Hartford Farms

A Project Report Submitted by:

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Goal

The goal of this project was to secure adequate financing for the construction and start up of Hartford Farms, a commercial food producing greenhouse wholly-owned by two Hartford-based non-profit agencies - the Hartford Food System and Southend Community Services. Due to a variety of unconventional factors that will be examined throughout this paper, the venture was required to seek alternative or non-standard investment capital consisting of grants and low interest loans. The project required almost 15 months to complete and resulted in financing commitments totaling $320,000 ($140,000 of this is available after 1984 for expansion).

Background

The idea for Hartford Farms originated with the Hartford Food System during the early part of 1981. It grew out of the agency's larger mission of increasing the availability and accessibility of quality, reasonably-priced food to Hartford's lower income residents. The Food System's major activities consist of developing self help food projects such as community gardens, food coops, farmers' markets, a community cannery, and community solar greenhouses. Other areas of involvement include farm policy advocacy, emergency food banking, and food and hunger education. The development of Hartford Farms is a response to a strongly felt need on the part of the Food System to undertake larger scale commercial projects capable of having a more significant impact on the problem of food availability and quality.

The major goals of Hartford Farms are as follows:

1. Construct and manage 19,200 sq. ft. (the first phase will only involve 8,400 sq. ft. with the balance to follow in 1985) of commercial greenhouse for the year round production of fresh vegetable crops. The venture will use hydroponic growing techniques which will allow for very high yields in a cold climate region. Product sales will be made directly to area grocery stores, restaurants, and institutions.
2. Provide employment for up to 12 Hartford residents.
3. Develop the capability of community groups to manage and benefit from an innovative and developing food production technology.
4. Return a modest dividend to the non-profit shareholders.

While it is not currently a goal, there is a long term interest in eventually making Hartford Farms a worker-owned business.

Research and Planning

Following the idea's origination, Hartford Food System began to scope out the venture. This included numerous and wide ranging contacts with university researchers and commercial operators to gather as much technical information as possible. It should be noted that the Food System staff person, Chris Blossom, who has played a key role in this project, has a solid agricultural background. He conducted a great deal of the technical research and will manage Hartford Farms.

In June 1981, a pre-feasibility analysis began. This analysis developed rough estimates of cost, availability and structure of markets, and availability of such resources as land and technical assistance. This process continued for almost a year when work began on a full business plan. A thorough analysis of market conditions and projected sales was completed in July 1982. An architect developed initial drawings, site plans, and cost estimates. * A lawyer provided some limited assistance in determining the appropriate legal structure. * The list of possible sites for the greenhouse was narrowed to 2 or 3. All of this work and much more was brought together in a business plan that was made available in October 1982 to potential financing sources. The business plan called for almost $340,000 in financing that would include $140,000 in equity-like grant funds and $200,000 in low interest, long term loans. Approximately, $280,000 of the investment would be used for facility construction and equipment procurement while the $60,000 balance would be used for working capital.

Early Strategies, Tactics, and Targets

After an initial presentation to Hartford area corporate and foundation representatives, the decision was made by the Hartford Farms team (Mark Winne - HFS; Ted Carroll - SCS; and Chris Blossom - HFS) to approach a large community foundation serving the Hartford area, the Hartford Foundation, with a grant proposal for $75,000. Similar approaches were made to ~~a~~ number of local corporations to consider both grant and low interest loan backing. At the time, this strategy seemed feasible for a number of reasons: 1) Both HFS and SCS had a history of receiving substantial grant support from these sources. 2) The concept of community development was gaining

* A $3,500 grant from a now defunct technical assistance organization paid for initial legal and architectual work.

public support and, at least, strong verbal backing from the corporate community (Aetna, Cigna, Travelers). 3) Hartford Farms was the first well put together non-housing, community development proposal on the local scene. 4) The non-profit ownership and the technology itself were considered attractive features.

A final factor was, of course, the amount of debt that Hartford Farms could bear, especially during its start up phase. The cash flow projections indicated the need for caution during the first 1 to 3 years. It was thought prudent to have a comfortable debt-to-equity ratio of no more than 2 to 1 which the proposed grant/loan formula met. Since the two non-profit developers had no capacity to contribute their own capital or sell stock, the grant route was the only equity opportunity available.

In addition to proposals made to area corporations and foundations, grant and loan requests were sent to several national churches who had emerging community development intersts. These included the Campaign for Human Development (the Catholic Church), the Presbyterian Church, and several other Protestant denominations.

It should be noted that some conventional financing sources were also explored including a local SBIC, a local bank, and HEDCO, a non-profit small business development corporation. While most of these were supportive and offered advice, none felt Hartford Farms was their type of investment. HEDCO would have considered a low interest loan, however, the largest loan they could have made to Hartford Farms would have been only $20,000. Their moral support did prove critical at a later stage when HEDCO's director gave the Cigna Corp. a strong endorsement of Hartford Farms.

State and local government finance sources were explored as well, but, except for the city of Hartford's CDBG program, none of these sources looked promising for a variety of reasons. Mainly, state financing, at least in Connecticut, does not seem well suited to small start-ups.

Early Results and Modifications

The Hartford Farms team pursued all of the above sources vigorously. Large group presentations were made followed by individual meetings with corporate and foundation staff people; support was sought from people that could have an indirect effect on the decision-makers; additional financing angles were explored from syndication to funding exclusively through grants. The reception to the Hartford Farms idea was almost always good, if not downright enthusiastic. But despite the team's best efforts and the expressed interest of others, the initial strategy began to fall apart in January 1983.

First, the Aetna Foundation turned the project down for both grant and non-standard loan requests. Then the Hartford Foundation rejected the $75,000 grant proposal. The Campaign for Human Development turned the request down. Other smaller grant sources started coming back with negative answers as well. The reasons were never really clear or especially detailed, but they included some or all of the following:

- it was inappropriate for non-profit organizations to be engaged in for-profit enterprises.
- non-profit organizations did not know how to manage for-profit enterprises.
- the projections made in the business plan were not accurate.

-the project was not big enough or labor-intensive enough.

-the project wasn't radical (?) enough.

In essence, Hartford Farms suffered from a "fish nor fowl" syndrome. People were unable to reconcile the profit/non-profit issues as well as the fact that a relatively sound business idea didn't necessarily meet everybody's idea of a perfect investment. Business-types didn't see enough financial return or an experienced management team while charitable-types didn't see enough social return, i.e. jobs, services.

Though these early results left the project team badly shaken, they persevered and decided to revise the strategy. The decision was made to maintain the same basic grant/equity, low interest loan approach, but scale the project's size and capital needs down to a point where it might be more palatable and less risky to would-be investors. In otherwords, finance a project that would demonstrate Hartford Farms'potential to do all the things it claimed it could do.

The team undertook several steps to modify and strengthen its position:

-it reduced the greenhouse size to 8,400 sq. ft. and its subsequent investment requirements to $185,000 of which $150,000 would be low interest loans and $35,000 would be grants. A phased growth plan was also presented that would take place over a five year period.

-conducted follow up market documentations which resulted in 24 letters of commitment to purchase in an amount that exceeded the first facility's capacity.

-improved the presentation and comprehension of financial projections with the assistance of a computer

-developed an operating prototype to demonstrate the technology, gain hands-on experience, get publicity, and grow something that we could give to would-be investors

-increased our contact and discussions with the most promising financing sources that had not yet rejected the proposal

With respect to the last point, Hartford Farms most likely prospects by February/March 1983 were Cigna (loans), the City of Hartford/CDBG (loan), and the Presbyterian Church (loan and grant). It should also be noted that Hartford Farms was aggressively seeking a one acre parcel of land from the Hartford Redevelopment Agency for no cost. In almost all of these cases, the project team had good contacts and/or a good track record to point to. Team members sought to exploit this situation through lobbying and persistent follow up. Much of this entailed anticipating what a particular source was going to ask for or do next so that the team could be prepared in advance, Indeed, advance "intelligence" on people, companies, politics, etc. became very important as time progressed.

Success

The first big break came in March when the Presbyterian Hunger Program gave a $15,000 grant to Hartford Farms. Not only did this improve the teams's morale, but increased the project's credibility in the eyes of other potential investors. A different but related branch of the Presbyterian Church, the Creative Investment Fund, had also been approached several months earlier in regard to a low interest loan of $75,000. Though Hartford Farms contacts within the church had helped its loan proposal receive serious consideration, a final decision seemed delayed indefinitely. Through aggressive follow up, it was learned that the church would make the loan if adequate guarantees and security could be provided. The church was also interested in working through a third party so that it did not have to be in the embarrassing position of seizing the collateral should Hartford Farms fail.

A third party that would help with both these issues was found - The Institute for Community Economics (ICE) - which was willing to guarantee the loan by having a first lien on all property and buildings. While the church essentially agreed in principle to these arrangements, it was never able to make a final decision on the deal for reasons unrelated to the loan or its structure.*

What this all pointed out to the project team was the need to gain control of the land since it represented the best collateral that the project had to offer. As a special purpose agricultural structure, the greenhouse and its equipment were not considered high grade collateral. By early summer, the Hartford Redevelopment Agency agreed to sell one acre of land to Hartford Farms for one dollar. It should be noted that this decision was strongly tied to Cigna's initial indication that it would loan the lion's share of the capital to Hartford Farms.

With the land and $15,000, Hartford Farms was making signficant progress because at about the same time as the inital land decision, the Hartford City Council approved a CDBG loan to Hartford Farms for $75,000. Among the many reasons that the Council acted favorably

* It is likely that a favorable decision would have been forthcoming, however, the Presbyterian loan was no longer needed.

on the request, the most important was due to the lack of projects eligible under the recently available "Jobs Bill" funds. Other reasons included the proposal's quality, key people who spoke in favor of the proposal, and the persistence of the project team in lobbying and attending hearings.

Shortly after these positive events, an unplanned investment was made in the form of a $10,000 stock purchase in Hartford Farms by the Christian Activities Council (CAC), a social welfare arm of the United Church of Christ's Connecticut Conference. Apparently, the CAC was just expanding its interest into community development and was looking for an alternative investment of the type that Hartford Farms represented. It was through a third party that the CAC came to learn of the Hartford Farms proposal and, since it was their first alternative investment, ~~it~~ required considerable discussion before a favorable decision was made. But once it was made, CAC purchased 20% of Hartford Farms for $10,000, received two of the nine board seats, and expressed no expectations that their investment should yield a specific rate of return.

At this point, Hartford Farms had $100,000 in commitments and one acre of land. It needed $75,000 more in low interest loans to make the deal work. After eight months of discussions, delays, and revisions, Cigna finally agreed to make a $215,000, 8 %, 10 year loan with $75,000 available in the first year and $140,000 available for expansion after the first year. The loan's conditions required that Cigna have a first security interest in all property and buildings which meant that the City of Hartford would have to take a subordinate position with their loan. In addition, the project's high debt to equity ratio required that interest rates and repayment terms be as lenient as possible. Toward this end, the city agreed to a second position on the mortgage, a no-interest loan, a one year deferral on repayment and a five year repayment plan on principle.* Cigna also agreed to a one year deferral of interest and principle payments. These various arrangements would help Hartford Farms cash flow immensely during its first year, ease loan repayment during its second and third years, and place a greater burden on repayment during its later years when it should theoretically be able to afford it.

This final commitment by Cigna culminated a long, arduous struggle to secure financing. To summarize the final deal, it looked like this:

Source	Amount	Terms
Presbyterian Church	15,000	grant
CAC	10,000	grant
Hartford Redevelopment Agency	one acre of land	one dollar
City of Hartford	75,000	loan, 5 years with balloon, no interest, one year deferral, subordinate position
Cigna	75,000 - First phase 140,000 - Second phase	8% interest, 10 years, one year deferral, holds all security
Lutheran Church in America	5,000	grant

* The first three years of repayment are based on a 10 year amortization schedule or $7,500 per year. The fourth and fifth years are balloon payments.

Comments and Reflections

Above and beyond the remarks already made about the project's failures and successes, hindsight allows one the luxury of speculating on why things happened or didn't happen. In a random and unorganized fashion, the following thoughts seem relevant if not entirely verifiable:

- The old adage of "its not what you know but who you know" seems operable in the case of Hartford Farms. Every loan and grant had one or more people indirectly or directly behind it who somebody on the project team knew. In one case, there was a person who was never considered important, but who suddenly became important by dint of their association with someone else. Like the business person getting to know his/her banker, the personal contacts that existed prior to the project and that were cultivated during the financing phase proved essential.
- A well written business plan existed at the time the financing phase began, but it definitely had room for improvement. The project would have benefited from having a friendly expert ruthlessly critique the business plan prior to its submittal to potential financing sources.
- Each of the financing sources for Hartford Farms had a prior history and/or interest in the general issues the venture addressed, e.g. community development, food and hunger, community ownership, innovative projects and technologies, job creation.
- The existence of a successful commercial hydroponic greenhouse in Connecticut was very important as was the owner/manager's

cooperation with the project team. Without the visibility of Agrownautics, Inc., in Lakeville, CT, it is unlikely that any of the funding sources would have considered Hartford Farms a feasible venture.

-Just as the intricate and subtle web of contacts and relationships was important, so was the importance of the first financing commitment. Who that will be is probably different with each case, but the fact that the ball is finally rolling can only work in your favor. Putting together the kind of financing partnership that was required for Hartford Farms took some craft/craftiness, imagination, and luck.

-It became clear as the financing stage proceeded that many of the funding sources had problems and uncertainties that could not be easily addressed from the outside. For instance, major corporations are not necessarily experienced with small business loans; organizations with non-standard or alternative investment components don't necessarily have adequate or trained staff to administer those programs; time delays are unavoidable, often irrational, and abominably frustrating; community economic development is still quite new to most would-be investors. While there are may places to go for non-standard investments, the process and criteria are not yet as clear or as well defined as those of conventional investments.

-Perhaps because of their background in small non-profit organizations, the project team, and this author in particular, suffered from a case of big moneyphobia - the irrational fear of seeking large investments. The team was not aggressive enough in seeking a large investment (though the debt to equity ratio was clearly a problem) and was too easily intimidated by those wanting to scale the project down. In the same vain, a toughter negotiating position regarding terms and conditions of investments could have paid off. At any rate, it wouldn't have hurt to try.

-Good technical assistance, a critical but constructive outsider, and last but not least, indefatigable persistence were necessary.