

Reinvest, Revitalize, Repeat:

Exploring Community Investment Strategies
for Manning and Webster City



Summary

- ❖ Identified client goals
- ❖ Interviewed and met with 26 groups/individuals
- ❖ Reframed the problem
- ❖ Researched:
 - Community Investment Funds and securities laws
 - For-profit, nonprofit, and cooperative legal entities
 - For-profit investment vehicles
 - Nonprofit Investment vehicles and strategies
- ❖ Reached out to potential partner organizations
- ❖ Formulated recommendations

Who We Are

❖ CELP

- A practice group within the legal clinic, which aims to strengthen communities by providing legal representation to organizations throughout the state of Iowa

❖ The Team

- Kalena Meyer
 - Undergraduate
- Dario Rodriguez
 - Third-year law student
- Abraham Sotelo
 - Third-year law student
- Jennifer Wiltse
 - Third-year law student

Our Clients and Their Goals

- ❖ Webster City
 - Approximately 8000 people in north-central IA, with a focus on revitalization and renewed energy for community development
- ❖ Manning
 - Approximately 1500 people in west-central IA, with a passion for economic and community success
- ❖ Both clients seek to harness community wealth to revitalize their towns and create a sustainable path forward

Criteria: Identified Goals

Manning

- ❖ Help businesses get started/grow
- ❖ Community Ownership
 - Local Citizen Investment
 - Alumni Investment
- ❖ Tax Benefits OR Return on Investment
- ❖ Model to other communities

Webster City

- ❖ Community Ownership
 - No Gov't Involvement
 - Investors choose and see where the money goes
- ❖ Tax Benefits OR Return on Investment
- ❖ Model to other communities
- ❖ Technical Assistance
- ❖ Real Estate Improvements

Criteria: Most Viable Options

Things to Consider

- ❖ Compliance with securities laws is cost-prohibitive
 - Most entities that allow traditional investment are subject to securities laws
- ❖ Priority of Community Betterment over Return on Investment
 - Many nonprofit options avoid securities laws
- ❖ Working with an existing entity vs. independent start-up
 - Raising the funds and obtaining the necessary paperwork for certain entities can be more difficult for small towns
 - Sacrificing some autonomy can allow for more ease and stability in running the entity
 - Maintaining autonomy is an important priority

Reframing the Problem: Initial Research + 3 Key Findings

❖ Initial Focus of Research

- Which Entity
- Entity Structure
- Governance
- Funds

❖ 3 Key Findings

- Federal and State Securities Laws Compliance
- Investment Company Act of 1940 Compliance
- No “One Size Fits All” Solution to Community Economic Development

Reframing the Problem: Securities Laws

- ❖ What is a Security?
 - Defined in both federal law and state law
 - “Investment Contract” → *SEC v. W.J. Howey* → Catchall
 - Invest money in common enterprise
 - Expect profits
 - Solely from the work of others
- ❖ Compliance with the Securities Act of 1933
 - Registration: extensive set of filings
- ❖ Iowa Securities Laws Compliance
 - Registration: Iowa Insurance Division



iowa
insurance
division

Reframing the Problem: Investment Company Act of 1940 Compliance

- ❖ Brian Beckon

- Vice President of Cutting Edge Capital



- ❖ Investment Vehicle = Investment Company?

- Could fit the definition

- ❖ Securities Laws Compliance + Investment Company Compliance

- Pushed us to find exemptions to these laws

Reframing the Problem: No “One Size Fits All” Solution

- ❖ Each Community is Unique
- ❖ Economic Development Strategies are Tailored to Community Needs
- ❖ Deep Analysis and Study of Manning and Webster



Legal Entities, Investment Vehicles and Strategies

Formal Legal Entities

- ❖ For-Profit
 - Corporations
 - Partnerships
 - LLCs
- ❖ Nonprofits
- ❖ Cooperatives

Investment Vehicles / Strategies

- ❖ For-Profit
 - Intrastate Crowdfunding
- ❖ Nonprofit
 - Incubators
 - Community Development Financial Institute—Community Development Loan Fund
 - Community Foundations
 - Community Development Corporation

For-Profit Legal Entities



Corporations

- ❖ C-Corporation
 - Standard form
 - Owned by shareholders
 - Governed by Board of Directors
 - Double taxation

- ❖ S-Corporation
 - Small business corporation
 - Restrictions
 - Pass-through taxation
 - Similar to an LLC

- ❖ Benefit Corporation
 - Not yet in Iowa
 - Same as C-Corporation
 - Board of Directors have greater latitude

Partnerships

❖ General Partnership

- 2 or more persons
- Inadvertent formation
- Pass-through taxation
- Owners are the partners

❖ Limited Partnership

- Two types of partners
 - General
 - Limited
- Limited liability for limited partners
- Pass-through taxation
- Separate entity

❖ Limited Liability Partnership

- Limited liability for all partners
- Pass-through taxation
- General partnership but with limited liability
- Separate entity

Limited Liability Company

- ❖ Limited Liability
- ❖ Pass-through taxation
- ❖ Two Types
 - Member-managed
 - Manager-managed



Cooperatives



Cooperatives



Iowa Institute
for Cooperatives

- ❖ Purpose is to serve member-beneficiaries
- ❖ All members have equal say and access to resources
- ❖ Any organization can follow cooperative principles
 - Formal organization in Iowa must be for specific purposes
- ❖ Exempt from double-taxation at the federal level
- ❖ Securities exempt in Iowa, but not federally

For Profit Investment Vehicles

Intrastate Crowdfunding



- Intrastate crowdfunding
- Intrastate securities are exempt from both federal and state securities registration requirements
- The exemption is self-executing under federal law

- ❖ Notable State Regulations
 - Notice
 - Must first file a notice with the Iowa Insurance Division
 - Intermediary Website
 - All offerings must be made through an intermediary's website, which may *only* offer and sell intrastate securities
 - Escrow
 - Disclosures
 - Fees

What Is an Intermediary?

➤ Two Possible Intermediaries

- Iowa Crowdfunding Portal
 - Ex: Silicon Prairie Portal & Exchange
- Registered Broker-Dealer
 - Ex: Localstake; Silicon Prairie Portal & Exchange (soon)

➤ Duties of Intermediaries

- Maintenance of website
- Provide info on the website about the issuer and the offering
- Background checks
- Investor screening to confirm they are Iowa residents



Key Advice Given

1. Start by raising awareness to businesses and investors.
2. Educate investors about investing and how to understand disclosure documents.
 - a. A separate nonprofit could be useful for this purpose.
3. Keep investors interested.
4. Businesses should avoid setting high minimum amounts.
5. Common stock is the most successful type of offering, because it is easiest for investors to understand.
6. Consider partnering with other cities or using the already existing platform.

Local Investing Opportunity Network (LION)

- ❖ Private offerings through pre-existing relationships
 - Cannot publicly or privately talk about financial matters until that relationship exists
- ❖ Structure:
 - Run by volunteers
 - Does not have to be a legal entity; can be an informal network
 - Cannot provide investment advice
- ❖ A LION is not a pool of investor money; all members make their own investment decisions for each investment opportunity
 - All members need to be *actively* involved
 - However, being a member does not require that you invest

Nonprofit Investment Vehicles and Strategies

Incubators

- ❖ Provide support and encourage growth to start-ups and small businesses
 - Professional resources like accountants, attorneys, etc.
 - Office and warehouse space
 - Networking events
 - Funding connections
 - Education



Community Development Financial Institute: Community Development Loan Fund

❖ Structure

- Typically exist as nonprofits which partner with other financial entities, like banks
- U.S. Department of the Treasury's CDFI Fund certifies CDFIs

❖ Mission

- Private financial institutions that provide loan services to underserved communities

❖ Characteristics

- Funds can come from a variety of sources
 - Grants and loans from other institutions, including banks, government agencies, philanthropic organizations, and individuals
- Typically borrow at low rates and lend at slightly higher rates
 - Usually sustain themselves through loan payments and subsidies
- Can provide lending to both nonprofit and for-profit entities
 - May also provide development and technical assistance to borrowers

CDLFs in Iowa & Interviews we Conducted

❖ CDLFs in Iowa

- Grow Iowa Foundation - Lennox
- Habitat for Humanity of Iowa - Pleasant Hill
- Iowa Community Capital - Boone
- Mississippi Valley Neighborhood Housing Services - Davenport
- Neighborhood Finance Corporation - Des Moines

❖ Relevant Interviews

- Nikki Henderson at Grow Iowa Foundation
- Torrence Moore at Illinois Facilities Fund

Community Foundations

- ❖ Structure:
 - Nonprofit organization run by a board of directors
- ❖ Mission:
 - Enhance the quality of life in the local area the community foundation serves
- ❖ Types of Donations Typically Accepted
 - Cash
 - Publicly traded securities
 - Closely held stock
 - Life insurance
 - Real estate
 - Other items of tangible property



Fund Options for Donors

- ❖ Donor-Advised Funds
 - Donors choose each year which organizations or causes they want their donations to go to
- ❖ Designated Funds
 - Donors choose specific organizations they want their donation to go to when the fund is first set up, and are not able to change this later
- ❖ Discretionary Funds
 - No limitations on how the donation may be used. The board of directors chooses where the money is best spent.
- ❖ Field of Interest Funds
 - Donors choose a “field of interest” they want their donation to go towards, but don’t choose a specific organization
 - Examples: social services, economic vitality, health and well-being, youth development, education, etc.
- ❖ Community Pass-Through Fund
 - Short-term funds (typically 12 months) that are managed differently than other funds due to their short duration
 - It’s more comparable to a charitable checking account
- ❖ Scholarship Funds

Utilizing Community Foundations

❖ Advancing Entrepreneurship

- Go to the foundation with an interest in advancing entrepreneurship
- Sign an agreement with the foundation to start a community pass-through fund
- Give foundation any money you already have, which then goes into the financial management process
 - This fund can be added to by the creator of the fund and any other individual
- Any donation to that fund is immediately considered a charitable contribution
- The money in the fund can be drawn out by the beneficiary of the fund (i.e. a business) according to the terms of the fund, and can be closed once the project is complete

Utilizing Community Foundations

❖ Pooled Income Funds

- Cutting Edge Capital is exploring the potential to establish pooled income funds (PIFs) in community foundations.
 - Such funds would (theoretically) be exempt from the Investment Company Act of 1940
 - The funds would allow an unlimited number of investors to “pool their resources into a community-scale fund that can make equity investments in local businesses”
 - Income from the investments are distributed to the donors during their lifetime, and upon their death the donation is moved to the charity controlling the fund (i.e. the community foundation here)
- No one has done this before, and the details are still being worked out, but we think it could be worth exploring and discussing more with Brian Beckon from Cutting Edge

Community Development Corporation

❖ Structure

- Nonprofits that provide programs, lending, or other services, typically overseen by a board

❖ Mission

- Supporting and revitalizing communities, particularly struggling areas, through social impact programs, usually but not always focused on creating affordable housing

❖ Unique Characteristics

- Governing/advisory boards will oftentimes include community representatives
- Can provide SBA 504 loans to small businesses for acquiring and improving major fixed assets
- The maintenance and set-up of these entities seems to be quite substantial

❖ Relevant Interviews

- BHED maintains CDC status

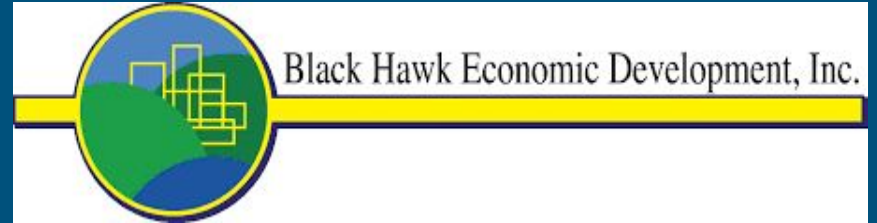
CDCs in Iowa

- ❖ Black Hawk Economic Development, Inc.; Waterloo
- ❖ Corporation for Economic Development in Des Moines; Des Moines
- ❖ E.C.I.A. Business Growth, Inc.; Dubuque
- ❖ Iowa Business Growth Company; Johnston
- ❖ Siouxland Economic Development Corporation; Sioux City

Black Hawk Economic
Development and Cedar
Valley Growth Fund I

Black Hawk Economic Development and Cedar Valley Growth Fund I

- ❖ Based in Waterloo, Iowa
- ❖ Focus on Community Economic Development
- ❖ Variety of Loan Options

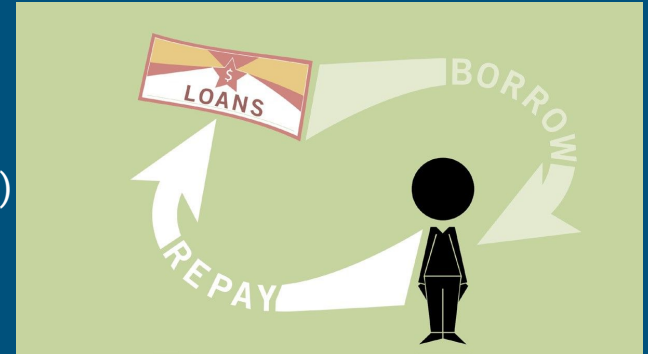


Black Hawk Economic Development

- ❖ 501(c)(4) Nonprofit
 - “Charitable purpose” vs “social welfare”
 - Not tax deductible



- ❖ Offers 4 Different Loans
 - General Loan Fund Program (statewide)
 - Small Business Administration 504 Program (statewide)
 - Revolving Loan Fund Program
 - Intermediary Relending Program



- ❖ Businesses Can Apply For These Today

Cedar Valley Growth Fund I

- ❖ 501(c)(3) Nonprofit
- ❖ Smaller Scale Than Black Hawk
- ❖ Offers Loans and Technical Assistance
 - No Federal Oversight
 - Education
- ❖ Tax Benefits to Contributors
- ❖ Legal Compliance
 - i.e. securities laws and Investment Company Act
- ❖ Available Statewide
- ❖ Businesses Can Apply For These Today



Partnership With Cedar Valley Growth Fund I

- ❖ Possible CVGF II
 - Includes tax and legal compliance benefits
 - No foreseeable membership fee
- ❖ Separate Funds
- ❖ Ability to Restrict Loans to Targeted Businesses
 - No Discrimination
- ❖ Advisory Board



Summary and Recommendations

Strategies to Attract New/Returning Residents

- ❖ Offering land
 - Loup City, NB; Marne, IA; and Marquette, KS
- ❖ Repaying student loans
 - St. Clair, MI; and Niagra Falls, NY
- ❖ Subsidies or other monetary incentives
- ❖ Other alternatives exist

Interviews

- ❖ Farmers in Manning
- ❖ Jeff Pingel, Community Organizer in Webster City
- ❖ Ryan Flynn, Localstake
- ❖ Omar Carrillo Tinajero, Connect Capital
- ❖ Stephanie Randolph & Sara Morgan, RSF/FAHE
- ❖ Paul Thelen, Waterman Nonprofit Center
- ❖ Nikki Henderson, Grow Iowa Foundation
- ❖ Stephen Brustkern, Black Hawk Economic Development
- ❖ Joseph Engelkes, Cedar Valley Growth Fund
- ❖ Joseph Yockey, Iowa College of Law
- ❖ Torrence Moore, Illinois Facilities Fund
- ❖ Dennis Britson, Iowa Insurance Division
- ❖ David Duccini, Silicon Prairie Portal & Exchange
- ❖ Amy Pearl, founder of Hatch Oregon
- ❖ Brian Beckon, Cutting Edge Capital
- ❖ Amy Campbell Bogie, NC3
- ❖ Janice Shade, co-founder of Milk Money Vermont
- ❖ Zach Robins, MNVest
- ❖ Randy Kuhlman with Fort Dodge Community Foundation
- ❖ Danielle Olson, Hatch Oregon
- ❖ Dennis Dokter, Sioux Center Land Development
- ❖ Dean Gabhart, Sioux Center Community Foundation
- ❖ Steven Weidner, Black Hawk Economic Development
- ❖ Dave Holm, IIC

Not Recommended and Why

- ❖ Corporations, Partnerships, and LLCs
 - Complying with securities regulations, such as reporting requirements, is cost-prohibitive and time consuming. It would require working with outside counsel who specializes in securities law, and would be more difficult to manage year-to-year.

- ❖ Cooperatives
 - Are subject to federal securities laws, which is cost-prohibitive

Not Recommended and Why

- ❖ CDFI—CDLF
 - Start-up costs are too high to justify the eventual return

- ❖ CDC
 - Geared towards strategies which do not prioritize our clients' goals of investment and small business growth

- ❖ Incubators
 - Do not address the goals of community ownership and investment

Recommendations

Manning

- ❖ Partner with Cedar Valley Growth Fund I
 - Create a chapter in Manning and/or Webster
- ❖ Local Investing Opportunity Network

Webster City

- ❖ Intrastate Crowdfunding
 - Partner with Silicon Prairie Portal & Exchange, other cities, or a broker-dealer such as Localstake
- ❖ Community Foundation
 - Create an affiliate foundation or work with an already existing community foundation to create a fund for advancing entrepreneurship or a pooled income fund
 - As an aside, community foundations have the potential to utilize opportunity zones as well

Final Deliverable

- ❖ Delivered in an electronic copy in the next few weeks
- ❖ In-depth analysis of all the topics covered here
- ❖ Appendices
- ❖ Follow-on steps