Component 5: Southern Arizona Funds for Equity and Resilience (SAFER)

1. **Program Description and Scope of Work**

Southern Arizona is poised to build a regional economy that addresses climate change and sustainably grows and delivers food through business investment and development. Community Investment Corporation (CIC) proposes securing $2.5 million to establish the Southern Arizona Funds for Equity and Resilience (SAFER) for two purposes. First and primarily, CIC will establish the Southern Arizona Revolving Equity and Access Loan (REAL) Fund in partnership with the Greater Yuma Economic Development Corporation (GYEDC). Second, and complementary to the REAL Fund, CIC will administer the Sonoran Innovation & Entrepreneurship Science & Technology Assets (SIESTA), a venture seed fund to be ***established and capitalized outside the scope of the grant*** with Coalition partner, Arizona FORGE (Finding Opportunities and Resources to Grow Entrepreneurs). The fund will support businesses and emerging technologies for whom debt capital is not appropriate or sufficient. SAFER will catalyze innovation, promote equity and mitigate the impacts of the COVID-19 pandemic in Southern Arizona.

SAFER recognizes that different industries and innovations require different types of capital. The REAL Fund, therefore, will eschew the limits of a "one-loan-product-fits-all" approach, providing flexible debt options utilizing a diverse portfolio of standard and specialized loan products for deployment. In addition to utilizing typical bank financial analysis but with lower thresholds for approval (aka "Bank-lite") up to $500,000, the portfolio will include products such as microloans for food entrepreneurs and local food network intermediaries, small business loans for green technologies, and zero percent loans for BIPOC entrepreneurs. The REAL Fund's multilingual approach will ensure a diverse set of entrepreneurs and businesses can access the capital they need. The REAL Fund's primary targeting will be split between businesses that can start up or make a significant step up in growth with lower-barrier, alternatively underwritten microloans of $25,000 or less and those seeking up to $100,000. Greater due diligence and scrutiny will be required for higher amount loans (up to $500,000). While revolving debt funding will meet the needs of many, tech and other innovative ventures often require more substantial capital.

CIC and FORGE will establish SIESTA specifically to support and to augment the REAL Fund as well as the work of the Coalition. The fund will focus on ag-tech and environmentally sustainable commerce. The goal is to raise at least $10 million to invest in high-growth, early-stage businesses and startups that will complement the Coalition's regional efforts.

Finally, world class business education support will be offered through a host of formalized partnerships with the region's premier business and entrepreneurial education providers. From business basics mini-courses to incubators to industry specific accelerators, entrepreneurs in the pipeline and loan recipients will have access to tangible resources, subject matter experts and seasoned investors to ensure their business ventures' viability and sustainability.

2. **Regional Industry Assets and Needs**

The regional population we are serving across 6 counties in southern Arizona is 1,468,526, of which 41% or 600,670 identify as Latino/Hispanic according to the 2020 US Census. CIC is based in Tucson, Arizona in Pima County and serves most counties in southern Arizona with the exception of Yuma. Our primary partner, GYEDC, is based in Yuma and is involved in regional economic development with western Arizona counties. Finally, FORGE is based at the University of Arizona (see Component 1) with strong presence in Tucson and Yuma.

The specific counties to be served and where impact is expected are: **Cochise County** (04003), **Graham County** (04009), **Greenlee County** (04011), **Pima County** (04019), **Santa Cruz County** (04023), **Yuma County** (04027).

Regional needs include access to production equipment needed to test, implement, and scale new products for food and agricultural entrepreneurs including conservation innovations (i.e. growing techniques and water reclamation), as well as, access to capital for non-native English speakers. The REAL Fund will focus on farming, agricultural technology, and food network logistics and distribution as well as businesses/projects that support these industries. Regardless of industry, the REAL Fund will also incubate new and serve existing BIPOC and women-owned business ventures. The seed fund will focus on emerging agricultural technology as well as sustainable agriculture, water conservation, and clean energy innovations.

CIC is an experienced nonprofit lender providing capital to otherwise un-bankable businesses and underserved BIPOC and women business owners across southern Arizona for more than 20 years. CIC has built a robust pipeline of lending leads across most of southern Arizona through its award-winning Diversity, Equity and Inclusion loan work, as well as, formalized partnerships with other successful nonprofits organizations. Over the past 3 years, CIC has experimented with and proven the efficacy of small business and microlending, with 85% of loan recipients increasing revenues by an average of 129% according to an Aspen Institute analysis. CIC was also the first lender in the region to offer discounted interest rates for "enhanced community benefit" aspects of businesses which include a focus on conservation and paying living wages to employees. GYEDC, meanwhile, has deep understanding and engagement with food production, logistics and distribution, and agricultural industry in southwestern Arizona. With this expertise, the REAL Fund will provide essential financial capital to the emerging technologies and businesses attracted by the broader Coalition's partnerships.

SAFER aligns with the overlapping CEDS plans of the region, especially *supporting entrepreneurship*, *engaging partners*, *applying an equity lens to our work*, and p*romoting sustainable development*. Further SAFER will directly help achieve stated goals to *attract investment and improve access to financing*, *bolster the entrepreneurial ecosystem*, *support economic mobility and wealth creation*. Yuma County's **CEDS** specifically prioritize investment in entrepreneurial infrastructure and desert-specific AgTech research. The CEDS also prioritizes an RLF that will serve the 63.8% Hispanic population and the 19.4% that live below poverty. The ubiquitous broadband component application through the Coalition will create opportunities for BIPOC and women-owned start-ups to have access to ECommerce which today does not exist. New R&D for sustainable agriculture will create new products and equipment to meet the growing needs of feeding more people with less resources. The ability to attract new high growth industries that support our existing agriculture will be enhanced through the Coalitions alignment of the Ubiquitous Yuma Broadband project, the South Arizona Coalition Equitable Revolving Loan Fund which will have an office located in Yuma, the Future Farming Hub out of the University of Arizona, and the Sustain SoAZ entrepreneurship programming.

3. Proposed Solution

The REAL Fund will utilize a diverse portfolio of loan products from microloans up to $500,000 to deploy financial capital across southern Arizona. Utilizing CIC's existing network and expanding into Yuma County through a partnership with GYEDC, the REAL Fund will be the most accessible and affordable debt capital in southern Arizona. Our proposed solution is comprised of the following components:

1. Utilize and expand existing networks of entrepreneurial education and business development organizations for lead generation
2. Offer access to a broad range loan and other capital products to meet diverse needs.
3. Support emerging technologies and businesses attracted by the Coalition's work
4. Leverage existing access to alternative business financing and investment when the RLF is not the best/most appropriate option.
5. Create a seed fund (SIESTA) to support emerging technologies and businesses concentrated around sustainable agriculture, water resources, and clean energy.
6. Support business owners pre- and post-loan with a full continuum of business ideation, incubation, and acceleration education and resources

CIC and GYEDC's existing networks, lending products and lending partnerships (*all currently privately funded through earned income, earned interest, and private philanthropy)* include:

- Food entrepreneurship microloan RLF
- A 0%, no fee Community Managed Micro RLF specifically for Black, Indigenous, People of Color (BIPOC second time funds are lent) already exists to ensure sustainability.
- Microloan program in conjunction with YWCA Southern Arizona's Women's Business Center which focuses on women-owned businesses.
- Innovative, affordable and non-extractive revenue-based finance (RBF) to provide flexible and adjusting payment schedules of seasonal businesses like farming.
- A small-business product with loans up to $100,000 with interest rates between 6.5% and 8% for businesses considered "unbankable" by the lending marketplace.

In addition to CIC's existing loan products, CIC partners with providers of non-debt financial capital more typically utilized in the high-growth start-up space. These partnerships include:

- Wefunder (crowdfunded equity investment) – Businesses going through CIC get a 1% discount off the 7% fee Wefunder charges for capital raises.
- Desert Angels (CIC Arizona and FORGE are Affiliate members) – Consistently one of the 10 most active angel investment groups in the nation.

The REAL Fund will develop fair and flexible underwriting guidelines in consultation with potential borrowers while adhering to EDA requirements. This approach helps overcome obstacles and barriers to approval for BIPOC, women, and lower-income borrowers.

CIC will also administer a seed fund, SIESTA, in partnership with Arizona FORGE to support ventures with a focus on ag-tech and environmentally sustainable commerce. While revolving debt funding will meet the needs of many types of businesses, technological and other innovation often requires more patient capital. This type of high risk/high return equity investment is generally offered by angel investors and venture capitalists (VCs). The aim is to raise at least $10 million to invest in high growth, early-stage businesses and startups whose businesses will complement the coalition's regional efforts.

The SIESTA fund has already received interest from angel and venture capital investors nationally through the network of FORGE's Director, a highly experienced and active angel investor, who also serves on the Desert Angels Board of Directors. These close ties with the startup funding community and the robust entrepreneurial education infrastructure provided by the University of Arizona are essential foundations for the success of SIESTA. Given grant restrictions, at-risk capital will be raised and deployed outside the scope of the EDA grant.

CIC and FORGE will define and manage the programmatic support for this non-dilutive and risk capital seed funding. This will include funding path assessment (non-profit vs. for-profit), entrepreneur education (valuation, investor prep, etc.), investor education (due diligence, investor networks, etc.), and regional/national promotion (e.g., getting the most promising startups in front of large investors, accelerators, etc.). Financial and investor literacy includes a novel FORGE program leading to FINRA Series 65 (Uniform Investment Adviser Law) licensure, which meets the SEC definition of accredited investor.

These activities also will benefit from Component 3, led by Startup Tucson, recent grant recipients of the EDA's Build to Scale Capital Challenge with their 'D.R.I.V.E. Tucson: Diversifying Regional Investment in Venture-Ready Entrepreneurship' project developing a New Investor Pipeline. In this way, funds awarded under the BBBRC grant would amplify but not duplicate funds awarded under B2S.

4. **Partners and Program Outreach**

Formal Partnerships (include executed contracts or memoranda of understanding)

- **Community Food Bank of Southern Arizona (CFBSA) - Coalition Partner** CFBSA and CIC support food network entrepreneurs to provide local, healthy food to the region.
- **Arizona Western College SBDC** - Will refer rural southern Arizona clients in Yuma County to CIC for funding and CIC will refer rural clients to AWC SBDC for business education and loan package preparation as needed.
- **Yuma Center of Excellence for Desert Agriculture (YCEDA)** - A nonprofit science and tech partner, YCEDA houses start-up companies turning ideas and inventions into strong, scalable and sustainable businesses. CIC will support YCEDA innovators with small loans for prototypes and access to crowdfunded investment.
- **YWCA Southern Arizona Women's Business Center –** Regional leader in economic justice and entrepreneurial opportunities for women. WBC provides training, mentoring, business development, and financing opportunities through CIC.
- **Growth Partners Arizona (GPAz) /Kiva –** GPAz is a Tucson-based CDFI with an Arizona-wide lending footprint. CIC partnered to establish Tucson Kiva Hub with GPAz.
- **Local First Arizona** - Largest coalition of locally owned businesses in the U.S. with 3,500 members. Focuses on building a diverse, inclusive and prosperous Arizona economy. Funds CIC loan program for entrepreneurs in Greenlee, Graham & Cochise Counties.

Entrepreneurial Education & Referral Partnerships

- **Startup Tucson – Coalition partner (Component 6)**

- **City of Tucson – Coalition partner (Component 3)**

Informal Partnerships (regular & ongoing referral partnerships without a written agreement)

- **SBDC Pima Community College** (PCC) – SBDC PCC refers clients to CIC for funding and CIC refers clients to SBDC PCC for business education.
- **SBDC Cochise College (CC) -** SBDC refers rural southern Arizona clients in Cochise and Santa Cruz counties to CIC for funding.
- **University of Arizona Center for Innovation (UACI) – Coalition partner (Component 3)**
- **Arizona FORGE – Coalition partner (Component 1)**

The REAL Fund will be administered by CIC who created and runs an award-winning DEI loan program. CIC's customized and culturally competent approach (based on inquiry, listening, and power-sharing) will be expanded to help the Coalition attract and serve more diverse business owners. The REAL Fund will create new opportunities specifically for underserved Latino and BIPOC populations. The Hispanic/Latino population of the region is more than 2.5 times the percentage of U.S. population as a whole. The Stanford Latino Entrepreneurship Initiative found that, nationwide, Latinos applying for commercial loans receive their full request at just 57% the rate of their white counterparts meaning that disparities in capital access have greater negative impacts on our region than nationwide. Given the right resources (i.e. access to capital), however, Latino-owned businesses would generate an estimated 5.3 million jobs and $1.5 trillion to the U.S. economy.

5. Measurable Goals and Impacts

Goals for Revolving Loan Fund	
Year 1	**Years 2-4+**
PIPELINE	
▸ Evaluate 40 vetted leads ▸ Covert 50% of leads to applications (20) ▸ Convert 60% of applications to loans (12) ▸ >40% of loan recipients 50%+ BIPOC-owned ▸ >50% of loan recipients 50%+ Woman-owned ▸ Evaluate quality of leads to improve & enhance conversion rates over time	▸ Evaluate 56 vetted leads from partners/yr. ▸ Convert 50% of leads to applications (28) ▸ Convert 60% of applications to loans (17) ▸ Also support Coalition referral with large loan ▸ >40% of loan recipients 50%+ BIPOC-owned ▸ >50% of loan recipients 50%+ Woman-owned
LOANS MIX AND FUND DEPLOYMENT	
▸ Deploy $300K in loans via 18 loans ▸ Microloans (up to $25K) - 8 loans@$15K avg ▸ Small Business ($25K- $50K) - 3 loans@$35K avg ▸ Small Business + ($50K-$100K) 1 loan@$85K avg	▸ Deploy $1.7MM in loans via 35 loans ▸ Microloans (up to $25K) - 12 loans @ $17.5K avg/yr ▸ Small Business ($25K- $50K) - 3 loans @ $40K avg/yr ▸ Small Business + ($50K-$100K) 2 loans @ $85K avg/yr ▸ Coalition Support Loan ($500K) - 1 loan ▸ After yr. 3 Revolve Funds ~$500K to $750K annually with similar mix of loans
IMPACT	
▸ >6 new jobs created ▸ Grow available funds by growing principal base 2%/yr.	▸ >17 new jobs created/year ▸ > 65% (12) borrowers from yr 1 increase AGR after 3 yrs ▸ >85% borrower business survival after 3 years ▸ Borrower avg. AGR increase >50% after 3 years

4 YEAR TOTALS: 62+ loans deploying ~$2.5MM creating >55 new jobs

Since the raising of risk capital for SIESTA is outside the scope of this grant, metrics here relate to hiring plan for the back office support and investor education:

- Year 1: hire program director and education coordinators, develop curricula, conduct 3 cohorts of at least 10 students each.
- Year 2: hire marketing/fund-raising coordinator, enhance curricula, conduct 9 cohorts of at least 10 students each, promote regionally.
- Year 3+: conduct 18 cohorts of at least 10 students each, promote nationally, self-sufficient after year 3.

6. Sustainability Plan

Sustainability for the REAL Fund post-EDA grant funding will depend primarily on three factors:

- Growing the number and quality of the businesses that apply for lending over time
- Fundraising for a loan loss reserve to protect portfolio principal
- CIC's revenue earning programs to support operations through unforeseen challenges

In climate adaptation, we are focused on an emerging and growing marketplace, and therefore expect steady growth. Ag tech alone is expected to see 25-30% growth by 2025 and be a $30 to $35 billion business worldwide. Additionally, our partners' approaches and ability to overcome 85traditional barriers for BIPOC entrepreneurs ensures access to a larger and untapped market of potential borrowers. In terms of ensuring the quality of applicants, we have an unparalleled comprehensive set of business and entrepreneurial education, incubation, and acceleration partners – all of whom cover their own costs for operating.

The REAL Fund portfolio will grow over time to ensure the interest income continues to cover operating and administration costs while meeting equity and impact metrics post-EDA funding. This requires balancing the interest rates charged between revenue producing larger loans and some of the mission-focused, equity driven lending. Key to the growth and preservation of principal is continuation of CIC's capitalization of a loan loss reserve for which we have raised over $250,000 to date for our various revolving loan funds. This provides consistent interest revenues to ensure covering the costs of administering our loan portfolio. CIC also earns 85% of its annual revenues through a variety of fee-for-service programs and through interest income. This diversity of stable revenue streams gives CIC enormous flexibility in the face of exigent market fluctuations and reduced revenue years to sustain through unforeseen challenges.

For SIESTA, investor demand has never been greater: per PitchBook, from 2020 to 2021 venture capital invested in climate tech increased by more than 100% and ag tech saw a record $8 billion invested. Personal correspondence with angel and VC investors has uncovered more than $10 million in soft commitments should a seed fund be raised. Standard back office management fees for a capital pool of this size will replace the funds sought from the EDA on this project after year 3. We also anticipate that we can garner sustained support from investor groups, such as the Desert Angels, that see dynamic membership growth as a result of the program. Using the newly developed practices and procedures of the New Investor Pipeline, these groups will be able to more easily assist with future training, outreach, and mentoring.