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The Pulaski Pike Market: From Charity to Systemic Change, Part B

> Let me give you a word on the philosophy of reform. The whole history of the progress of human liberty shows that all concessions yet made to her august claims have been born of earnest struggle. ... If there is no struggle there is no progress. ... This struggle may be a moral one; or it may be a physical one; or it may be both moral and physical; but it must be a struggle. Power concedes nothing without a demand. It never did and it never will. Find out what people will submit to, and you have found the exact amount of injustice and wrong which will be imposed upon them; and these will continue until they are resisted with either words or blows, or with both. The limits of tyrants are prescribed by the endurance of those whom they oppress.

—Frederick Douglass (Letter to an abolitionist associate, 1849/1857)

Going Forward

By December 2009, the Pulaski Pike Market (PPM) public/private partnership had secured all the funding necessary for business operations, obtained the PPM's 1.25 acre site for nominal rates, negotiated an in-kind contribution for the initial site preparation, and received a commitment for $125,000 in a subordinated loan for construction from a revolving loan fund. At this stage, the partnership's nonprofit developer, Neighborhood Concepts, Inc. (NCI), needed to secure the remaining $1.1 million dollars in first mortgage financing for the construction of the facilities to house the cooperative grocery store and farmer distribution center. The proposal, despite presentations to more than 40 lending sources and repeated modifications to reduce financial risk, failed to secure the construction funding. As reported in the trade press (Strickland, 2010):

> Over an 18-month period beginning in March of 2009, NCI (Neighborhood Concepts, Inc.) approached over 40 funding sources to secure $1.1 million in first mortgage financing needed to develop the market's facilities. NCI submitted loan applications to local banks and credit unions, regional and national banks, Community Development Financial Institutions (CDFIs), national nonprofit lenders, and social investment funds. Inquiries were made to numerous private foundations and government programs.

This case was written by Professor John R. Whitman and Kathryn Strickland as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Funding was provided by Equal Exchange and The Lewis Institute for Social Innovation at Babson College.

> PPM's public/private partnership had significant contributions from city and county governments, grassroots community support, private nonprofits, rural small businesses, and federal funds. The partnership also thoroughly researched its model, performed all the necessary due diligence, took measured steps through a deliberate development process, and mitigated its identified risks. Excluding personnel expenses, the partnership invested nearly $90,000 in predevelopment research, planning, and design.

None of these resources, however, was enough leverage to secure the project's critical real estate financing, whether structured as a public, commercial, or philanthropic investment. Facing a restricted credit market for start-up businesses, the partnership could not obtain financing for construction on terms the project could support.

What happened?

Financial Factors

Financing

After the 2008 financial collapse, unemployment in Huntsville rose from 4.7% in 2008 (Chamber of Commerce Huntsville AL, 2008) to 7.4% in 2009; however, the local housing and building market appeared to remain stable. In September 2009, *Bloomberg Business Week* ranked Huntsville fourth among America's strongest building markets.[1] Due to military base realignment and closure decisions, Huntsville stood to gain thousands of jobs with the move of national defense and aerospace activities to Redstone Arsenal. In 2009, *CNN Small Business* named Huntsville the top mid-sized city to launch and grow a business,[2] and *Kiplinger's Personal Finance* ranked Huntsville the best city in the nation for its job market and growth potential.[3]

In early 2009 the Steering Committee's efforts to seek funding for the PPM project were well underway. FBNA had created a new program area and hired staff to facilitate the PPM project. Discussions with the City of Huntsville regarding an allocation of Community Development Block Grant (CDBG) dollars from the U.S. Department of Housing and Urban Development[4] and the terms of a long-term ground lease for the market's site had already ensued.

The Pulaski Pike Market's project budget totaled $2.4 million dollars, which included start-up capitalization and construction of a 6,000 square foot LEED-certified grocery facility and a 1,200 square foot food distribution center. As part of its oversight responsibilities, FBNA was charged with fully capitalizing the Market by raising $1.2 million for start-up and operational expenses including equipment. The role of Neighborhood Concepts, Inc. (NCI), the partnership's nonprofit real estate developer, was to secure financing for the Market's facilities, oversee construction, and manage the property.

For the purposes of its financial analysis, PPM's Finance Committee discounted the market's original sales forecast by 10%. Thus, the sales projection for year one was reduced from $3 million to $2.7

[1] Bloomberg Businessweek. *America's 20 Strongest Building Markets.* 2009. http://images.businessweek.com/ss/09/09/0917_booming_housing_markets/5.htm (accessed July 20, 2010).
[2] CNNmoney.com. *Small Business Best Places to Launch.* 2009. http://money.cnn.com/smallbusiness/best_places_launch/2009/snapshot/151.html (accessed July 20, 2010).
[3] Kiplinger Personal Finance Magazine. *Best Cities: It's All About Jobs.* July 2009. www.kiplinger.com/magazine/archives/2009/07/best-cities-2009-where-the-jobs-are.html (accessed July 20, 2010).
[4] See http://www.hud.gov/offices/cpd/communitydevelopment/programs/ (accessed 13 January 2011)

million, which represented only 8% of the trade area's entire sales potential. The project's pro forma indicated a profit of $40,000 in year two which would more than double by year three.

In a sensitivity analysis, PPM withstood sales projections that were off by as much as 15% and operated in the black without adjustments to the original business plan. The Pulaski Pike Market was projected to generate a cumulative three-year total of nearly $1.4 million dollars in wages, benefits, and other economic benefits back to the community.

By September of 2009, FBNA had successfully raised $1.2 million dollars from sources including the City of Huntsville's allocation of Community Development Block Grant Recovery Act (CDBG-R) funding ($346,000), a USDA Community Food Project grant ($300,000), and a patient loan investment from the Food Bank of North Alabama ($550,000). Over the course of the development process, FBNA increased its commitment to $629,500 for PPM start-up costs and set aside an additional $60,000 as a debt service reserve to use in negotiations with lenders.

Total real estate development costs (including the funding FBNA raised for store equipment) were projected to be approximately $1,850,000. By December of 2009, Neighborhood Concepts, Inc. had secured a $125,000 commitment for subordinate debt from a revolving loan fund, in-kind contributions including a 1.25 acre tract of land made available by the City of Huntsville through a long-term ground lease at nominal rates, and pro bono site work with an estimated value of $50,000 made possible through a city/county collaboration.

After factoring in the value of the land, the subordinate debt, and the CDBG-R equipment grant, the projected first mortgage loan-to-cost ratio was 63%. Utilizing the direct capitalization approach and an 8% cap rate, the estimated appraised value for the facility was $1,485,000 resulting in a first mortgage loan-to-value ratio of 78%.

Over an 18-month period beginning in March of 2009, NCI investigated over 40 funding sources for the remaining $1,100,000 in first mortgage financing needed to develop the real estate. NCI submitted loan applications to local banks and credit unions, regional and national banks, Community Development Financial Institutions, national nonprofit lenders, and social investment funds. Inquiries were made to numerous private foundations, and various government programs administered by the U.S. Department of Housing and Urban Development (HUD), Small Business Administration (SBA), and United States Department of Agriculture (USDA) were investigated.

At the outset, the partnership operated under the assumption that FBNA's responsibility to garner funding for PPM's start-up operational costs would prove to be the most challenging aspect of the project as those expenses have little or no collateralization. The partnership, however, did not anticipate the difficult lending environment and challenges facing the local commercial real estate sector.

By July 2010, the partnership still had not secured financing for construction on terms the project could support. All new leads circled back to lenders the partnership had already approached. In order to move the project forward, the partnership researched the following adjustments to the original plan; however, none of these options proved viable:

- Shifting the facility ownership structure to FBNA, the cooperative, or the farmer network. Unfortunately, the project could not be structured as "owner-occupied" because FBNA had extended its resources to the fullest and could not assume the additional risk without compromising its minimum reserve requirement for overall operations. Similarly, the family farmers within the CFN perceived the risk as an undue burden.

- Shifting the location to an existing structure. Unfortunately, no suitable alternative site was identified within the community to serve the Terry Heights Hillandale neighborhood.
- Use existing funds to build the farmer distribution center with a pavilion for a farmer's market. The use of city dollars for this purpose rather than the grocery store proved unpopular and placed an undue burden on the farmer partners.

Due to looming grant deadlines, the partnership returned its allocation of CDBG-R funds and voted to indefinitely postpone efforts on the Pulaski Pike Market in July of 2010.

Factors Preventing PPM's Critical Real Estate Transaction

The public/private partnership sponsoring the project had significant contributions from the following sources:

- City and county governments;
- Grassroots community support;
- Private nonprofits;
- Rural, small businesses; and
- Federal funds.

However, the partnership was unable to leverage these supports in the private or nonprofit lending sector in order to access credit for the real estate transaction. The partnership's discussions with various lending sources underpin the following portrait of the difficulties encountered and the state of small business investment at the time. For the purposes of this case study, the partnership elected to maintain the anonymity and confidentiality of discussions with lenders in deference to current and future relationships.

Tightened Credit Market Curtailed Lending

In light of recent bank failures, many financial institutions curtailed their lending in order to maintain a certain balance of commercial real estate within their loan portfolio to comply with the institution's internal policies and those of the regulatory agencies tasked with oversight of the banking industry. Lenders were carefully scrutinizing their commercial real estate portfolios to ensure an acceptable ratio of owner-occupied versus nonowner-occupied loans and retail versus industry loans. At times lenders conveyed that even with a 100% loan guarantee, they could not issue a term sheet because their "buckets were full," i.e., they had attained their portfolio limits.

Start-Up Businesses Lack Access to Credit

Again, due to the prevailing economic climate, many lenders were unwilling to originate loans for start-up businesses, preferring to finance transactions with existing clients and/or businesses with proven track-records seeking expansion capital. Although PPM was well capitalized on the operational side and had developed a solid business plan, the fact that it was a start-up business precluded it from consideration by many lenders due to the bank's internal policies prohibiting lending to new commercial endeavors.

Size of Loan Request Ill-Suited for Lenders' Investment Scale

The size of the loan request hindered the partnership's ability to finance the project's facilities through either commercial credit or foundation support. Margaret Lund, a community development finance specialist, stated that PPM's loan request was "an awkward amount of money"[5]—meaning the $1.1 million loan request was too small for larger institutions and too large for smaller banks or foundation support.

Commercial Credit

In order to comply with regulatory restrictions in an economic environment where capital resources remained limited, smaller community banks had to weigh the appropriateness of making a $1,000,000 loan to PPM against using those same funds for multiple smaller loans to existing customers. Faced with this situation, small banks elected to serve their existing customers with whom they had an established track record. Efforts to form a consortium of smaller banks also proved ineffectual.

Although the project was an excellent candidate for financing from a Community Development Financial Institution (CDFI) utilizing the New Markets Tax Credit Program, the size and location of PPM made it less attractive to well established CDFIs, whose investors preferred projects in large metropolitan areas with loan requests well in excess of the amount needed for PPM's development.

Foundations/Grants

Philanthropic grant opportunities aligned with the project's goals did arise during the capitalization period. However, most of these grant awards either required that the remainder of financing already be secured or excluded infrastructure expenditures and thus required the partnership to shift project funds. Given the FBNA's unrestricted investment, this transfer was possible; however, the maximum grant award identified was $100,000, which would not add enough equity to the project to warrant waiting for the long grant review process or the risk of returning an award at a later date due to lack of full financing.

Time constraints worked against the project's nonprofit partners, who faced relatively short timelines for the expenditure of awards already secured and typically long wait periods for possible grant awards. The partnership also approached two major, local benefactors; however, no serious interest was forthcoming. Efforts to launch a pledge drive redeemable for store credit were also abandoned due to time constraints and the inability to leverage a social lender's commitment.

Collateral Devalued

Despite Huntsville's relatively stable market, local lenders perceived significant risk management challenges due to substantial failures in the national real estate market and high commercial property vacancy rates across the country. Many Alabama banks had a strong presence in Florida and the Gulf Coast where the devaluation of commercial real estate was more severe. As a result, lenders adjusted their underwriting criteria to ensure that properties within their portfolios were not over-leveraged. Thus, obtaining financing secured solely by real estate was much more difficult. In order to meet the new loan-to-value ratio (LTV) requirements, borrowers must have had additional equity to serve as collateral for loans.

Thus, while the value of the land and the grant-financed equipment improved PPM's loan-to-value ratio, Neighborhood Concepts, Inc. (the non-profit developer) lacked the necessary liquidity to provide additional collateral in the form of equity in the real estate transaction and/or corporate guarantees.

[5] Conference call, June 4, 2010.

Loan Guarantee Requirements

In the prevailing financial market, lenders who were willing to provide financing to start-up businesses were hesitant to approve the loan request due to the real estate collateral issues discussed above. As such, these lenders were looking for alternative means of mitigating their perceived risk in the form of corporate and/or personal guarantees. In one instance, a lender offered to finance the project, but only with 100% cash collateral for the loan in the form of personal or corporate loan guarantees and/or cash deposits pledged to the transaction. Although willing to provide a corporate guarantee, the local non-profit borrower (NCI) lacked the necessary liquidity to satisfy lenders of its ability to guarantee the real estate loan.

As a hedge against a business default, the development team offered to establish a debt service reserve account equal to 6 to 9 month's worth of debt service to be funded by a $60,000 commitment from FBNA and a deferment of a portion of NCI's anticipated developer fee. This offer, however, proved inadequate. The partnership also explored several government loan guarantee programs administered by the Small Business Administration (SBA), Housing and Urban Development (HUD), and the United States Department of Agriculture (USDA).

None of these options proved viable. An ownership structure involving nonprofits and/or a cooperative was problematic for SBA programs because the SBA did not allow loans to nonprofits and considered cooperatives nonprofits. Even if an ownership structure had been crafted to satisfy SBA requirements, the 20% borrower cash equity required under SBA regulations was prohibitive.

Although often utilized for economic development activities, the HUD 108 loan guarantee program would have required the City of Huntsville to pledge future HUD funding as security for the term of the loan, thereby limiting its ability to fund future developments. With community development needs already identified throughout the City, local officials were hesitant to commit a substantial allocation of future funding to one project primarily benefiting residents of a single geographic area.

Although an 80-mile regulatory allowance qualified the PPM for a USDA loan guarantee despite its urban location, the partnership ultimately deemed the PPM a poor fit for USDA options, as these programs would require the local farmer network to serve as the borrower entity. This configuration placed an undue burden on the producers and defeated the purpose of the nonprofits in the partnership shouldering the risk of the business's incubation.

The partnership made the most progress in negotiations with a nonprofit lender backed by a pool of social investors. Although this lender did not normally finance start-up businesses, they found PPM's business model compelling enough to consider. To align PPM with the risk parameters marketed to their investors, the lender proposed financing 70 to 80 percent of the development costs provided that they secure $300,000 in guarantees from their investor pool and that the project bridge the remaining gap without incurring additional debt. Ultimately, the lender garnered only half the needed guarantees, and the deal died.

Challenging Terms

Although the borrower identified mission-driven, national nonprofits committed to lending to activities such as PPM, the rates and terms of these loans made the deal infeasible. Often such lenders could only provide a percentage of the total financing required at interest rates as high as 10% and for short amortization periods (7 to 10 years). Based upon projected income, the property could not service the resulting debt obligation.

Limited Alternative Financing Options

Community Development Financial Institution (CDFI) funding appeared to be the best financing option for projects like PPM. The table below, however, illustrates the dearth of CDFI activity in the state of Alabama, especially when compared to other southern states. Alabama, for example, received the lowest level of CDFI Fund awards among contiguous states. Georgia, the second lowest, still received a higher amount of CDFI Fund awards by a factor of 8.5.[6]

Table 1: CDFI Awards to Selected States

State	Number of CDFIs	Amount awarded by the CDFI Fund to CDFIs since 1996	Value of New Markets Tax Credits since 2002
Florida	23	$33,185,000	$135,000,000
Tennessee	14	$15,600,000	$63,250,000
Mississippi	12	$15,200,000	$70,000,000
Georgia	18	$9,850,000	$384,000,000
Alabama	13	$1,160,600	$40,000,000

Summary

The Pulaski Pike Market addressed multiple social needs through an entrepreneurial and self-sustaining operation that the financial analysis indicated was viable. The project assembled a broad but ultimately unsuccessful public/private partnership involving city and county governments; grassroots community support; private nonprofits; and rural, small businesses. All parties made considerable contributions of staff time and agency resources—drawing upon their skills sets, contacts, and operating advantages. The partnership also thoroughly researched its model, performed all the necessary due diligence, took measured steps through a deliberate development process, and mitigated its identified risks. Excluding personnel expenses, the partnership invested nearly $90,000 in predevelopment research, planning, and design.

None of the resources available to the project, however, could be leveraged in the project's critical real estate transaction whether structured as a public, commercial, or philanthropic investment. The PPM project encountered a tightened credit market, which resulted in a lack of credit options for real estate transactions involving start-up businesses of a relatively small size with little collateral to offer besides the value of the real estate.

Thus, despite the fact that the business venture itself was fully capitalized, the Pulaski Pike Market could not open in the Terry Heights Hillandale community due to a lack of alternative financing mechanisms to facilitate access to credit. The following recommendations were proposed to the USDA to surmount market impediments to future community food enterprises like the Pulaski Pike Market.

[6] CDFI Coalition of Community Development Financial Institutions. *CDFI State Profiles*. http://cdfi.org/index.php?page=info-5 (accessed July 20, 2010).

Recommendations

Local initiatives like the Pulaski Pike Market must have access to credit in order to address rural/urban food deserts and develop locally sustainable food economies. In order to create conditions conducive to fostering access to credit, it is imperative to align financial products with the *(1) development stage; (2) operating needs/environments; (3) scale;* and *(4) development entities/incubators* of locally owned, food-based businesses. The following recommendations include actions or policy allowances relevant to each of these four dimensions of locally owned, food-based businesses.

1) Development Stage

Start-Up Businesses

Although in Chicago, for example, corporate chains like Walmart have won approval to move into traditionally underserved neighborhoods,[7] a reasonable assumption is that a significant percentage of businesses electing to open in an underserved marketplace—certainly locally owned enterprises—will begin as start-ups rather than expanding businesses.

Some food deserts—whether rural or urban—will likely be considered incompatible with the brand identity, business model, and growth strategy of corporate chains. In addressing the issue of food deserts, if the goal is to take advantage of economic benefits in addition to food sales—benefits that local enterprises like PPM are designed to create and corporate expansions do not offer, including ownership opportunities that generate long-term savings for workers, expanded markets for small farmers, and retention of dollars in the local economy—then financial resources for start-up businesses are necessary.

Since submission of these recommendations to the USDA, a further recommendation would be that the extent to which existing instruments, such as those offered through CRA, CDFIs, SBA, and USDA, adequately serve these needs should be carefully and empirically examined with shortfalls then to be addressed.

2) Operating Needs/Environments

Capital Outlay for Infrastructure

Grocery stores, processors, and other food-based operations necessary for locally sustainable food systems require capital investments not only for equipment but also for infrastructure in both urban and rural settings. Federal and foundation grants that focus on food systems should expand their allowable expenses to include construction for needed local and regional infrastructure.

Rural and Urban Links

To foster links between rural producers and urban consumers, offer flexibility within regulations to accommodate the most regionally strategic site for infrastructure. Disseminate information to field staff and potential users about existing regulatory allowances that bridge rural and urban connectors, i.e., qualifying projects for USDA loan guarantees within 80 miles of a rural population.

[7] Gimenez, Eric Holt. *The Fight Over Food Deserts*. July 14, 2010. www.huffingtonpost.com/eric-holt-gimenez/the-fight-over-food-deser_b_646849.html (accessed July 18, 2010).

3) Scale of Investment

“Awkward Amounts of Money”

Research the capital outlay required for common, food-based businesses integral to local food systems (such as small format groceries). If the data warrant, accommodate amounts of loan/grant requests that fall between existing opportunities. In the PPM’s case, a grant award between $300,000 and $400,000 may have injected enough equity into the deal to secure the remainder of the financing required for the real estate transaction. Foundations may also consider shifting from grants to program-related investments (PRIs) that can take a subordinate credit or equity position. The time to approval of PRIs may be crucial to securing needed loans.

4) Development Entities/Incubators

Nonprofits and Cooperatives are Innovative Incubators of Food-based Businesses

After serving charitable feeding programs for over 25 years, the Food Bank of North Alabama views the lack of access to healthy food choices—the key characteristic of food deserts—as merely a symptom of the collective economic distress of underserved communities. In FBNA’s view, food deserts lack more than just access to healthy food choices—they lack access to jobs paying fair wages, long-term wealth-creation opportunities, healthcare, nutrition education, reliable transportation, and other multifaceted underpinnings of poverty. Food deserts are not merely deserts of healthy food choices, but also deserts of meaningful economic opportunity.

As the PPM’s design demonstrates, commercial enterprises that offer access to healthy food choices can address more than the symptom of food deserts. They also can affect the root economic cause of food deserts, particularly when they are developed to measure success not only in terms of profit margin, but pay scale, amount of equity generated for local owners, impact of worker training, volume of purchases from local suppliers, and the effects of educational/cause marketing outreach.

Examples of businesses that serve social as well as economic purposes within local, food economies exist: Mandela Foods and Arizmendi Bakery. People’s Grocery and Green City Growers are currently under development. In all of these cases, either a cooperative or nonprofit has or is developing them.

Since the mid-1800s, cooperatives have been a common form of enterprise in the agricultural, and later in the food service industry (Nadeau & Thompson, 1996). Farm cooperatives “account for a significant portion of economic activity in U.S. agricultural and food markets, both as providers of key inputs and as marketing and processing agents for farm output” (Deller, Hoyt, Hueth, & Sundaram-Stukel, 2009, p. 16).[8] Retail food cooperatives grew rapidly “during the mid-1960s and early 1970s when there was a nationwide resurgence of cooperative food stores” (Deller, et al., 2009, p. 20). They tend to increase in number when “large numbers of consumers experience economic difficulties and develop an interest in ownership and control of their retail food sources, when they become concerned for food safety, and when they experience a strong desire for an ethical society” (Deller, et al., 2009, p. 20). Many nonprofits, such as the Food Bank of North Alabama, Community to Community Development, Mandela Marketplace, and nonprofit commercial kitchens are also working to incubate businesses on the frontlines of local food economies.

[8] See the National Cooperative Business Association for a classification of types of cooperatives, http://www.ncba.coop/ncba/about-co-ops/co-op-types, accessed 18 January 2011.

The development of nonprofits and cooperatives are predicated on social values that compel them to evaluate success across triple bottom lines—economic, social, and environmental. This organizational affinity has led nonprofits like the Food Bank of North Alabama and Mandela Marketplace to move beyond the charity model to incubate commercial cooperative businesses in areas such as food deserts where the commercial sector's cost/benefit analysis has led to underserved communities.

With the ability to raise funds through grants and charitable contributions, nonprofits are poised to assume some of the risk of start-up ventures in this emerging domestic market—a critical step to advancing local food economies. National policy designed to address issues such as food deserts implicitly envelopes a multi-disciplined approach including economic, social, and environmental objectives—in essence, a triple bottom-line approach that is aligned with the operational imperatives of nonprofits and cooperative businesses.

The Small Business Administration has traditionally excluded nonprofits and cooperatives from its programming, although nonprofits and cooperatives foster innovative and accessible models of job creation within local food economies—a practice aligned with the SBA's stated mission to help "Americans start, build, and grow businesses." From the perspective of cooperative developers, the exclusion of cooperatives was due to an assumption that cooperatives fall under nonprofit statutes. In Alabama, for example, the enabling legislation for an employee corporative corporation (worker cooperative) falls under Title 10, Chapter 2B entitled "Business Corporations," whereas nonprofit charities incorporate under Title 10, Chapter 3A.

To foster innovative, new market development relevant to food deserts and local food economies, it is critical to expand access to credit for small, start-up businesses operating as cooperatives or incubated by nonprofit organizations.

Formal Evaluation

After submitting the above recommendations to the USDA, the principal people involved in the Pulaski Pike Market were formally asked to reflect on the lessons learned during the project's development, one of the key elements of action research. Members of the Steering Committee—including community residents and farmers, as well as officers at some financial institutions—were asked to evaluate the project (see Exhibit 1 for a list of interview participants). In her role as Director of Community Food Security at the FBNA, Kathryn Strickland sent 12 participants an email asking how they would explain the outcome of the project and what could have been done differently for the project to move forward. Between November 2010 and January 2011, John Whitman, a faculty member and researcher at Babson College, conducted telephone interviews with the participants to hear their responses to these questions. Participants were given the option to comment anonymously, and thus some of the names and affiliations in the account that follows are fictitious. All participants were given the opportunity to correct and expand on their paraphrased comments before approving the transcriptions, and all participants were given the opportunity to review and correct their comments in this case before its release. The case itself provides participants with an opportunity to learn from each others' perspectives, which is one of the benefits of action research.

The participants—Food Bank board directors, community residents, farmers, and bankers alike—were unanimous in their support for the project. Tami Jordan, the director of the Terry Heights Hillandale neighborhood organization said, "We wanted it to happen because a lot of people need jobs. People could walk to work and not worry about a grocery store being nearby the elderly." In the words of Adam W. (a fictitious name) a bank vice president, "The keys that attracted us included: food desert, unusually high incidence of obesity-related illnesses in subject neighborhood, concept that allowed for a market for local farmers, competitive cooperative food costs (lower cost of goods sold than average), and site improvements at one of the most visible intersections in Huntsville (565 and Memorial Parkway)." Moreover, the participants noted how thoroughly the project was researched and prepared. Jim Blair, whose career had been with NASA, said, "I was very impressed by the due diligence of planning, with the exception of financing the construction. I've never seen anything to match it outside the extreme detail of spaceflight planning." He continued, noting that the poor economy was the principal reason for the failure to secure construction financing:

> Those involved turned over every stone anyone could think of. Probably the main reason for the unpredicted financing roadblock is that the economic situation changed over the time span from initial concept to cancellation.
>
> From a technical point of view, when a project is big enough, you need to compartmentalize it, divide it into parts, and then put it back together as a system. Here the main parts were the Food Bank with its emphasis on operational planning and system overview, and Neighborhood Concepts, which had confidence in their ability to obtain funding.
>
> I believe the Food Bank was relieved to delegate financial risk to Neighborhood Concepts. But I think we on the Food Bank should have placed greater emphasis on the total system view—then we probably would have identified construction financing as a significant risk. But that probably would not have changed the outcome. We might have achieved agreement on the risk, but would have proceeded anyway.
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> We discussed private investors for construction financing, but at a later stage of the process after other avenues had been exhausted. That approach wasn't feasible then because the deadlines were too tight. If we had explored private investors up front it might have worked.
>
> So we might have started the process earlier. But as it was, I can't think of anything different.
>
> In terms of default approaches, there was not much enthusiasm for another location, or building, or farmers' market approach. They didn't encompass the desired objectives, or were otherwise not feasible.
>
> My personal feeling is that it was so disappointing to all of us, to carry things so far and to have (overly optimistically) expected success in lining up financing. I have such sympathy with those intimately involved in doing all the work. I mourned the loss but look forward to the future.

Karol Waddell, President of the FBNA Board of Directors was "baffled" by the outcome, but noted the effect of the downturn economy on the lending practices of the financial institutions:

> When I joined the Steering Committee, I was employed by Second Mile Development and [was] a member of the Board of Directors of the Food Bank of North Alabama (FBNA). In January 2010, I was named President of the FBNA Board of Directors.

> While we were more than capable of capitalizing the operations for the Market, we were not able to capitalize and receive funds for the building itself. We ran into unexpected roadblocks with the economic downturn. Economic institutions tightened their belts and were unwilling to lend to a start-up.
>
> Despite this, Neighborhood Concepts did their best to secure funding for the building and exhausted all options. We had the land, and we had the funding for the operations. Initially, we thought it would be harder to secure the funding for the operations than the building.
>
> To be honest, I'm baffled myself. We exercised extreme due diligence to put ourselves in the best possible position. I was not directly involved in any of the financial discussions pertaining to the building, and I honestly don't know what could have been done differently. While we thought we might have some challenges, I didn't think it would be as difficult as it was.
>
> I have lived in Huntsville for 6.5 years, and haven't heard of any other projects in the Terry Heights Hillandale area being funded, but I'm reserved about making any assumptions beyond the financial analysis. I can't speculate if this outcome had anything to do with the location or the socioeconomic status of the residents in the community.
>
> We were operating under a set of guidelines; we had a plan and pursued it to exhaustion. The idea of raising funds from private individuals was presented toward the end of the project when it became clear that funding from the financial institutions was not likely, but given the time constraints on some of the other grants, this was not a feasible option. It could possibly work, but it wasn't part of our initial plan.
>
> I'm sorry we got stalled. It was an excellent project. I was so excited and committed to it because of the many benefits it would have brought to the Terry Heights Hillandale community. But I haven't given up; there is still hope to continue the effort.

Karen Wynne, Executive Director of the Alabama Sustainable Agriculture Network and farmer on the Steering Committee, concluded that the economy was partly to blame, but that finding another location might have avoided the need for a construction loan:

> I think the reason the project was not funded is that it was bad timing. Who knows what would have happened two or three years ago when it was easier to get money?
>
> This was the most well financed project I have ever worked on in Alabama. If that project couldn't get funded, it makes sense why smaller projects aren't getting funded.
>
> The economy was partly to blame. The funders also had questions about projected income. Without a basis for comparisons you can't tell what would happen. Someone has to go first.

> I don't know how lenders feel about any food marketing loans. The size was medium—bigger than a farmer's market, but not big enough to be equivalent to a straight up grocery store. This middle ground is harder to fund than a niche one.
>
> One question that came up more than once was: are there alternative locations? It sounds like the team reviewed a lot of other options and narrowed it down to the location on Pulaski Pike. I'm not sure if selecting another location would have complicated the city's commitment of funds. As an alternative funding source, wealthy folks could have financed it as a civic project. RSF Social Finance could have provided matching funds.

Greg Kamback provided the perspective of an architect working on the building design and concluded that the economy was to blame:

> I've been in the group for three years. I'm on the steering committee and before that was a member of the board of the Food Bank. Following a set process, we would have stopped the project if any of the test results indicated it was not possible—the feasibility study, the marketing study, all passed.
>
> I would explain the failure of getting financing of the building by the economic times. As an architect, I know how hard it is for all of our clients to get funding. Banks are under extreme scrutiny and are told to make loans but to avoid risk.
>
> A grocery store with low margins and no track record, combined with the unknowns of the worker cooperative system, a low income neighborhood, and counting on sales from outside the area, all contributed risk factors that were just too much for the banks without onerous conditions.
>
> The property for the site was eventually donated by the city and was big enough to include expansions. This was public property that had restrictions that would have made it more difficult than normal to lease to others in case the grocery failed.
>
> Three years ago, say in 2007, the project would have gone ahead. Someone would have funded it, but not without pause. But part of the operational side would have been funded by stimulus money, which was not there in 2007. Will the economy come back? Not by 2012; maybe in 2015 to 2020 to regain a solid foundation, but it will never be like what it was.
>
> What could have been done? I don't know. We tried reducing the size, and reducing the cost. The risk didn't go away; it just got smaller. Mary Ellen Juddah, the developer, went to all lengths to find sources. The number and variety of sources she went to was phenomenal, so there was no lack of effort.
>
> Maybe if we had abandoned some core things, the risk would have gone down, such as raising equity funding instead of using a worker cooperative model. Maybe a syndicate of wealthy Huntsville residents could have provided the $1.2 million, but could they do it in time?

> I would have felt better about the cooperative if the proposal had been more of a bottom-up idea. As it was, the store manager would not necessarily come from the immediate neighborhood, as there might not be anyone there at that time with the required grocery management experience. People are looking for employment in all positions, but the project will fail if it is staffed by a manager without the right experience.
>
> In the Food Bank's strategic plan, we want to put ourselves out of business. One way to do this is to make cooperative training central to building capacity in the neighborhoods we serve.

From a funding perspective, Adam W. provided a detailed explanation of why his bank decided not to fund the project, noting that the risks inherent in the project itself were too great to overcome:

> The Pulaski Pike Market was a project difficult to get your arms around. In my humble opinion, two things happened.
>
> First, the Bank was concerned over the businesses' ability to pull it off in that particular area. We were concerned about whether the cash flows were accurate. We had another client, a local grocer, who was struggling in a nearby location. If Whole Foods came to town it would cause a real concern [at the time Whole Foods had one location in Alabama: Birmingham]. The Terry Heights location just did not have enough local demand; they would need to pull customers in from outside. Another boutique grocery just didn't make it due to competition from Earth Fare and Publix. The grocery business is typically a low-margin industry that requires a high volume and larger square footage operation to be successful.
>
> Second, from a collateral perspective, would the value be there to support the loan amount? They needed $1.1 million to build the building. We looked at comparable appraisals of properties nearby. We consulted real estate appraisers all over town. The building had a potential value of $700,000, which would lead to maximum potential construction loan of $560,000 due to construction loan regulations.
>
> Third, federal examiners and auditors were cracking down on real estate loans with a focus on speculative, income-producing, real estate loans. The Bank could have provided an owner-occupied loan, loaning directly to the operative, rather than to a third party. We tried to see if this was possible, but the problem in this scenario [was that] most of the financial wherewithal of the borrower was eliminated. Just how to get all the assets into a worker cooperative was too complex. We also imposed restrictions on the amount of non-owner–occupied real estate loans due to our concerns over the regulators' treatment of this type of loan.
>
> As to the economy, I'm not sure how sensitive we were. We were less concerned about the economic situation than the underlying economics of the deal. Food items are good anytime; they're not cyclical except at the high end.

Given the economics and the loan policies that were in place as a result, it was difficult for the bank to get a complex work-around. It would have had to be the best deal in history.

We proposed different structures three or four times. We wanted to see it done. We saw the food desert in the community as not just a coincidence, and we agreed with their assessment that the Huntsville community needed to do something. We sent them numerous emails outlining the four options to get it done, but could never agree on a structure that would satisfy our concerns. We couldn't do a speculative deal; it had to be owner-occupied. We wanted to see very strong performance with a cash-secured project for the first three to five years, with a step-down after that, 50 to 60% secured by cash, but not all cash. Without cash we had to have additional guarantors for the initial term of the project.

There was no funding for cooperatives from the SBA, but there were a number of different loan programs from the USDA, but not in an urban area. Waivers would be required, and there was no one to champion the project within USDA. The demographics were the same as in a rural area, but there was no one to go up the USDA chain of command and make the case. The deal could have been 40% from the USDA, 50% from the bank, and 10% from the owner.

Again, the SBA couldn't fund cooperatives, only for-profit traditional businesses. The only other route that was available to us was the USDA. We received no interest in this project from the USDA. This was frustrating as I grew up in Oakland, Alabama, and I remember the USDA funded farmers cooperatives, like Feed and Seed Cooperatives.

The politicians came forward. The city donated the land, but the city was also embroiled in the public housing issue, where there was a real fight.

Here is how our system works when a proposal deal comes in.

1. I, as a bank Vice President, analyze the deal from the client's perspective: why do they want to do it, what is the sense of urgency. I do a pro forma analysis based on their numbers alone. I look at the balance sheet, income statements, and cash flows.

2. Then I look at analyses from independent standards. There is an RMA guide, which includes both voluntary data from clients classified by industry types and average percentage metrics. So I then analyze the deal based on averages: is the deal better or worse than the industry averages. I try to understand why the deal compared to a metric is off. In this case, the cost of goods sold was low compared to the average, and income was higher than average. So I went to Mary Ellen [Judah, Executive Director of NCI] to find out why, and she explained that she had gotten quotes from suppliers.

3. Then I look at other, existing clients, Huntsville-only data on clients. I also look at data shared from local bankers' RMA meetings.

> 4. Finally I consider our internal "sauce" created out of the bank's experience. What pitfalls do I see?
>
> At the end of the day it's all about the cash flow analysis. I look at revenue, cost of goods sold, and try to determine which of the numbers are the most accurate. In terms of net income and net cash flow, do the outcomes cover the debt service? At some point, you can't change the reality of the store. It is tough to generate enough cash flow to cover the debt service on a nearly $1.0 million loan with less than 10,000 square feet of retail space.
>
> From my analysis, we go up to the Senior Vice President, who has authority to lend up to $1 million. Combined, we could have done the deal.
>
> The situation at the bank was that we were doing deals at the time, and doubled in size in 2010. Banks are in business to do good deals with qualified customers, and we truly wanted to find a way to make this deal a reality. The final outcome was not what we wanted. Mary Ellen Judah and the Food Bank of North Alabama did good research, they did their homework, and they did things right. The economic condition of the nation was a factor, the financial crisis was a factor, but specifically it was banks and real estate. We needed an owner occupied loan, but that would have required a very complex ownership structure.
>
> The Food Bank could have been an occupant and received the loan, then subcontracted to the cooperative. But we can't coach the clients. They would have to come up with the deal. We just can't coach them, because if what we propose didn't work out, we would just be seen as encouraging speculative risk.

As a summary of his analysis, Adam W. provided a follow-up email noting the following:

> The project concept was sound, and the Bank sincerely wanted to work with Mary Ellen and the Food Bank to accomplish their mission. They did a fantastic job of conducting market research, working with the neighborhood to assess needs, working with other cooperatives to put together projections and raising cash to begin the program. We hoped that we could find a structure that would allow us to lend them the funds to bring this concept to life in Huntsville. The keys that attracted us included: food desert, unusually high incidence of obesity-related illnesses in subject neighborhood, concept that allowed for a market for local farmers, competitive cooperative food costs (lower cost of goods sold than average), and site improvements at one of the most visible intersections in Huntsville (565 and Memorial Parkway).
>
> 1. Macro-economic Conditions
>
> a. Pressure from federal regulators and bank examiners to reduce size of real estate portfolio for Acquisition and Development loans and loans for speculative income-producing property. We had no prohibition against owner-occupied real estate lending. However, we would still have an issue with the construction phase of the loan, and we typically work with a bank in Tennessee to sell them our construction loans and then repurchase them upon completion of construction.

b. General market trends

2. Business Plan

a. [The Pulaski Pike] Market's projections did not show profitability until [the] third year. This would be a "rated" credit and would receive additional oversight from banking regulators. It would also increase the amount the bank would have to reserve for a potential failure of the loan. We cannot lend new money to a business that would be "rated." We worked with Mary Ellen to adjust numerous line items of the projections to ensure that the project would show a profit in the first three years. Our advice was to make a number of the line items only payable based on meeting specific financial hurdles.

b. Business projections did not match RMA industry averages or our experience with two other local markets (one struggling, and one failed). This was a major area of concern for us. It is difficult to defend the potential profitability of a new project when two existing projects in a five-mile radius are in financial trouble.

3. Equity

a. We were not able to secure participation from USDA; their involvement in a loan program with the bank would assist the bank from a loan-to-value perspective. It is not as good as subordinated debt (they still receive principal and interest payments), but it is a major step in reducing the bank's risk.

b. Bank needed to be cash secured in the first five years to make this work as proposed. Mary Ellen's organization and Food Bank of North Alabama offered all of the equity that they could, but it was not sufficient for us to get the loan approved. Our hope was that we could have the cash as collateral for the initial loan term of five years and include step-down provisions to reduce our reliance on the cash over the initial term of the loan.

4. Collateral Valuation

a. We knew we would have an issue with the loan-to-value of the property. Typically, we can only lend up to 85% of the lesser of a project's costs or its appraised value. The total project costs were estimated to be $1.2 million, but we felt like the property would appraise for less than $700,000. That estimate was based on current appraisals for properties within one to three miles of the subject location. This really could be tied in with the equity section.

The analysis offered by Solomon K. (a fictitious name), an officer at another source of financing came to the same conclusion as Adam W.:

> The way we look at things, we came to the Pulaski Pike Market project through Mary Ellen [Judah] or Kathryn [Strickland] and were blown away by its potential for social impact, and even more so when we got to the site visit and met the folks in the community. We were very moved and wanted to do as much as possible to make it happen.

We are a hybrid organization, with 1,000 investors who give us money for at least 90 days, though the average is 8 years, to lend out. We lend one-third to for-profit ventures and two-thirds to nonprofits for periods of five years or less. We pay investors a rate of return and we take a spread for operating purposes, so the borrowers pay the combined rate.

There is a school of thought that says that you should not have to have a tradeoff between financial viability and social impact, and we are trying to chart those waters. The two are scaled, and while the PPM scored very high on the social impact scale, its position on the financial viability scale was questionable. We are trying to find projects that score high on both scales.

There were a number of things that made us antsy about the deal. First, the sales numbers were too rosy. The business itself is a grocery, which is a low margin business with little room for error. We were very concerned about hitting the projections. The business only existed on paper. We dug a lot to get information to confirm the projections in the business plan. For example, we found out from the Census Bureau how much people in that income bracket spend on groceries each week or month. We did some initial research and found that the sales per square foot for the average grocery store in the Huntsville area was $369. When compared to the projected $1,146 per square foot for PPM, this made us highly skeptical of PPM's projections. However, PPM's consultants provided a somewhat reasonable explanation for the discrepancy: that the $369 figure is more typical of a much larger store format (46,000+sf) whereas smaller store formats (of PPM's size) tend to have sales per square foot over $1,000. I say this explanation is only somewhat reasonable because many of the stores used as examples of having sales per square foot over $1,000 were in areas much more affluent than the Terry Heights Hillandale neighborhoods.

Second, there was no one in place to manage the store. Even if the business plan was a great idea, there was no one to run it yet. It might have helped if they could have shown the ability to pay a high enough salary to pay the right person to make the sales.

Third, they indicated the operation was fully capitalized, but that was assuming they hit their projections. If they didn't hit their projections, there were not enough reserves to meet their capital requirements. Maybe the Food Bank could have provided some reserve, but that was not cash in the bank.

Even if we could have gotten comfortable with our concerns with the operations, as a lender we still needed payback collateral. The ability to sell or lease that property in this real estate market was not appealing, and very unclear. If the land or building had a lot of value, then if we could be patient as a lender, we might do it, but it was not clear that the value was there. It's a grocery store, not an office building, so the valuation would have had to take a haircut, and then we needed to find the financial guarantees to make up the gap.

Bankers are vilified in the media, and we are not a bank, but we are a lending institution and take a lending institutional perspective. Dealing with troubled

> borrowers in our portfolio is very taxing right now. It would have been difficult to dedicate the resources necessary to adequately oversee a deal this risky given all the needs of our existing portfolio.
>
> We wrestled with this a long time, at least six months. The credit committee took it up two or three times, and we also made a site visit. Our CEO went to pursue guarantors on behalf of the PPM, but was not able to find enough. It was not an easy decision and not a unanimous decision to turn them down. We take money from people and promise them that should the projects we finance fail, there will be collateral there to make them whole, and in this case, we just couldn't find the needed collateral.
>
> Neighborhood Concepts, as a nonprofit organization, could have been eligible for a foundation grant, but not from us because our grants are much smaller than the amount they needed.

Mary Ellen Judah, Director of Neighborhood Concepts, Inc., the nonprofit organization responsible for seeking construction financing, provided an account explaining the outcome from her perspective:

> I believe there were two main reasons why the building for the market wasn't able to obtain financing: a) timing and b) inability to provide strong financial guarantees for the loan.
>
> Unfortunately, we began seeking construction/permanent financing in early 2009 at the height of the economic crisis. As a direct result of several failing banks, the federal regulators were more closely watching bank lending practices and local banks were tightening their underwriting criteria. Specifically regulators were watching to make sure that banks had balanced loan portfolios, meaning that they were not too heavily involved in one segment of lending. Many lenders simply were not making loans or were limiting the types of loans that they made, i.e., a lender may not make a loan such as PPM because they already had met their internally designated allocation of non-owner–occupied commercial real estate.
>
> In the early days of the CRA (Community Reinvestment Act) legislation, banks were clamoring to do business with nonprofits and were able to relax their underwriting criteria when making CRA-type investments with nonprofits. Unfortunately, over time the lenders have realized that they can make a CRA-type loan to a large, national company if it is in a CRA-designated census tract and still receive CRA credit for the loan. Obviously, a loan guaranteed by a large national chain, such as Krogers, would be perceived as better risk than a loan to a small nonprofit.
>
> The financial crisis and resulting tightening of credit meant that the few banks that were lending money were looking for much stronger financial guarantees than one would have expected in the past. NCI has been in business for over 25 years, has never defaulted on an obligation and has a healthy balance sheet, but very little liquidity. Although we were willing to offer a guarantee, the banks were not able to satisfy themselves that NCI had the available cash reserves to step in should the loan get into trouble. We suggested various scenarios to

mitigate this risk, including the establishment of a debt service reserve in which sufficient funds, including the majority of NCI's developer fee, would have been deposited with the bank and made available during the first year or two to fund debt service if the store was not able to honor their lease obligation to NCI. Although the banks seemed interested in the idea, they also wanted strong personal guarantees, which we were not able to identify.

With a projected LTV (loan to value ratio) of less than 75%, we felt that the real estate was sufficient collateral for the loan. However, the proposed grocery store tenant was paying a per-square-foot rent typical for grocery facilities, but considerably higher than warehouse space rates. If the store failed, it would be unlikely that we would be able to identify another grocery store tenant and would probably only be able to lease the space as a warehouse at significantly lower lease rates that would not be sufficient to cover the underlying debt service.

NCI explored over 40 different sources of construction/permanent financing, including loan banks and credit unions, national banks such as the National Cooperative Bank, nonprofit lenders, CDFIs, social investors, and government programs such as SBA, USDA, and HUD. We even tried to identify short-term money (less than five years) with the idea that we could refinance with permanent debt once the markets stabilized.

Local banks were enthusiastic about the project and many said that it was something that was needed in Huntsville, just not something that they could finance at this particular time. [One bank Vice President] performed a detailed financial analysis, spent time talking with another small local grocery operator, and parked at the site and counted traffic that went by to get a sense for the need within the community.

We may have come closest with RSF Social Finance. Two loan officers from San Francisco came in and spent two days with the PPM team. After meeting with everyone, touring the area, and seeing firsthand the strong due diligence that had been done, I think they wanted to write us a check. Unfortunately, they could not translate their enthusiasm to the loan committee and ultimately could not gain approval as the investment risk associated with the project was higher than the investment risk that had been represented to their investors when they capitalized their investment fund.

The greatest strength of the project—the capacity of the development team—was hard to communicate to a lender in a written loan package. Neighborhood Concepts knew the neighborhood very well. The Food Bank was very well respected. Kathryn Strickland was very intelligent. The 25 to 30 other people who were part of the Steering Committee were committed to making the project work. It’s hard to communicate to lenders on paper. RSF came the closest, they were the most poised, but when the deal exhibited a certain risk to investors, the Pulaski Pike Market fell outside the envelope.

> High profile local folks called [a bank], and [a Vice President] was directed to try his hardest but protect the Bank as much as he could, but the resulting guarantee and collateral requirements were unobtainable.
>
> RSF had the ability to think more outside the box. We tried to get lenders to provide term sheets. We wanted it on paper so we could take the requirements to socially conscious persons in Huntsville who had the wherewithal to assist, but we couldn't get formal or informal term sheets. We got a couple of verbal suggestions, but nothing serious that we could use to approach benefactors who might be willing to help.
>
> We could have used USDA guarantees, say through the Business and Industry loan guarantee program. It's not designed for urban areas, but a loophole would have allowed us to use the program through the Clean Food Network's value-added processing center, but CFN would have to have been the owner of the real estate and they were uncomfortable with the associated risk.

Dove Stackhouse was Manager of the Clean Food Network and, like Karen Wynne, a farmer serving on the Steering Committee. Her analysis concluding that banks and bankers are systemically unable to exercise independent judgment was based largely on her prior experience trying unsuccessfully to get bank loans:

> As to why the construction was never funded, hands down it's credit. I really believe, like farm credit, they [the bankers] don't know how to lend credit any more. It's strictly done by the numbers. That's not a very good way—it led to the problem the whole [banking] industry had. They train their bankers to look at the numbers, not at the business.
>
> When we applied for a personal loan (not the Pulaski Pike Market), the bankers were just not interested in the business plan and how we intended to pay back the money. I said I had a business plan, but they just looked at me and never asked any questions. They're not training them to ask questions and make judgments; they just look at the numbers. Even the social lenders were thinking the same way. People don't know how to make farm loans anymore.
>
> I think this will change as doing things locally gains momentum. People are trying to find local solutions—it's more personal than with their corporate counterparts. As the local stuff gains momentum it will change.
>
> I'm not in banking, but I think it would catch on. If green businesses can get credit, great, and another reason why we started the Clean Food Network the way we did was to have another business format—a holistic system, not linear. We are interdependent but [the bankers] only look at one segment.
>
> We're just poor farmers. Without credit it's just real hard, just to have to struggle with what we can scare up. I think we should have gotten the loan rather than the banks making housing loans. Just based on the numbers and policy—no one can think and make a judgment call. The reason we didn't get the loan is indicative of the system, not the project.

Community residents were also willing to share their assessments of what happened. Carla De Shields, a community resident and Vice President of the Terry Heights Hillandale Organization, provided the following account:

> My analysis is probably going to be different from the others. I've lived in the neighborhood as a homeowner since 1957, and I see what happened in the context of our relationship to the larger Huntsville community over many decades.
>
> The economic slowdown could have been a factor in the project not getting funded, but while that may have been an excuse, the bankers are just not interested in developing our community, even when the economy is strong. We have been historically depressed relative to the larger community, and this case is just another example of the systemic dynamics of what keeps us depressed.
>
> We are divided by the north/south fault line (note that is how the railroad tracks divide us). Terry Heights Hillandale is the southern point of the Northwest part of Huntsville and the poorest area in Huntsville. The following newspaper excerpt puts my comments in context:
>
>> Huntsville has long been home to two cities, marked by race and separated by a north/south fault line. That's especially true when it comes to comparing achievement levels between schools. (Challen Stephens, "Achievement gap divides city by race, income levels," *The Huntsville Times*, 6 January 2011, p. A-2)
>
> For example, the school system just abandoned us. They just closed the Terry Heights elementary school and merged with University Place. The demographics of both schools are about the same. University Place is not a wealthier school. The school system merged the schools. The rationale was the schools' enrollment of each was under the capacity of each school. The Huntsville School System promised this community they were going to build a new school in/or between both districts. Presently, there is not a plan to build this school. The plans have been introduced to build a new school in the wealthier community (Blossomwood). Huntsville has been part of a Federal desegregation lawsuit since 1964 in order to end discrimination, and while schools in our community are predominantly black, the city is not helping to make them or our community more equal by closing them.
>
> The previous mayor systematically favored providing town resources, including trash pick-up, street cleaning, everything, to the high-economic community, but not to us. The current mayor has been trying to make changes, but it will take time.
>
> In 1957 my grandmother built the house I now live in. I personally wanted to move back to the community to reclaim the house and the neighborhood. But the combination of drug dealers and the dynamics of our relationship to the rest of town are the reasons why we continue to be depressed.

> So I think that the bankers may have been able to provide some of the funds, but not all that was required. Instead I think we could have been funded by private money, such as a philanthropic foundation. I also believe another method for funding is from federal funding. It would be an advantage for the community if a federal agency such as the Department of Agriculture would develop an RFP for a grocery store in the demographics of this community.
>
> As to wealthy individuals in the community, no I do not think they would have provided funding because it would have changed the dynamics in the community, and they would have to account to their friends for the same reasons as the bankers.

Dr. Darryl Gurley, also a community resident, shared the following observations, which like those of De Shields' reflect perspectives of those having lived on a day-to-day basis for decades in the very neighborhood in need of the Pulaski Pike Market:

> They said it was a risky venture, which is interesting because every venture is risky. I have an MBA and a PhD and used to teach finance in business school, and I understand risk. Risk wasn't the whole story.
>
> This was a new type of venture, a cooperative, something that had not happened before in Huntsville. Too often banks are afraid of new types of ventures, especially in hard economic times. Also, banks don't like investing start-up capital for buildings. But mainly it was the economy in recession. And investing in what was perceived to be an inner-city neighborhood was not appealing to the banks.
>
> I hate to think of it this way, but this is Alabama, and there is a racial component. In a couple of cases—I won't name the banks—there was definitely a racial component that kept them from funding the project. In one case, the application was never even forwarded to the director, which is not good.
>
> I will also say that from my point of view, there was a lack of attention by the steering committee to use all of its resources. As an African American member of the steering committee, with a Ph.D. in finance, I was not included in seeking funding, yet the community is 95% African American. This failure was an oversight by the steering committee in the loan process.
>
> There is no reason why the loan should not have been made if the economy were strong. The paperwork was great, the concept was well explained, the funding for the program was in place. But the banks aren't funding anything in the neighborhood. It's almost like redlining. We just have to keep applying, keep bugging them, because the concept is good and it's a needed project.
>
> I've been working on redevelopment in Huntsville, and there's something that concerns me a great deal. My worry is gentrification. We've seen it happen in Denver, Boston, and Atlanta. The property values will go up, and the people who have been in the community a long time won't be able to pay the higher taxes. Why is this happening here? I've spoken with a number of realtors, and they all

> say they are practicing within the law. But unfortunately, when you look at the process that is occurring, it doesn't have a good racial profile. On paper it looks good, but not in reality.
>
> In the case of our neighborhood, we are landlocked, so to speak, in a triangle that limits our access to markets. We are bordered on one side by the highway, on another side by Pulaski Pike, and by houses on the third side. To put this in historical perspective, there was a grocery store here, but what I call urban removal gutted our community's critical grocery resource.
>
> So our community is landlocked in terms of our access to markets. We need to have a grocery in the community again, and there must be an ownership stake by the community in the market. But I think it will happen. There will be a grocery here some day.
>
> We had no deep pockets to fall back on. I think wealthy individuals could have come up with the $1.1 million. For a commercial loan, that is nothing!

Randy Taylor, integrating the perspectives of both Treasurer of the Food Bank and Finance Director of the City of Huntsville, provided the following reflection:

> I am Treasurer of the Food Bank Board of Directors and have been on the board for eight years. I am also the Finance Director of the City of Huntsville, a position I have held for 12 years. I was President of the Food Bank Board in 2007, when we began working on how to achieve part two of our mission statement—alleviating the causes of poverty and hunger. We examined a number of different kinds of things we could do and came up with a worker cooperative grocery.
>
> The ultimate outcome was our general inability to obtain adequate financing for the facility. There are things we did along the way that introduced complexity. As others joined the partnership the scope changed and became more complex. I would call this scope change, although the most difficult part of the project, the grocery store/cooperative, remained the same.
>
> The bottom line is that we couldn't get the money to build the facility. The project began to take shape in 2008, at the peak of prosperity. Then we hit the low point in the economy.
>
> We attempted to finance a start-up venture. Every start-up is a risky enterprise, but we not only chose a start-up, but one that was a low margin and highly competitive venture in an industry segment where financing was difficult to get.
>
> As you know, you can get all the loans you want when you don't need them. With the credit crisis, we needed to provide the banks or other funders with more equity in the form of cash or guarantees. The Food Bank contributed economic resources but was not willing to put in more resources because of potential risks to our primary mission to provide emergency food assistance. Of all the possible

sources of funding—the government, nonprofit organizations, other participants—everyone had a limit to what they could lend.

Early on, the Steering Committee was aware that getting someone to loan money would be the hardest thing we do—harder than growing food. The low margins and small business size of the venture created an element of risk.

How to get loan financing in an economically disadvantaged area without collateral is a good question. I have no specific knowledge that the Terry Heights Hillandale area as an economically disadvantaged community was an issue. The private banking community was certainly aware of where the market would be situated—I don't recall any questions about why we were putting the market there—but they made their decision on the raw strength of the financials.

If the project were planned in a high-income census tract you could offer nontraditional grocery products and have higher prices and this would have created a stronger financial statement. We could have also chosen a higher margin product mix in Terry Heights Hillandale, but that would not serve the neighborhood.

It may not have been the neighborhood, per se, that contributed to the reluctance to fund the project, but what we were trying to do in that neighborhood that created the financials. The worker cooperative/product mix combination was somewhat unique in the industry; comparable statistics were hard to find.

History has produced food deserts and other urban characteristics that result from just the way the market works. For example, the big box stores created an economy of scale that changed the dynamics in the market and changed where people decide to shop. Everyone wants sources to be close by, but not if they have to pay more for what they want. There used to be retail stores on "every street corner." Evolution seems to continue to move toward more, larger retailers.

While Terry Heights Hillandale is a low-income neighborhood, and we wanted to meet their needs, their food needs *are* being met somehow; they *are* getting food, although the choices are not necessarily healthy and some people have limited access to good food at good prices. But our mission was to provide more than just a grocery store—we wanted to provide jobs as a worker cooperative, pay higher salaries and have good benefits, and provide competitive prices. We could have compromised our objectives to improve the financials, but we weren't willing to do that.

There are some grocery stores in inner cities, but because of their product mix, they don't always sell food to the local residents, they sell to people coming in from elsewhere. Profits are possible but not to serve the community. Convenience stores that exploit the neighborhood are a classic problem.

The answer seems to be that there must be subsidy from the public sector, such as USDA, delivered indirectly through nonprofits. The political discussion says we need more public resources to overcome these market forces.

> Usually in subsidized projects, "sustainable" means the project works, but not for the long term. There is no prediction for how long a project must be subsidized in the market. If we want to achieve worthy public policy goals like competitive prices and better than market wages and benefits, then the state has to decide if it is worth pumping even more capital into it because such projects will require money.
>
> I am not a real advocate of using government funds. The amount of time required to get and manage government funds is significant. The time we spent with government grant agencies was considerable, and we consumed public resources just to pursue government funding. This necessarily makes the process less efficient and more costly. But someone has to put the money in.
>
> We did discuss engaging wealthy individual investors. There could have been community support for the project, but it was hard to say if we could have produced enough checks. From my experience, there are lots of well-intentioned individuals willing to risk their money in a loan arrangement, but not if their philanthropic objectives will not be reached.
>
> The worker cooperative model is not well understood. It is not nonprofit; it is a for-profit, privately owned grocery store meant to provide wealth to its owners. Raising private money for this may have been difficult because it's a new model.
>
> As to lessons learned, because of scope change, the project became more complex. In Plan B, we could start out simple at first, just working with local suppliers without building a grocery store, and reach sustainability before expanding. This would compartmentalize risk and see if the supply and demand model works well with local suppliers. That way we could grow incrementally without the need for a big injection of public capital.

Judah, with a long history of fundraising in Huntsville, concluded, "But the bottom line is, if these sources wanted to do the loan, they could have done it." Since the PPM project's inception, the need for charity had heightened considerably in North Alabama. According to Feeding America's *Hunger in America 2010* report, "From 2006 to 2010, near the time of the case's conclusion, demand for food in the Food Bank of North Alabama's 11-county service area had risen 21%, the number of individuals served exceeded 100,000, and the number of adults with at least a high school education seeking food assistance increased by 30%. The numbers of African Americans seeking emergency food assistance increased by 17% while the numbers of non-Hispanic whites decreased by 10%. The percentage of households having no income increased by 85%. Unemployment compensation as a household's primary source of income increased by 1500%." (Food Bank of North Alabama, 2010, pp. 4-5; Mabli, Cohen, Potter, & Zhao, 2010)

Conclusion

Was the Pulaski Pike Market a failure? Clearly it represents an example of extraordinary social entrepreneurial leadership, planning, community engagement through public/private partnership, and action research. Yet the success of attaining public financial support for the cooperative business—tangible evidence of the project's substantive value, legitimacy, and political sustainability—was countered by the failure to secure private investment in the building, dooming the project's operational and administrative feasibility. The strategy for the project must be understood in the historical, economic, and political context in which it was situated. Beyond the policy recommendations submitted to the USDA, are there other lessons that can be drawn that may guide similar projects in the future?

Depending on rational market players to achieve social change and create social value at the risk of losing economic value may be untenable. There are reasonable arguments for why capitalism should strive to achieve social as well as economic value (Porter & Kramer, 2011); however, it may take time for financial institutions with fiduciary responsibilities to investors to relax stringent requirements to minimize risk, even when the social benefits are compelling. Meanwhile, disparities cannot be endured indefinitely and without increasing tensions. As indicated in the first quotation by Douglass that opens this case, in certain historical cases of market and political failure, initiatives designed to remedy tyranny and achieve systemic social change resorted to political action and demonstrations of political power. Douglass' exclamation that "Power concedes nothing without a demand" is a principle that was central to the community organizing projects inspired by Saul Alinsky from the 1930s through the Civil Rights era (Alinsky, 1989/1971) and continues to resonate in contemporary organizing for social change (Bobo, Kendall, & Max, 2010/1991).

An alternative consideration is for communities like Terry Heights Hillandale to work within their own means and gradually create the change they want, as suggested as "Plan B" by Randy Taylor in his reflection above. This is the tradition of many worker cooperatives that have emerged in a time of severe political and economic hardship, beginning with the weavers of Rochdale in 1844 (Thompson, 1994). Indeed, the founding of Ulgor, the first worker cooperative at Mondragón in 1956 (Whyte & Whyte, 1991/1988), served as an inspiration for the Pulaski Pike Market.

At the conclusion of the PPM's evaluation as an action research project, the Food Bank of North Alabama and Neighborhood Concepts, Inc. were collaborating on a revolving micro-loan fund dedicated to rebuilding a community food system and targeted to local food entrepreneurs, from farmers to retailers. Their intent was to lay the foundation for an eventual Community Development Financial Institution (CDFI). Such a CDFI run by individuals knowledgeable and supportive of community initiatives could fund enterprises like the PPM and the Clean Food Network, whose needs are not being met by traditional funding sources. The Caja Laboral Popular[9] provided just such financial self-sufficiency during the early expansion of the Mondragón cooperative complex.

Meanwhile, the story of the Pulaski Pike Market provides an opportunity for reflection and learning that can inform and inspire others who, like those on the Steering Committee, aspire to move from charity to systemic change.

Discussion Questions

1. How well did your proposal for financing, prepared in Part A, anticipate and address the actual concerns raised by funding sources in Part B? Do you think your proposal might have overcome these concerns?

2. How would you evaluate the PPM project's performance? Would you base your analysis on purely financial considerations? Would you take into consideration the social and political dimensions raised by some of the principals interviewed?

[9] This cooperative bank, which opened in 1960, was so influential in the development of the Mondragón cooperatives that "the bank determines their norms and guides their development" (Whyte & Whyte, 1991/1988, p. 68).

3. How might the PPM's performance be evaluated from a public policy perspective? On what criteria would such an evaluation be based? Why should business school students be concerned about a public policy perspective?

4. Overall, how was the Pulaski Pike Market story unique as a social entrepreneurship venture, if at all, or similar to conventional entrepreneurial ventures?

Exhibit 1: Interview Participants

All participants were either members of the Steering Committee of the Pulaski Pike Market project or representatives of financial organizations including a commercial bank and a social investment fund.

Jim Blair, Board of Directors, Food Bank of North Alabama

Dr. Darryl Gurley, community resident, Terry Heights Hillandale Organization board member, and former professor of finance

Tami Jordan, Director, Terry Heights Hillandale Organization

Mary Ellen Judah, Director, Neighborhood Concepts, Inc.

Solomon K. (fictitious name), RSF Social Finance

Greg Kamback, architect, Bird and Kamback Architects

Carla V. De Shields, Vice President, community resident and Terry Heights Hillandale Organization

Dove Stackhouse, Manager, Clean Food Network, farmer

Randy Taylor, Treasurer, Food Bank of North Alabama and Finance Director, City of Huntsville, Alabama

Adam W. (fictitious name), bank vice president

Karol Waddell, President, Board of Directors, Food Bank of North Alabama

Karen Wynne, former Executive Director, Alabama Sustainable Agriculture Network, farmer

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