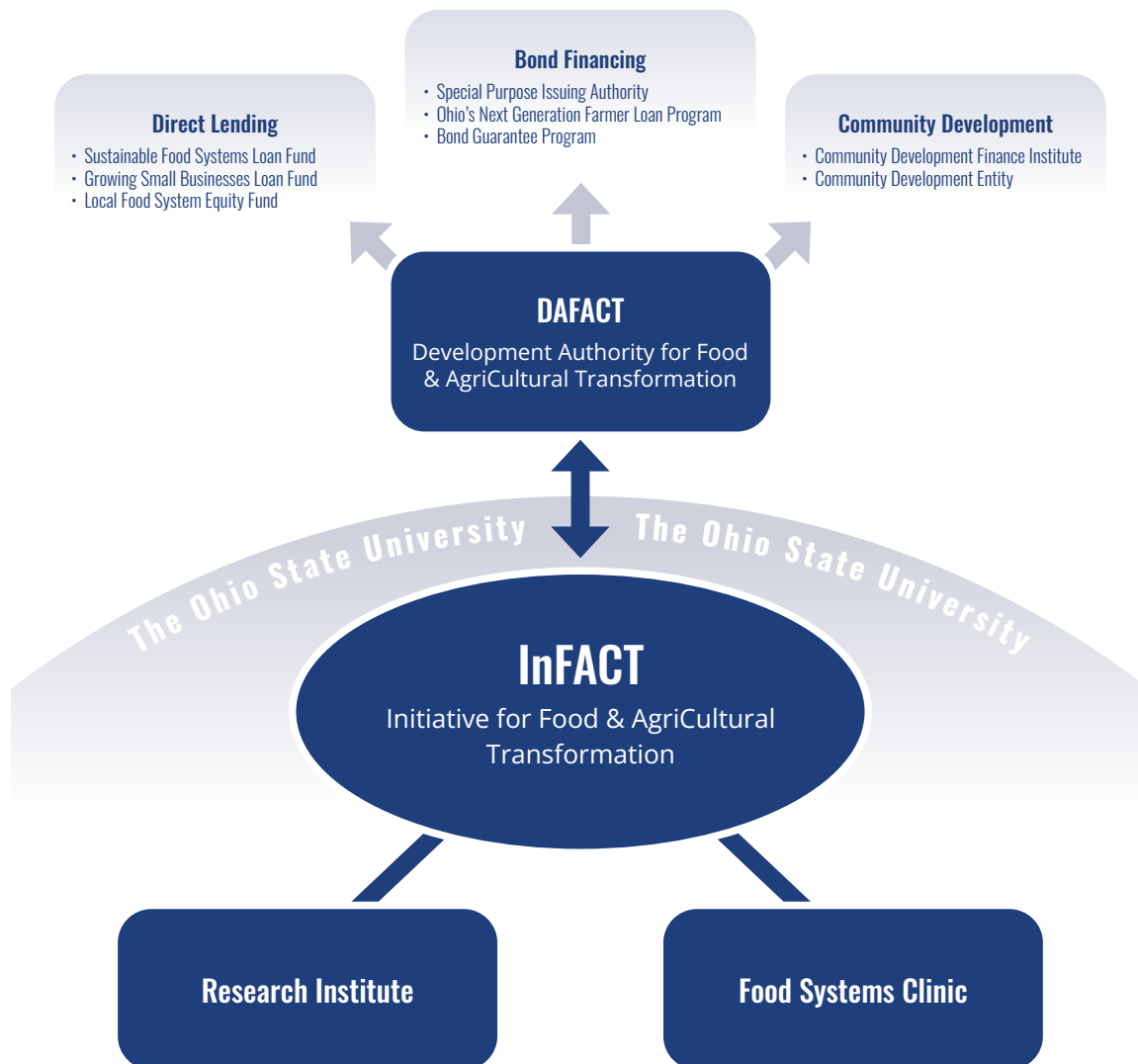
Each of the three main aspects of the plan (research, technical assistance, financing) will support the other two in a synergistic manner, and collectively they will provide opportunities for both faculty and students to participate in a dynamic learning process. The endpoint of the plan is then to create a hybrid organization that operates as a **research institute** and **food systems clinic** within Ohio State, and an InFACT-led **Development Finance Agency (DFA)** outside the university as a catalyst for critical food system infrastructure in the community.

A central component of this new organizational framework, then, is the creation of a self-sustaining DFA with a potential name of the **Development Authority for Food and AgriCultural Transformation (DAFACT)**. DAFACT will provide financing programs to businesses and projects that operate in and support the food system in our region. This will integrate with existing and expanded technical assistance programming through the food systems clinic, developed in a parallel process, and a portion of the revenue from this entity's financing programs will go towards supporting InFACT's operating budget, which is primarily devoted to creating research and educational opportunities for Ohio State's faculty, staff, students, and community partners.

³ InFACT Strategic Plan. <https://discovery.osu.edu/setting-table-food-security-ohio-and-beyond>

The formation of DAFACT is a key strategy for addressing critical funding needs within the regional food system, and InFACT will be uniquely and strategically well-positioned to take this action on behalf of the university and the community it serves. The bulk of this report will, therefore, focus on creation and maintenance of the DAFACT. The framework in this plan outlines how The Ohio State University -- a land-grant university established by the Morrill Act of 1862 -- would be the first university in the country to use this approach for co-advancement of research and community outreach, in the form of economic development and social justice, across its stakeholder region through strategic food system investments. This framework is well-aligned with President Kristina M. Johnson’s vision to commit to four kinds of excellence: academics; research and creative expression; entrepreneurship and partnership; and service to Ohio, the United States and the world.⁴

The following outlines the three key focus areas of financing that DAFACT will initiate and launch to uplift the regional food system and advance its mission throughout the region.



⁴ State of the University 2021. President Kristina Johnson. <https://www.osu.edu/features/2021/spread-opportunity-more-widely.html>

Direct Lending

One of the most significant challenges faced by businesses and projects in the food system is accessing affordable financing. Access to flexible, patient capital is important for getting started in a new line of work, whether that entails opening a new business or successfully launching a new product or service within an existing organization. Access to capital is also critical for investments into value-added enterprise growth opportunities or for supporting efficiencies that improve production and productivity.

CDFA's research shows that small business lending is both the most accessible form of financing for food-related businesses and the financing category in Ohio's food system with the greatest demand. Food and agriculture businesses face a variety of barriers 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 Ohio'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 mid-sized 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.

DAFACT will create three RLFs to serve businesses and projects in Ohio's food system: one RLF is designed to serve a broad range of small food-related businesses; one RLF is designed for underserved food-related businesses and borrowers that may face additional real or perceived barriers to accessing capital; and one RLF designed to further address barriers to capital for minority and underbanked borrowers.

Sustainable 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.

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

Growing Small Businesses Loan Fund

DAFACT will establish a non-traditional, character-based fund in order to reach small businesses that face financial barriers to lending from traditional sources. This fund will focus on reaching women and minority borrowers with limited credit, collateral, or cash flow who are in need of capital to grow or stabilize their businesses. At least a third of this fund should be set aside for these borrowers, and DAFAC would actively market the RLF to these groups. The fund will also serve small businesses that face other types of barriers, and need capital that is especially flexible and patient. Lending decisions in this type of fund are made by evaluating the individual borrower and that person's business needs that aren't reduced by their financial characteristics. Creative, flexible underwriting criteria for this fund will make affordable capital accessible to a wider range of borrowers, compared to conventional lending. A program of this nature will also help small businesses become more financially sound, building lending history and credit so that they are eligible for more financing in the future. Non-traditional funds like this tend to have higher risk profiles because they are working with businesses that are becoming more established and should anticipate a default rate of eight to ten percent on loans.

Recommended Fund Structure

- **Size of Fund:** \$1 million
- **Loan Amount:** \$10,000 - \$75,000
- **Interest Rate:** Varies based on borrower and use, from 4-6%
- **Term:** 3-6 years average, up to 10 years for real estate or the life of the asset
- **Uses:** Working capital; machinery & equipment; land & building acquisition; facade & land improvements; energy upgrades; interior upgrades
- **Other:** Allows non-traditional forms of collateral, interest-only terms for a period of time, and a higher loan to value ratio

Local Food System Equity Fund

DAFACT will implement a streamlined lending program to further address barriers to capital for minority borrowers who do not yet have relationships with lenders and need efficient access to capital. One way of achieving this greater accessibility would be through the utilization of an online loan application platform. As online lending and online banking are becoming the norm, there is an opportunity for DAFAC to utilize financial technology or "fintech." Alternatively, this fund could streamline the lending process by using a simplified application that reduces barriers for potential borrowers. These loans should be processed efficiently, to quickly deploy capital to borrowers. Choosing character-based lending practices will mitigate barriers related to credit, collateral, and cashflow to further increase the accessibility of affordable capital. This microlending program will offer small loans over shorter terms at low interest rates. This fund also creates a relationship between the lender and borrower that rewards timely repayment, with a success fee where the borrower pays a fee based on a sliding scale that is relative to repayment history. The risk portfolio for a program like this is likely to be moderate to high risk, since these small businesses have less experience borrowing, though the default rates will depend on the underwriting criteria.

Recommended Equity Innovation 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, 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 DAFAC charge borrowers an application fee, 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 <i>if 5 days past missed payment</i>
Sustainable Food Systems Loan Fund	\$750	1% - 2% Principal	0.1% Principal	3% unpaid portion of the payment
Growing Small Businesses Loan Fund	\$350	1% - 2% Principal	0.1% Principal	3% unpaid portion of the payment
Local Food System Equity Fund	\$0-\$500, borrower pays a success fee that is based on sliding scale relative to repayment history to reward timely payments			

DAFACT should not adopt a policy of waiving fees because loan fees are a critical source of operational revenue for lenders and will help ensure the long-term sustainability of DAFAC. 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 DAFAC is serving.

Community Development

As a strategy for increasing access to capital, DAFAC would apply to become a certified Community Development Financial Institution (CDFI) and a Community Development Entity (CDE) through the U.S. Treasury's CDFI Fund. An organization that is a Development Finance Agency, such as DAFAC, can also be a CDFI and a CDE, and acquiring these formal certifications opens up funding and other resources.

Capital for Technical Assistance & Lending

The CDFI Fund offers Technical Assistance awards and Financial Assistance awards to CDFIs. These are competitive grants that support and enhance the ability of emerging and certified CDFIs to meet the needs of the communities they serve.

Technical Assistance awards are available to organizations pursuing CDFI certification and those that have received their certification. These grant dollars will provide operational resources for DAFAC to build its capacity, advance toward CDFI certification, and support other aspects of the organization, such as establishing the financing programs. Organizations working toward their CDFI certification can apply for up to three Technical Assistance awards before obtaining the certification. No matching funds are required to receive a Technical Assistance award, which can range from approximately \$10,000 to \$125,000. Eligible uses for these grant funds include compensation for personal services or fringe benefits, professional service costs, travel costs, training and education, equipment, and supplies.

Financial Assistance awards can be used for financial products, loan loss reserves, and development services and will help DAFAC establish its revolving loan funds. These grants are available only to certified CDFIs and are made in the form of loans, grants, equity investments, deposits, and credit union shares. Applications must demonstrate a 1:1 match with non-federal sources to receive a Financial Assistance award⁵. Once the

⁵ CDFI Fund Programs Fact Sheet. CDFI Fund. https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi7205_fs_cdfi_updatedfeb20.pdf

CDFI is certified, it can apply for Technical Assistance and Financial Assistance awards, though it may only pursue one type of award per application cycle.

The CDFI Fund Healthy Food Financing Initiative (HFFI) Financial Assistance awards are also offered for CDFIs that are interested in expanding their healthy food financing activities. These awards may be used to support grocery stores, farmers markets, bodegas, food co-ops, and urban farms. They may work on the production, distribution, or retail aspects of the business cycle. These grants are available only to certified CDFIs and do not require matching funds on the application. To qualify to receive a HFFI Financial Assistance award, the applicant must also receive a CDFI Fund Financial Assistance award in the same year⁶.

Becoming a CDFI

For an organization to become a CDFI, it must be formally certified by the U.S. Treasury's CDFI Fund. This designation is given to financial services organizations that work with low-income communities and borrowers with limited access to financing.

An organization actively pursuing its CDFI certification is considered an 'Emerging CDFI' and can apply for Technical Assistance awards to help the organization achieve its certification. When an Emerging CDFI meets all of the requirements, it may complete the application to become a certified CDFI. For this certification, the CDFI Fund requires that the applying organization:

- Is a legal entity at the time of Certification application;
- Has the primary mission of promoting community development;
- Is a financing entity, with a lending record;
- Primarily serves one or more of the target markets identified by the CDFI Fund;
- Provides development services in conjunction with its financing activities;
- Maintains accountability to its defined target market;
- Is a non-government entity and not under the control of any government entity.

Engaging New Markets Tax Credits

Acquiring CDFI certification also establishes a route to becoming a Community Development Entity (CDE) that will allow DAFAC to access New Markets Tax Credits (NMTCs).

Tax credits are a type of investment tool that works to 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 DAFAC pursue certification to allocate NMTC. There are certain limitations for farming, though many projects have found creative ways to use NMTC in ways that support agricultural activities as well.

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% of the area median family income. The CDFI Fund allocates NMTCs to designated 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% of a Qualified Equity Investment (QEI) made into a CDE, which is then invested in a targeted low-income community. DAFAC will need to become a CDE in order to access and allocate NMTCs.

⁶ CDFI Fund and HFFI Fact Sheet. CDFI Fund. https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi7205_fs_hffi_updateddec2017.pdf

NMTCs can represent 15% to 25% of the project's capital stack, which helps to achieve lower interest rates and potential equity stakes at the end of the credit period, enhancing the project and incentivizing more investment. In the food system, NMTC investments may include loans to businesses and commercial, industrial, or retail developments.

CDE Designation

CDEs can be non-profit loan funds, community development organizations, or private financial institutions. The entity applying must also be a domestic corporation, have a demonstrated mission of serving or providing capital to low-income communities or people, and maintain accountability to residents of low-income communities through representation on a governing or advisory board.⁷ Benefits of being certified as a CDE include being able to apply to the CDFI Fund to receive a NMTC allocation to offer its investors in exchange for equity investments in the CDE, or to receive loans or investments from other CDEs that have received NMTC allocations.

An organization that is currently certified as a CDFI automatically qualifies as a CDE. To become certified as a CDE, DAFACT must submit a CDE Certification Application to the CDFI Fund for review. DAFACT will need to meet each of the following requirements to become certified:

- Be a legal entity at the time of application;
- Have a primary mission of serving low-income communities; and
- Maintain accountability to the residents of its targeted low-income communities.⁸

Bond Financing

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

There are taxable and tax-exempt bonds, but this report focuses on tax-exempt bonds. There are two categories of tax-exempt bonds: General Obligation Bonds (GOs) and Revenue Bonds. GOs are bonds backed by dedicated revenues, generally tax revenues, and are used to finance public purposes, such as schools, bridges, and government buildings. 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. The tax-exempt nature of qualified PABs makes them a highly sought out investment security. Qualified PABs range in type of projects, including airports, universities, small manufacturers, first-time farmers, and 501(c)(3) nonprofits.

PABs can also be referred to as "conduit bonds." The conduit issuer issues the bonds and loans the bond proceeds to a conduit borrower. The conduit borrower is responsible for the payment of debt service or principal and interest. The bondholders rely on both the conduit issuer and the conduit borrower to maintain the tax-exempt status of the bonds.

The bond finance process is complex and requires considerable oversight. In each transaction, there are a variety of players critical to ensuring that the process is effective, efficient and conducted within the scope of the law. Some of the key bond players are:

⁷ How It Works. New Markets Tax Credit Coalition. <https://nmtccoalition.org/how-it-works/>

⁸ CDE Certification. CDFI Fund. <https://www.cdfifund.gov/programs-training/certification/cde>

- **Bond Issuer:** An organization that registers, distributes and sells a bond on the primary bond market. A bond issuer can be a quasi-governmental unit or a local unit of government.
- **Bond Counsel:** An attorney or law firm typically retained by the conduit borrower to give a legal opinion. The bond counsel's approving legal opinion gives investors assurance as to the validity, security, and tax-exempt status of the bond.
- **Underwriter:** An investment bank or group which agrees to purchase an entire security issue for a specific price, usually for resale to others.
- **Trustee:** A bank designated by an issuer of bonds to act as the custodian of funds and official representative of the bondholders.
- **Financial Advisor:** A consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings.
- **Rating Organization:** A rating organization provides a rating which gives indications of credit quality.

PABs are the development finance mechanisms which drive projects involving both the public and private sectors. DAFACT will become a statewide issuer of PABs to serve Ohio's food system. CDFA's research identified that significant investment is needed for food systems infrastructure, such as aggregation, cold storage, processing, distribution, and retail facilities. Many food-related infrastructure facilities and first-time agricultural producers can utilize PABs to construct facilities, expand their operations, and purchase equipment or real estate. Below are the types of qualified PABs that DAFACT could issue to support Ohio's food system infrastructure:

- **Industrial Development Bonds (IDBs)** are issued for qualified manufacturing projects, with a total bond issuance limit of \$10 million. These bonds can support expansion and investment in existing manufacturing facilities, as well as the development of new facilities and the purchase of new machinery and equipment. IDBs may be used for food-related manufacturing and processing facilities.
- **501(c)(3) Bonds** are used for projects by not-for-profit corporations that qualify for exemption under Section 501(c)(3) of the IRC. Organizations using 501(c)(3) Bonds may include universities, hospitals, food banks, agriculture research facilities, food hubs, and communal kitchens.
- **Exempt Facility Bonds** have a very wide scope of use, and the use of particular categories varies by the needs of a state or local community. These bonds may be used for agriculture waste facilities or qualified green buildings. Each category has specific requirements in the IRC or regulations.
- **Aggie Bonds**, also often referred to as Beginning Farmer Loan Programs, are small issue bonds that exist at the state level to support qualified farmers and ranchers with eligible purchases of farmland, equipment, buildings, and livestock. As the average age of U.S. farmers increases, these financial tools are needed to encourage beginning farmers to start or take over agricultural businesses. Aggie Bonds provide an attractive, affordable source of capital for first-time farmers looking to invest in a new business venture by allowing the lender to avoid paying income taxes on interest.

Statewide Special Purpose Authority

Becoming a tax-exempt bond issuer is the ultimate way for DAFACT to be a catalyst to increase investment in regional food system infrastructure and become a model for communities across the country. In Ohio, special purpose authorities exist to drive development for specific sectors, projects, or facilities. By becoming a special purpose authority, DAFACT will become the first food systems-focused development authority in the country and an issuer of tax-exempt PABs. Pursuing special purpose authority designation must be done through the Ohio legislature, therefore DAFACT shall begin planning and working with the state and legal counsel early in the timeline. There are many examples of special purpose authorities created by the Ohio legislature to issue bonds for specific needs:

- **The Ohio Air Quality Development Authority (OAQDA)** was created by the state through enabling legislation to improve air quality by supporting businesses, creating jobs and improving communities while enhancing the health and safety of all Ohioans. OAQDA has the authority to: issue air quality revenue bonds; make loans and grants to governmental agencies for air quality facilities; make loans for air quality projects; acquire, construct and operate air quality facilities itself; and, engage in research and development with respect to air quality facilities.

- **The Ohio Housing Finance Agency (OHFA)** facilitates the development, rehabilitation and financing of low- to moderate-income housing by providing programs to help first-time homebuyers, renters, senior citizens, and others find quality affordable housing that meets their needs. Formerly a division of the Ohio Department of Development, OHFA became an independent state agency in 2005 through Amended Substitute House Bill (HB) 431. OHFA funds competitive fixed-rate mortgage loans and provides financing for the development and rehabilitation of affordable rental housing through the Housing Tax Credit program, issuing tax-exempt mortgage revenue bonds, and other affordable housing programs.
- **The Ohio Water Development Authority (OWDA)** was created by the state in 2006 to provide bond financing, loan programs, technical assistance, and research and development grants for environmental infrastructure for local governments and the private sector. Eligible projects include drinking water, sewage and water pollution, storm water, solid and hazardous waste, brownfields, dam safety, and more.

Ohio's Next Generation Farmer Loan Program

The federal Aggie Bond program began in 1980, and now dozens of states across the country have active Aggie Bond programs. Ohio does not have an active Aggie Bond program, however, CDFA's preliminary research reveals that the Ohio Revised Code authorizes the 'agricultural financing commission' which has the exclusive power to authorize the issuance of bonds for agricultural purposes under a composite financing arrangement in excess of \$500,000; provided that other issuers may issue bonds under composite financing arrangements in such greater amounts and at such times as shall be approved by the commission.⁹ CDFA's research thus far has not revealed what entity is or operates the agricultural financing commission and therefore concludes that such a commission has yet to be established.

DAFACT shall pursue designation through the Ohio legislature to absorb responsibilities of the agricultural financing commission and become the statewide bond administrator for agriculture. By becoming the first statewide administrator of bonds for agriculture in Ohio, DAFAC will create and market Ohio's Next Generation Farmer Loan Program, an Aggie Bond program with reduced interest rates for first-time farmers. Through this program, the state coordinates the creation of a bond program that allows lenders to earn federally-tax exempt interest income on loans to eligible beginning farmers and ranchers. The tax-savings allows the lenders to provide the loans at a reduced interest rate to the first-time farmer, while the credit decisions and financial risk remain with the local lending institutions.

Aggie Bond programs must comply with federal guidelines in addition to specific guidelines added by the state. DAFAC will design the Ohio's Next Generation Farmer Loan Program in compliance with federal guidelines, while also placing an emphasis on increasing access to capital for minority and disadvantaged first-time agricultural producers. This program may be used to assist in the purchase of agricultural land, depreciable machinery or equipment, breeding livestock or buildings, or to improve existing agricultural land or equipment. The loan term and rate are established by the lender, typically set at 70% - 80% of the lender's agricultural loan rate and the term is commonly 15-25 years for real estate loans and 5-7 years for equipment and machinery.

Borrower Qualifications¹⁰

- Applicants must be a resident of Ohio and at least 18 years of age.
- Have a net worth that does not exceed \$500,000 if filing as an individual or \$1,000,000 as a partnership.
- Meet lender credit standards and document to the satisfaction of the lender that they will have access to adequate working capital, farm equipment and livestock, if appropriate.
- Be the sole owner and principal user.

⁹ Section 902.04, Ohio Revised Code. <https://codes.ohio.gov/ohio-revised-code/section-902.04>

¹⁰ Aggie Bond Programs. National Council of State Agricultural Finance Programs. www.stateagfinance.org/types-of-state-ag-loan-programs

- Have no prior direct or indirect ownership interest in a substantial amount of land. A substantial amount of land is a parcel, which exceeds 30% of the median farm size in the county in which the land is located.
- Maximum bond amount for 2021 is \$558,000. The federal maximum bond amount increases yearly as it is adjusted for inflation.

Recommended Aggie Bond Fee Structure

- **Application Fee:** \$500
- **Closing Fee:** 1.5% of the loan amount
- **Legal Fee:** Based upon time required for each project. Approximate cost: \$2,000

Bond Guarantee Program

Credit enhancement refers to a bond issuer’s purchase of outside support or an issuer’s use of other sources of credit enhancement, particularly 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 only rather than the entire issue. Typical outside supports include commercial bank letters of credit, bond insurance, and guarantees.

The credit enhancement provides protection to 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 a financing for which an issuer’s own 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.

A credit enhancer is a party unrelated to the issuer or conduit borrower, who lends its credit strength to the payment of debt service on the bonds. The purpose of credit enhancement is to reduce interest costs either by improving the rating or mitigating risk on a portion of a bond transaction. A guarantee is a type of credit enhancement that is an agreement between the trustee and a third party under which the third party guarantees repayment if the issuer or conduit borrower does not meet its obligations. For example, a larger parent nonprofit organization may guarantee the debt of a smaller and less creditworthy affiliate.

Many DFAs across the state issue debt for food-related businesses and projects, but many projects are being left behind due to credit standing, amount of capital needed, and/or lack of awareness of how to access bond financing from DFAs. As DAFAC becomes a special purpose DFA, it can be a valuable aggregator of critical food systems infrastructure projects in Ohio. The establishment of a bond guarantee program will allow DAFAC to assist key food systems projects by acting as the conduit for the issuance of debt and reduce the costs of borrowing. This bond guarantee program will also help bridge capital gaps and barriers that many minority borrowers and developers often face when accessing affordable capital for projects and businesses. This bond guarantee program will act as a guarantee for a portion of the bond issue that the project needs to access financing but is unavailable by the issuing authority.

Recommended Program Structure

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

CAPITALIZATION STRATEGY

DAFACT can draw on a variety of sources to capitalize its financing programs and acquire start-up funds. The focus should be on raising capital from local and regional sources, in addition to federal funds for technical and financial assistance available through the CDFI Fund. The goal of this new organization is to be self-sustaining in its own operations and to provide a consistent return in support of InFACT's research institute and clinic within Ohio State, creating a novel form of extramural support for the university and its colleges over the long term.

While raising funds for DAFAC, 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, DAFAC should aim to acquire unrestricted funds so that the organization has more agency and flexibility when determining how best to utilize resources.

Philanthropic & Corporate

DAFACT should develop a targeted strategic approach to engage regional foundations, corporations, and nonprofit 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. Ohio State has long-established relationships with various corporate partners that may be interested in supporting this innovative initiative. 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 DAFAC's programming, though many foundations are also investing in loan funds like the ones DAFAC will operate. 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 DAFAC's 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. A number of 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 Ohio State would be ideal supporters for helping to establish DAFAC's financing programs.

DFA also have a proven track record of working with local financial institutions to help them meet their Community Reinvestment Act (CRA) requirements. Under the CRA, community development activities can be delivered directly through, or in cooperation with, a partner that serves an area overlapping the bank's assessment area. There are several ways that banks can support a DFA. While banks can provide equity to DFA loan funds through grants, it is also possible for banks to provide low-interest conventional loans directly to DFA loan funds. Importantly, banks often structure loans to provide financing in conjunction with a DFA loan fund. DAFAC should carefully review the CRA ratings of local lending institutions across Ohio to identify where potential partnerships are possible.

Economic Development Agencies

Statewide economic development agencies are another possible partner in funding the operational and finance needs of DAFACT. The State of Ohio's Development Services Agency (DSA) and the state's private economic development organization, JobsOhio, both identify food and agriculture as a central part of the state's economy. They recognize the many necessary components of the food system - including processing, manufacturing, and distribution - and offer resources that could support DAFACT. The financing programs run by DAFACT would help advance the mission of these economic development agencies by benefiting food and agriculture-related businesses and projects statewide.

The CDFI Fund

DAFACT will pursue CDFI certification, and the CDFI Fund offers both Technical Assistance and Financial Assistance awards to CDFIs. These are competitive awards that support and enhance the ability of these organizations to meet the needs of the communities they serve. DAFACT can utilize the Technical Assistance grants offered by the CDFI Fund to build their organizational capacity and advance toward CDFI certification. Financial Assistance awards and HFFI Financial Assistance awards are made in the form of loans, grants, equity investments, deposits, and credit union shares. Awards can be used for financial products, loan loss reserves, and development services. Applications must demonstrate a 1:1 match with non-federal sources to receive an award, except for the HFFI Financial Assistance awards which do not require a match. To qualify to receive a HFFI Financial Assistance award, the applicant must also receive a CDFI Fund Financial Assistance award in the same year. The CDFI Fund posts information online about these awards and provides guidance for the application process, which is outlined in further detail in the Organizational Framework section of this report.

Private Investment

Finally, consideration may be given to establishing a subsidiary for-profit entity to work in conjunction with DAFACT, 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 to society intended by its founding, reflecting the mission of InFACT.

OPERATIONS & GOVERNANCE FRAMEWORK

In this next phase of the evolution of the Initiative for Food and AgriCultural Transformation, the initiative will operate through three broadly defined programmatic entities, each with a distinct set of activities: a research institute and food systems clinic housed within the university, and DAFACT emerging just outside of the university. DAFACT will need a strong framework around operations and governance to become an independent, self-sustaining nonprofit DFA with a structured affiliation with Ohio State.

The existing structure of InFACT must pivot to meet the various operational and programming needs of DAFACT, while supporting continued progress on an ambitious research agenda and providing technical assistance activities through the food systems clinic. This section describes how existing staff and resources can be utilized to advance programmatic goals, and also discusses approaches for governing DAFACT. Governance is an often-overlooked aspect of forming new DFAs and without strong governance, the organization cannot effectively fulfill its mission. Strong governance will also support DAFACT's goal of advancing racial and social justice in the food system by formalizing policies and practices that address inequality at individual and institutional levels.

Establishing the Development Authority for Food and AgriCultural Transformation

InFACT shall create an independent 501(c)(3) nonprofit DFA, with a potential name of the Development Authority for Food and AgriCultural Transformation (DAFACT), that will provide financing and targeted technical assistance for businesses and projects in the regional food system. It will be important that all aspects of this organization are aligned around the newly defined purpose of supporting food system development.

Legal Structure

DAFACT will be constituted as a legal 501(c)(3) as prescribed by the Internal Revenue Code and become an incorporated entity under the Ohio Revised Code. DAFACT will hire outside legal professionals to create this legal structure. DAFACT will need to create bylaws, articles of incorporation, and policies and procedures to govern itself. Upon creation, DAFACT and the university will also develop an affiliation agreement.

Affiliation Agreement with The Ohio State University

DAFACT and Ohio State will develop an affiliation agreement to define and establish their mutually beneficial relationship. The affiliation agreement will be drafted conjointly to advance the mission of the university and InFACT, protect reputations, identify key priorities, and ensure efficiency.

The agreement will also detail policies and procedures including, but not limited to:

- Financial obligations;
- Legal arrangements;
- Branding guidelines;
- Governance agreements;
- Technical assistance provided;
- Research institute collaboration and financial support; and
- Employment and other benefits.

Board of Directors

DAFACT will need a Board of Directors (Board) that is dedicated to effectively governing its programs, in order to maintain a strong focus on unlocking affordable capital for regional food system development.

The Board will be comprised of seven to nine volunteers with the skills to help DAFACT grow, which includes experience in banking, lending, accounting, legal, marketing, development, governance and/or food systems development. The Board should also reflect the demographics of the service region. This will be a working board that is able to commit time and capacity for launching finance programming.

Board composition should reflect the mission to advance equitable food and agriculture systems, with membership that reflects the diversity of the regional food system. Training new board members will be necessary in order to ensure that the group is clear in its objectives, approaches, and strategies for emphasizing social equity. The Board might also consider developing a diversity statement that clearly identifies groups that should be represented on the Board, in terms of both demographic groups and background experience.

DAFACT will also need to establish an Advisory Council composed of key advisors to the Board. This group does not have a fiduciary relationship to DAFACT, but would be individuals that provide technical expertise and expanded representation for the organization in critical areas.

Staff

Staff of DAFACT will be hired to bring multifaceted skill sets with experience in community and economic development, marketing, advocacy, lending, management, public policy, fundraising, and other leadership skills. This will direct resources and attention to lending first and foremost, so that DAFACT can more quickly create new financing programs. Office space that is mutually accessible to DAFACT and university personnel would be advised, at least in the beginning, in order to maintain the intended strong relationship between the two entities, which can be assured as an important feature of the affiliation agreement.

As DAFACT's financing activities expand over time, it may be necessary to bring on more team members or consider expanded office space, and possibly even additional locations that can support these programs and the communities they intend to serve. Upon launch, DAFACT should have two employees, an Executive Director and a Finance Program Manager. This staff plan is based on the initial capacity of DAFACT upon launch. As DAFACT grows and increases its programming, additional staff will be needed. Outside contractors and vendors will also be necessary, including but not limited to legal counsel, loan servicing, accounting, IT maintenance, and underwriting.

Organizational Needs

Many of the key organizational needs for DAFACT will already be in place through InFACT and with support from Ohio State per the affiliation agreement, including but not limited to:

- Communications and IT, such as a website, email server, phone numbers, contact database system, and other software;
- Banking and accounting;
- Human resources for job descriptions, hiring, and managing payroll;
- General liability coverage insurance, directors and officers insurance, and cyber liability; and
- Data protection services to use as DAFACT expands.

Rules & Regulations

Organizations with clear regulations and bylaws are more likely to succeed in the long term as the entity grows and expands programming. The Ohio Revised Code has sections relevant to nonprofit corporations (see "Ohio Revised Code" in Additional Resources) that should be reviewed when developing DAFACT's regulations and bylaws. The Board is also advised to seek legal counsel during this process to ensure compliance with relevant state laws and to navigate DAFACT's affiliation with Ohio State. Organizational bylaws should be established upon the creation of DAFACT as a 501(c)(3) organization.

Policies & Procedures

As part of the governance structure, DAFACT will create a Policies and Procedures Manual to address items relating to personnel, operations, and financing programs. The Policies and Procedures Manual will include but not be limited to:

General

- Conflicts of interest
- Human resources
- Diversity
- Discrimination, civil rights, and equal employment
- Job descriptions
- Staff delegated authority
- Insurance
- Banking
- Record retention

Activities

- Project eligibility
- Loan fund guidelines
- Loan fund review
- Loan fund management
- Bond counsel
- Bond Guarantee Program guidelines

Management of the financing programs is equal in importance to the availability of capital. In order to be successful in serving the regional food system, DAFACT must meet borrowers where they are in every step of the process. From initial contact to application to decision-making to monitoring, DAFACT will aim to meet borrower needs while maintaining sustainable resources in the community. Cultural competency will be key for all Board and staff members, including those who are interacting directly with borrowers and for those who work behind the scenes making decisions or policies that ultimately impact the borrower. Policies might include specific training requirements for topics like implicit bias for staff, Loan Review Committee members, Advisory Council members, and/or Board members.

Marketing & Branding

Upon launch, and as outlined in the affiliation agreement, DAFACT will create a comprehensive marketing strategy that incorporates the structured affiliation with Ohio State and all services that InFACT will provide. This strategy will focus on outreach and relationship building. This strategy should be prioritized and viewed as a key approach to expand capital access and technical assistance for businesses within the regional food system, including underserved populations. As DAFACT launches financing programs, the marketing budget will need to expand to promote these programs.

Developing a strong marketing strategy to reach target businesses and projects will be essential for DAFACT. Trust must be built and this new lending organization should work to meet borrowers where they are in order to promote the new loans available in the community. This must include strategic, targeted outreach and relationship building among underserved borrowers and communities to ensure more equitable access to financing.

In addition to the marketing strategy, DAFACT will need to develop branding guidelines in affiliation with Ohio State and InFACT. The affiliation agreement should outline in detail the university's branding guidelines and DAFACT's authority to utilize specific branding elements, such as Ohio State's name and logos, including the Block "O."

Advancing Food Justice

This project has aimed to generate economic prosperity while advancing racial and social equity in the food system from its inception. Unlocking capital for food-related businesses, projects, and infrastructure in the region can help achieve this goal, especially with the creation of financing programs that are designed to address the needs of a wide range of borrowers, including those who are most underserved in the food system. This includes women and minority entrepreneurs, small businesses and microenterprises, and projects or businesses located in lower income or rural communities.

There are numerous opportunities for DAFAC to advance social justice and equity in the food system, not only through program design, but also through integrating strategies that combat individual and institutional biases that arise in finance. It is critical that the following approaches be built into implementation from the very beginning to reduce barriers and ensure more equitable access to financing.

Program Design

- Explicit goal to increase accessibility of capital for underserved business owners and communities
- Programs and terms that are well-suited for small food businesses
- Creative underwriting and flexible collateral requirements

Program Management

- Efficient review process that helps borrowers have more immediate access to financing
- Application review that includes character-based assessment
- Loan approval not based solely on conventional criteria used by most private lenders
- Loan Review Committee reflects communities being served and requires education/ training about program goals during onboarding to reduce biases

Marketing & Communication

- Targeted outreach to minority, rural, low-income communities
- Emphasis on building trust and relationships, meeting borrowers where they are

Risk Framework

- Risk tolerance aligned with goals of the finance program
- Incorporates character-based lending approaches and addresses barriers related to creditworthiness

OPERATIONAL BUDGET

The following chart outlines the projected operational needs and estimated costs during start-up in Year 0 (beginning July 1, 2021) and for the first five years of operations.

Operational Budget Template

	FY22	FY23	FY24	FY25	FY26	FY27
INCOME	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
MAJOR SOURCES						
The Ohio State University (in-kind)	\$ 125,000	\$ 150,000	\$ 175,000	\$ 175,000	\$ 125,000	\$ 100,000
Grants (federal and foundation)	\$ 60,000	\$ 120,000	\$ 150,000	\$ 170,000	\$ 190,000	\$ 210,000
CDFI Technical Assistance Grant			\$ 62,500	\$ 125,000	\$ 62,500	
OPERATING REVENUES						
Contracts (general TA)					\$ 50,000	\$ 50,000
Technical Assistance Fees		\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
RLF Fees		\$ 6,750	\$ 13,150	\$ 19,500	\$ 22,600	\$ 28,150
Interest Income		\$ 10,000	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000
Bond Guarantee Fees					\$ 12,500	\$ 25,000
Bond Issuance Fees					\$ 18,000	\$ 40,500
Aggie Bond Issuance Fees					\$ 40,000	\$ 57,000
TOTALS	\$ 185,000	\$ 291,750	\$ 425,650	\$ 524,500	\$ 565,600	\$ 565,650
EXPENSES	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Personnel & Payroll	\$ 125,000	\$ 200,000	\$ 300,000	\$ 315,000	\$ 330,750	\$ 347,288
Office and Utilities	\$ 15,000	\$ 15,375	\$ 15,759	\$ 16,153	\$ 16,557	\$ 16,971
Equipment, IT, & Hardware		\$ 2,500	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Operations	\$ 25,000	\$ 30,000	\$ 35,000	\$ 40,000	\$ 45,000	\$ 50,000
Contract Services	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Debt Service						
Research Contributions to InFACT	\$ 10,000	\$ 30,000	\$ 60,000	\$ 120,000	\$ 130,000	\$ 140,000
TOTALS	\$ 185,000	287,875	\$ 421,759	\$ 502,153	\$ 533,307	\$ 565,259
NET OPERATING INCOME		\$ 3,875	\$ 3,891	\$ 22,347	\$ 32,293	\$ 391
Retained Earnings		\$ 3,875	\$ 7,766	\$ 30,112	\$ 62,405	\$ 62,796
CAPITAL ASSETS						
Initial Partnership Contributions						
Originating Sponsor		\$ 1,000,000	\$ 1,000,000	\$ 1,000,000		
Philanthropic Sponsor		\$ 1,000,000	\$ 1,000,000	\$ 1,000,000		
Corporate Sponsor		\$ 1,000,000	\$ 1,000,000	\$ 1,000,000		
Private Investor(s)		\$ 1,000,000	\$ 1,000,000	\$ 1,000,000		
Other Sources						
CDFI Fund Financial Assistance Award					\$ 1,000,000	\$ 1,000,000
CDFI Fund HFFI Financial Assistance Award					\$ 1,600,000	\$ 1,600,000
TOTALS		\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 2,600,000	\$ 2,600,000

Income is generated from two categories: major sources and operating revenues. Income from major sources will be gained through DAFACT's pursuance of various grant opportunities from federal agencies and philanthropic foundations. As shown, it is assumed that this activity will happen at an accelerated pace in the beginning, then level off into a more gradual annual increase in the future. Income from major sources will also be acquired through in-kind contributions from the university in the form of office space, equipment, staff time, supervision, and other operations. The numbers shown here are theoretical, as the in-kind contributions DAFACT receives from the university will be detailed and structured through the affiliation agreement, though it is acknowledged that such an investment is already occurring in Year 0. The precipitous drop in this line after Year 3 exhibits the assumption that most operating costs will be absorbed in the future by income being generated by DAFACT independently.

Income from operating revenues will be generated through fees collected by way of the various financing programs (see fee structures and assumptions on pages 30 and 31). The income assumptions from the financing programming fees are conservatively based on industry averages for the number of projects expected to be financed, as well as the projected average project size. Interest income assumptions are low-level approximations based on average certificate of deposit rates that will be collected through interest earned from unused revolving loan fund and bond fund capital reserves. Income from operating revenues also includes technical assistance fees and contracts that DAFACT will earn through assisting and navigating borrowers through financial processes.

Expenses are outlined from Year 0 through Year 5 and will be covered by income generated. Personnel expenses include fringe and benefits and follow the staff plan outlined in the Implementation Timeline, with an assumption of 5% increases annually after Year 2. Operations include expenses for accounting, insurance, legal counsel, travel, and other supplies. Contract services are expenses for outside support for finance program operations, such as underwriters and bond counsel.

The research contributions to InFACT shown in the budget deserve special mention. A major purpose of DAFACT's activity, in addition to facilitating real-world infrastructure that enhances regional food supply chains, is to provide research funding in support of this ongoing work for the long-term future. Such support will be realized in the form of grant funds for interdisciplinary teams of Ohio State faculty, staff, students, and community partners to fund research in accordance with the InFACT research agenda. The intent is to replace and go beyond the original funding levels for seed grants provided by the university through its Discovery Themes initiatives, which originally included InFACT. Importantly, the return on investment (ROI), represented as a ratio between the research contribution and Ohio State in-kind lines of the budget, will reach a positive level in Year 4 and continue to grow from there. We anticipate the ROI to reach 100% or more within a decade. Such growth is critical in adhering to the mutually beneficial relationship established between DAFACT and InFACT as an Ohio State research center, and we anticipate this dynamic to establish a positive precedent for other centers at the university, and for other universities doing similar work in the future.

The Capital Assets shown in the budget are highly theoretical, but represent the very real need to raise capital to support this ongoing work. These funds would be designed to replenish themselves, unlike operating funds which are used to defray the cost of the organization's immediate needs. It is anticipated that assets will be raised through a capital campaign as outlined in the Capitalization Strategy, with much of that funding coming from sources intended to mutually match each other. It is also assumed that InFACT/DAFACT will engage with Ohio State Advancement personnel for help in achieving the goals shown in this budget. Capital Assets will also be earned from other sources, such as financial assistance awards from the CDFI Fund.

Finance Programming Fee Structures and Assumptions

Lending Fee Structure Assumptions

- RLF #1 launch in Year 1; average loan size: \$100,000; no principal payments in Year 1
- RLF #2 launch in Year 2; average loan size: \$50,000; no principal payments in Year 2
- RLF #3 launch in Year 2; average loan size: \$15,000; no principal payments in Year 2
- RLF #3 success fees based on sliding scale and therefore are not estimated
- Interest payments are not included in fee structure; recycled back into the RLF for growth
- Late fees are not estimated

		APPLICATION FEE	CLOSING FEE	ANNUAL FEE	LATE FEE	
RLF #1		\$750	1%-2% Principal	0.1% Principal	3% Unpaid Principal	
RLF #2		\$350	1%-2% Principal	0.1% Principal	3% Unpaid Principal	
RLF #3	No traditional fees; only a closing "success" fee based on repayment					

	# LOANS	APPLICATION	CLOSING	ANNUAL	LATE FEES	ANNUAL TOTAL
Year 1						
RLF #1	3	\$ 2,250	\$ 4,500		NA	\$ 6,750
Year 2						
RLF #1	4	\$ 3,000	\$ 6,000	\$ 700	NA	\$ 13,150
RLF #2	3	\$ 1,050	\$ 2,250	\$ 150	NA	
RLF #3	NA	NA	NA	NA	NA	
Year 3						
RLF #1	5	\$ 3,750	\$ 7,500	\$ 1,200	NA	\$ 19,500
RLF #2	6	\$ 2,100	\$ 4,500	\$ 450	NA	
RLF #3	NA	NA	NA	NA	NA	
Year 4						
RLF #1	5	\$ 3,750	\$ 7,500	\$ 1,700	NA	\$ 22,600
RLF #2	8	\$ 2,800	\$ 6,000	\$ 850	NA	
RLF #3	NA	NA	NA	NA	NA	
Year 5						
RLF #1	6	\$ 4,500	\$ 9,000	\$ 2,300	NA	\$ 28,150
RLF #2	10	\$ 3,500	\$ 7,500	\$ 1,350	NA	
RLF #3	NA	NA	NA	NA	NA	

Bond Guarantee Fee Assumptions

- Bond Guarantee Program launches in Year 3; first deal finalized in Year 4
- Average project size: \$5,000,000
- Average guarantee: 25% of the bond issuance

	# OF PROJECTS	% GUARANTEE	ENROLLMENT FEE
Year 4	1	25%	\$ 12,500
Year 5	2	25%	\$ 25,000

Private Activity Bond Fee Assumptions

- Bond issuing authority secured in Year 3; first deal in Year 4
- Average bond issuance size: \$5,000,000

		APPLICATION FEE	CLOSING FEE	ANNUAL FEE	LEGAL FEE	
		\$500	0.1% Principal	0.025% Principal	\$ 5,000 Per Year	
	# PROJECTS	APPLICATION	CLOSING	ANNUAL	LEGAL	TOTAL
Year 4	2	\$ 500	\$ 10,000	\$ 2,500	\$ 5,000	\$ 18,000
Year 5	4	\$ 500	\$ 20,000	\$ 7,500	\$ 5,000	\$ 40,500

Aggie Bond Fee Assumptions

- Aggie bond designation secured in Year 3; Ohio's Next Generation Farmer Loan Program launches in Year 4
- Federal maximum issuance amount (2021): \$558,000
- Average issuance size: \$500,000

		APPLICATION FEE	CLOSING FEE	LEGAL FEE	
		\$500	1.5% Principal	\$ 2,000 Per Year	
	# PROJECTS	APPLICATION	CLOSING	LEGAL	TOTAL
Year 4	2	\$ 500	\$ 37,500	\$ 2,000	\$ 40,000
Year 5	4	\$ 500	\$ 52,500	\$ 2,000	\$ 57,000

IMPLEMENTATION TIMELINE

This section provides an overview of the steps needed to establish DAFAC and launch the recommended financing programs. This is a general timeline for the next six years, with year 0 beginning upon completion of this report and year 1 (presumed to be Fiscal Year 2023) representing full implementation, assuming an affiliation agreement with Ohio State is completed. This timeline includes steps for the early phases of development, securing various certifications, and launching each financing program. Each of these items should be pursued simultaneously so that DAFAC can become operational and a functional financing agency at its official launch.

Year 0 - Prelaunch

- Create and finalize the affiliation agreement with Ohio State
- Identify an Executive Director
- Secure initial investments according to a coherent strategy
- Complete the process to become an official 501(c)(3) nonprofit organization
- Establish the Board of Directors and Advisory Council (onboarding, training, bylaws, policies, etc.)
- Establish the operational structure (office, staff, IT, accounting, marketing, policies, etc.)
- Begin the capital campaign (craft prospectus and develop proposal and outreach plan)

Year 1 - Launch

- Secure capital
- Identify a Finance Program Manager
- Establish as an 'Emerging CDFI'
- Design lending program guidelines, policies, programming, marketing, outreach, etc.
- Create a Loan Review Committee
- Launch a comprehensive marketing and outreach plan
- Launch the Sustainable Food Systems Loan Fund and begin lending
- Begin the CDFI certification process
- Apply for the first CDFI Technical Assistance grant
- Begin pursuing a statewide special purpose bond issuing authority and aggie bond designation

Year 2

- Launch the Growing Small Businesses Loan Fund and the Local Food System Equity Fund and begin lending
- Implement the first CDFI Technical Assistance grant
- Apply for the second CDFI Technical Assistance grant
- Secure the CDFI designation
- Continue pursuing a statewide special purpose bond issuing authority and aggie bond designation

Year 3

- Capitalize the bond fund for Bond Guarantee Program
- Implement the second CDFI Technical Assistance grant
- Apply for the CDFI Financial Assistance grant and HFFI Financial Assistance grant
- Secure statewide special purpose bond issuing authority and aggie bond designation
- Design the bond programming guidelines, policies, programming, marketing, etc.
- Hire additional staff (as needed)

Year 4

- Launch the Ohio Beginning Farmer Loan Program
- Launch bond programming as special purpose authority
- Design the Bond Guarantee Program guidelines, policies, programming, marketing, etc.
- Launch the Bond Guarantee Program
- Secure the CDFI Financial Assistance grant and the HFFI Financial Assistance grant
- Apply for next round of the CDFI Financial Assistance grant and the HFFI Financial Assistance grant
- Apply to become a CDE

Year 5

- Secure CDE designation and apply for first NMTC allocation
- Secure the CDFI Financial Assistance grant and the HFFI Financial Assistance grant
- Continue applying for the CDFI Financial Assistance grant and CDFI Fund HFFI Financial Assistance grant each year
- Develop strategic plan for the next 5 years

Immediate Next Steps

The following are the immediate actions needed to ensure the development of DAFACT and the advancement of economic development and social justice across its region through strategic food system investments.

Affiliation Agreement with The Ohio State University

After the pandemic shuttered businesses, expedited inequality, and revealed the fragility of our food system, there is great momentum building for increased investment in our local food systems, our local entrepreneurs, and our local economies. A timely arrangement with Ohio State for the creation of DAFACT, a self-sustaining 501(c)(3) financing agency, is crucial. The affiliation agreement should be prepared collectively to be mutually beneficial for DAFACT and Ohio State, in particular to support the operational budget of InFACT as well as to advance the university's mission in general. It is recommended that this be completed within Year 0 as described in the previous section of this report.

Apply for Implementation Funding

InFACT may want to pursue funding to implement DAFACT. Funding could be pursued through various federal grant opportunities or philanthropic organizations. This funding could be used to establish operations prior to launch, but may not be necessary depending on the budget demand and the capitalization timeline.



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