Community Capital
Impact Analysis
EXECUTIVE SUMMARY

As part of our coursework in Applied Policy Seminar, we worked closely with the National Coalition of Community Capital (NC3) over 14 weeks to bring a cohesive narrative to their work by providing a universal framework to measure community impact supported by stories and data in order to galvanize the national community capital movement.

To do this, we collaborated with NC3 to identify 28 key informants, community capital experts, and entrepreneurs who have pursued community capital for their business ventures. The information we gathered from these interviews paired with background research, provided us a snapshot into the vast and complex landscape of community capital investing. In this report, we highlight (1) key themes that emerged from the interviews, (2) a brief set of metrics to measure the impact on communities in which the research takes place, and (3) important considerations that impact community capital ventures.
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## APPENDIX

### Project Interview List

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### Case Notes

- [Case Note](#)

### Interview Framework

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### Definitions of Key Terms

- [Definitions of Key Terms](#)
What is community capital?
Community capital harnesses the financial wealth that exists within a region to support local businesses and organizations.

What can community capital do?
Community capital projects can empower people to make collective decisions that impact their local communities. The approach aims to provide community members with the resources, such as monetary capital, to address local needs. Brian Beckon, Vice President of Cutting Edge Capital and NC3 board member, identifies four benefits of community capital. He believes it enables people to pull together capital to invest in their own communities, as opposed to solely relying on outside investors. Through collective investing at the local level, communities will be able to expand economic and social opportunities that benefit those living within it. The underlying belief is that local community members are the ones who know and understand their needs the best and therefore know where resources should go to fill those needs.¹

What is the need for community capital?
Entrepreneurs aspiring to launch or expand community-focused businesses face a traditional investment landscape with few opportunities for capital acquisition. Further, business owners in historically distressed or marginalized communities often struggle to gain the needed capital to finance their enterprises preventing local community investment. Community capital enables entrepreneurs to acquire the needed capital to launch or expand their local businesses. By leveraging capital from non-accredited investors, entrepreneurs can redirect financial resources back to benefit their local communities.²

HISTORY OF COMMUNITY CAPITAL

The first recorded instance of crowdfunding occurred in 1997 when a British rock band solicited donations using an online platform to fund a tour, which led to the creation of a crowdfunding website called ArtistShare in 2000. By 2009, crowdfunding had taken off as a non-traditional route for entrepreneurs to fund their new endeavors, with crowdfunding revenue tripling from $530 million in 2009 to $1.5 billion in 2011\(^3\), as traditional loans became harder to secure during the 2008 financial crisis and the Great Recession.

In April 2012, President Barack Obama signed the Jumpstart Our Business Startups (JOBS) Act, also known as the “crowdfunding bill”, to stimulate job growth by loosening some of the restrictions on small businesses instituted by the Securities and Exchange Commission (SEC). The JOBS Act targeted emerging growth companies\(^4\) and contained three exemptions that specifically impacted crowdfunding:

1. **Title II - Access to Capital for Job Creators**: Title II exemption allows entrepreneurs to raise an unlimited amount of funds under Regulation D (506c) and permits “general solicitation” using online advertisements and other non-traditional fund-soliciting venues, however, investors must be accredited.

2. **Title III – Crowdfunding**: Title III exemption allows small companies to raise up to $1.07 million from both accredited and non-accredited investors. Non-accredited investors are limited in the amount they may invest and offers must follow a set of rules.

3. **Title IV (Mini-IPO exemption)**: Title IV exemption allows startups and later stage companies to use equity crowdfunding platforms to raise as much as $50 million from

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\(^3\) [https://www.fundable.com/crowdfunding101/history-of-crowdfunding](https://www.fundable.com/crowdfunding101/history-of-crowdfunding)

\(^4\) Defined by the SEC as “an issuer of capita with total annual gross revenues of less than $1 B during its most recently completed fiscal year
both accredited and non-accredited investors. There are two tiers of Reg A+. Tier I issuers may raise up to $20 million, while Tier 2 may raise up to $50 million. Tier 2 issuers may raise funds from all 50 states. Both accredited and non-accredited investors may participate. Non-accredited investors are limited in the amount they may invest.

Although these exemptions did not take effect until 2016, the JOBS Act has already led to a transformational shift in the way small businesses secure the financial capital needed to start or grow a business.

### INVESTMENT FRAMEWORKS

#### CROWDFUNDING

Crowdfunding can be broken down into four major categories: donation, rewards, debt, and equity. Because we are interested in investment crowdfunding, we focus on debt- and equity-based crowdfunding.

#### DEBT-BASED VS. EQUITY-BASED CROWDFUNDING

Both debt and equity investments fall under the term ‘security.’ They are regulated by state and, depending on their structure, federal securities law. In an equity crowdfunding investment, investors purchase a share of an organization’s profits. Investors receive dividends from the organization’s profits and often hope to sell the shares once they are worth more than the investor initially invested. For debt-based capital raises, investors purchase a security through which they loan money to the organization on a fixed repayment period and at a predetermined interest schedule. There are a variety of debt instruments available, including secured and unsecured loans, as well as common share conversions.

#### DIRECT PUBLIC OFFERING

A direct public offering (DPO) is a form of crowdfunding that allows for-profit and nonprofit organizations to publicly offer securities to anyone in their community or network. DPOs democratize investment opportunities by allowing both accredited and non-accredited investors to participate in the offering. Raising funds through a DPO does not make an organization a publicly traded company or require ongoing reporting to regulators. Organizations can choose to
structure their DPO in two ways: single state (or intrastate) and multistate offerings. Organizations register intrastate offerings within the state and are exempt from federal regulations. There generally is no dollar limit for these DPOs. Multistate offerings, permitted by federal Rule 504, must register in each state in which the securities are offered. These raises have a limit of $5 million raised per 12-month period.

STATE FRAMEWORKS

Following the passage of the 2012 JOBS Act, states began enacting further crowdfunding legislation. Currently, 36 states have implemented intrastate crowdfunding exemptions, to varying degrees. Below we highlight the specific intrastate crowdfunding exemptions of five states from which we drew our interviews.

PENNSYLVANIA

Relies on SEC Regulations
Pennsylvania currently has no state-specific legislation pertaining to community capital investing. The state relies on SEC regulations from the 2012 JOBS Act.

CALIFORNIA

Legislation in Progress
California currently has no state legislation specifically designed to make it easier for small businesses to raise money from local investors. There have been numerous legislative attempts to streamline the crowdfunding process for California entrepreneurs. Most recently, the Sustainable Economies Law Center collaborated with California lawmakers to introduce the Local Economies Securities Act (LESA). This act, which stalled in legislature in 2016, aimed to exempt certain securities offerings from California permit requirements, thereby removing key barriers to local business ownership and resilience. Through LESA, any business “could raise up to $500,000 total per year. Non-accredited investors could invest up to $1000 in the offering and accredited investors could invest up to 5% of their net worth.” (link) As a result of LESA stalling in legislature, the Sustainable Economies Law Center shifted its focus to (1) provide direct legal support to small businesses to enable entrepreneurs to better utilize existing community capital legal strategies and (2) educate investors on local investment possibilities under the existing regulatory landscape (link).
VERMONT

Vermont Small Business Offering Exemption (VSBOE):
Vermont has the nation’s most progressive local investing regulations in the nation. In 2014, the state revised its securities regulation, the Vermont Small Business Offering Exemption (VSBOE), to make community capital investing more accessible to both businesses and investors. VSBOE requires that (1) participating businesses be Vermont entities and (2) investors be in-state. In Vermont, participating businesses and start-ups may raise up to $2 million from an unlimited number of in-state investors. Non-accredited individuals may invest up to $10,000 while accredited investors have no investment limit. Under VSBOE, businesses can openly advertise to accredited and non-accredited investors.

MICHIGAN

Michigan Invests Locally Exemption Act (MILE Act):
MILE requires (1) participating businesses to be Michigan entities and (2) investors to be Michigan residents. Under MILE, businesses and start-ups can raise a maximum of $2 million every 12 months if they have audited financial statements. Without audited statements, they are limited to raising $1 million every 12 months. Participating businesses can raise capital from an unlimited number of investors. Non-accredited individuals may invest up to $10,000 while accredited investors have no investment limit. MILE requires businesses to file a Disclosure Statement with Michigan’s Department of Licensing and Regulatory Affairs (LARA) 10 days before an offering. Additionally, participating businesses are required to report to investors quarterly. MILE allows businesses to openly advertise to accredited and non-accredited Michigan residents.

MASSACHUSETTS

Massachusetts Crowdfunding Exemption:
Massachusetts has a Crowdfunding Exemption designed to enable in-state companies to raise capital from Massachusetts investors in intrastate securities offerings. Under the exemption, companies can use internet platforms to advertise offerings and gain capital from numerous investors. The exemption allows interested companies to offer equity or debt securities. Raises are limited to $1 million in a 12-month period, or to $2 million if the company has audited financial statements. Investors with a total net worth and income less than $100,000 can buy an
amount of securities that is either the greater of $2,000 or 5% of their annual income or net worth. Securities purchases up to 10% of one’s income or net worth - with an investment limit of $100,000 - can be made for investors with an annual income or net worth equal to or greater than $100,000. (link)

NATIONAL COALITION OF COMMUNITY CAPITAL

NC3 is a nonprofit with a mission to support the infrastructure and ecosystem of community capital. Their work was made possible by the JOBS Act, which has currently enabled 36 states to pass legislation to allow entrepreneurs to raise capital from non-accredited investors. NC3 sees community capital investing as a valuable opportunity for small business owners to raise necessary capital outside of traditional means, such as bank loans. The organization also hopes that it introduces the concept of investing for medium to low-income individuals. Through supporting infrastructure, research, public awareness and training, policy, leadership, and advocacy, NC3 aims to encourage the development of the community capital model. With a focus on social impact, NC3 wants to measure the positive effects that community capital can have on communities.
METHODOLOGY

Our study of community capital investment impact followed three main stages: interviews, data aggregation and evaluation, and compilation of our report. The following paragraphs detail each stage.

INTERVIEWS

Through introductions to the NC3 Board of Directors, we spoke to key informants who shared vital background information on the field, and most key informants also introduced our team to community capital projects. We spoke to eight informants, who introduced us to 28 projects. Prior to setting up project interviews, our team developed an interview framework, which included project background information, the interview framework, questions, and a post-interview memorandum. We contacted 22 project entrepreneurs, resulting in phone interviews of 3 failed community capital investment projects as well as 12 successful projects.

DATA AGGREGATION AND EVALUATION

Once our interviews were complete, we brought together our post-interview memoranda to discuss key themes and identify inconsistencies in the information we had collected. We identified a few key limitations of our data: a small sample size, limited geographic and project diversity, and a limited number of community capital raise failures. From this phase, we decided to follow up with certain projects for additional information and conducted other external interviews with subject matter experts and community economic development officials.

COMPILATION

In the final stage of our project, we brought together the themes we had identified as well as the additional information we collected to fill in our identified gaps. This information informed the metrics for community impact that we identify below. We chose five organizations to highlight as community capital project case studies, including Albion Brewing Company, Century Partners, PV Grows, Spotlight Girls, and Vermont Evaporator Company. These sections offer insight into identifying a definition for success and into how community capital projects can impact their community.
INTERVIEWS

Over the span of 6 weeks, we conducted 28 interviews. We began by interviewing five Key Informants, NC3 board members, to learn background about community capital and to connect with entrepreneurs willing to participate in our study. Next, we contacted and interviewed the leaders of 14 community capital projects. To supplement the data gathered during project interviews, we talked to three professionals in the community capital sphere. Finally, after analyzing our project interview data, our team identified and spoke with four experts on community investment and financial regulations to understand how community capital fits into the broader investment landscape.

The projects we interviewed were from California, Pennsylvania, Michigan, Massachusetts, and Vermont, and varied in business type. We spoke to a diversity of organizations, including small start-ups, breweries, real estate developers, and water desalination ventures. To analyze this range of businesses, we organized our projects based on their missions. For Profit (FP) businesses sought community capital investments out of necessity, to finance their ventures and earn personal profit. Mission Driven (MD) businesses chose community capital investing because the funding model aligned with organizations’ missions to engage/benefit their communities. Mission Driven-For Profit (MD-FP) businesses had mission statements that recognized the importance of community engagement but had the goal of earning profits. MD-FP businesses pursued community capital both out of necessity and mission alignment.

From our discussions with entrepreneurs about the successes, failures, and challenges of their community capital projects, commonalities emerged. These themes may provide insight into promising practices for successful community capital projects:

TIMING

Regulatory Timing

Entrepreneurs spoke about how timeframes for regulatory approval affected their success. Longer approval processes hampered projects’ momentum. Sometimes, quicker approval processes caught entrepreneurs by surprise, leaving them unprepared at the start of their raise. For example, Fulton Street Investors, a failed real estate development project in Fresno, CA, endured a two-year delay in their regulatory approval process. They believe timing caused them to lose the interest of potential investors. However, Berkeleyside, an online newspaper local to
Berkeley, CA, received approval in 3 weeks. Without marketing plans yet in place, Berkeleyside was caught off-guard, behind schedule, and forced to reapply for approval at the end of 12 months.

**ECONOMIC TIMING**

We found that a project’s timing within the economic cycle may affect its opportunity for success. Gringo Jacks, a Vermont restaurant that tried to raise capital to package and distribute its salsa and chips, launched their campaign during the massive economic downturn in 2008. They had difficulties locating and securing investors because traditional investors’ high-risk aversion.

**COMMUNITY DEMOGRAPHICS**

**PUBLIC EDUCATION**

Almost every entrepreneur interviewed discussed the challenge of educating the public about both community capital investing and their business’ offering. Tecumseh Brewing explained that during their raise, people often confused community capital investing with other crowdfunding sources like Kickstarter, wondering if they would receive t-shirts in return for participating. Teaching community members that their campaign was an interest-bearing investment, rather than a donation, was a major hurdle. Spotlight Girls, a girl’s empowerment organization, discussed the issue of conducting community capital campaigns on online platforms, noting, with the novelty of the investment model, people were reluctant to disclose so much information online.

**COMMUNITY AFFLUENCE**

In our interviews, we found affluent communities to have more attempted and successful community capital raises. Berkeleyside believes it is critical a community have the means to participate in a community capital campaign. Because of their affluent readership, Berkeleyside did not struggle to secure investors, noting that a large portion of them were high-income individuals.
MISSION-DRIVEN MARKETING

Entrepreneurs continually stressed successful campaigns must market their business/product in a way that establishes a connection with community members. Albion Brewing emphasized that community capital projects are risky investments — people do not participate in a raise for strictly financial reasons. While Albion Brewing marketed their business, great beer and food, they also marketed their vision for the city of Albion, more jobs, growth, and development. Spotlight Girls echoed this sentiment, explaining that when community members believe in and witness the local impact of an organization, they are willing to invest in current and future raises.

RESOURCES OF ENTREPRENEUR

SOCIAL CAPITAL

Community capital investment campaigns require support, time, and connections. Entrepreneurs with established social capital in their communities say it contributed to the success of the community capital campaigns. Their networks and respect within their communities allowed them to reach and secure a larger audience of potential investors. Local newspapers like Sonoma West Publication and Berkeleyside believe their regard within their communities and natural audiences contributed to successful community capital campaigns. Similarly, Working Fields, a job placement organization for recovering addicts, was founded by a prominent local business figure. Working Fields tapped into his established network when seeking out investors, which reduced the time and money required to market their community capital campaign.

FLEXIBILITY OF ENTREPRENEUR

One entrepreneur we interviewed called it community capital’s Achilles heel — the small business owners who could benefit from community capital funds do not have the capacity (time, energy, resources) to market and campaign while running their operations full-time. Multiple entrepreneurs stressed the importance of not attempting community capital raises alone. They require a support team, like CPAs and legal experts.
SUPPORT OF INTERMEDIARY ORGANIZATIONS

Entrepreneurs who used intermediary organizations, like Localstake, Milk Money, and Cutting Edge Capital, consistently pointed to them as necessary components of successful raises. Providing legal support, as well as regulatory experience, intermediary organizations served as a platform for both business support and investor relations. Vermont Evaporator Company, a small-scale sap evaporator manufacturer, discussed how Milk Money offered training, facilitation of investment transactions, and investor networking opportunities. Albion Brewing says Localstake’s cost-effective expertise helped make the legal process, marketing efforts and investment transactions manageable. Because of the novelty of community capital investing, the information and advice intermediary organizations offer is critical in facilitating successful raises.

REGULATORY STANDARDS AND PROCESS

STRUCTURE OF OFFER

The structure of a community capital raise or DPO can influence its likelihood for success. Often, entrepreneurs set their minimum investment requirements intentionally, in order to shape the number of investors in their businesses. We found businesses using equity financing chose higher minimum requirements in order to secure a fewer, more manageable number of investors. For example, Berkeleyside explained how they set a minimum investment requirement of $1000 in order to maintain investor relationships — which they did by hosting parties and sending quarterly newsletters. While lower-minimum requirements on debt-financing structures appealed to a broader audience of potential investors, they required more upkeep. Local club soccer team Detroit City Football believes their structure, debt-financing with a $250 minimum, has been challenging to manage in the long-term. Updating and processing finances for the 499 Detroit City Football investors has been onerous. Additionally, regulatory agencies can influence the terms of DPOs and their likelihood for success. In the case of Fulton Street Investors, regulatory agencies’ influence on DPO terms contributed to the business’ failure. Apprehensive of community capital investing, the regulatory agent working with Fulton Street Investors limited their DPO to incredibly conservative terms — a $500 maximum for non-accredited investors and a minimum combined raise of $1 million. With these terms, Fulton Street would have needed at least 2,000 non-accredited investors to raise its required $1 million minimum.
ADDITIONAL CAPITAL SOURCES

Several entrepreneurs employed additional capital sources, like foundation grants and community loans, alongside community capital investments, to fully fund their business needs. For example, Vermont Evaporator Company received a low-interest, $50,000 loan from Vermont Community Capital, a nonprofit providing small business financing and support. Vermont Evaporator Company believes using a patchwork of capital sources is crucial to the success of start-ups. Vermont-based Working Fields also received a loan from Vermont Community Capital, totaling $35,000.

GREATER CAPITAL LANDSCAPE

Prior to the utilization of community capital investing, entrepreneurs looking to start or expand their businesses have typically engaged in traditional capital investing methods. The widespread model for small businesses to attain capital involves reaching out to the wealthiest accredited investors in various networks. For many small businesses, however, the efforts to raise capital from accredited investors (i.e. venture capitalists) and banks in the form of loans can lead to an insular and restrictive investment landscape. This ultimately poses significant challenges to companies without the financial clout to effectively engage with these traditional investment entities.  

FINDINGS

METRICS

In each of our interviews, we asked the entrepreneur what metrics they use to determine the success of their community capital raise and impact their raise has had on their community. Many entrepreneurs offered metrics strictly tied to the amount raised or to their business’s direct interaction with their community. Others mentioned a greater impact their business works toward, but the entrepreneur did not themselves track any specific metric. While these findings cannot be applied universally to all community capital raises or organizations, because of our small sample size, we do believe there are lessons to be learned from entrepreneurs’ experiences. We also acknowledge how new the community capital field is and that there are many community impacts that will not be felt for years to come. These two limitations of our data lead us to suggest a limited set of metrics framed by the field of program evaluation for mission-driven organizations.

To measure impact, the Kellogg Foundation developed a framework that we discuss in detail below. While this framing of impact is most used by nonprofit organizations to measure their effectiveness in fulfilling their mission, we believe these ideas fit naturally into NC3’s advocacy and movement building work. Further, as we mention above, measuring community impact involves sifting through complex and confounding data and indicators. We believe the Kellogg Foundation’s Theory of Change framework can serve as a foundation to building a cohesive argument for community capital’s impact on communities.

OUTPUTS, OUTCOMES, AND IMPACT

Proving a causal relationship between a community capital investment projects and desired community impact can be confounded by intervening outside forces. Additionally, comparing the outcomes of a community capital project with a counterfactual scenario in which the project did not get off the ground further challenges the determination of project impact. The field of program evaluation approaches these difficulties by separating a program’s results into three buckets: outputs, outcomes, and impacts.
Even thus defined, to draw a link between outputs, outcomes, and impact require that the three have either a cohesive logic to back up the progression from one to the next over time, or evidence-based research proving a link between outputs and outcomes.

**THEORY OF CHANGE**

This final link is provided through the creation of a Theory of Change. In general, evidence-based research provides the connection between certain activities, like a community’s investment in a local business, to an impact, like a stronger local economy. Other models provide logic-based links between their program output and program impact. Accordingly, an organization can make the argument that an improvement in output metrics will likely lead to progress toward their intended impact. More information on how to develop a Theory of Change and the Kellogg Foundation’s work can be found in our appendix.

**RECOMMENDED METRICS**

Based on the newness of the community capital framework and the difficulty in proving causal relationships, we suggest tracking output-related metrics. Additionally, we suggest using natural data, or data created and owned by the organization collecting it [link]. Data that conforms to these requirements will be easier to collect and analyze.

We developed the metrics below from the interviews we conducted. These have been split between two categories to reflect the likely data source and suggest the appropriate entity to
collect the data. First, we identified business-level data that serve as natural indicators of impact from the perspective of an entrepreneur. Second, we identified community-level metrics that can naturally be found by local government or regional organizations. Both sets of metrics fall within the definition of “outputs” as described above.

**BUSINESS-LEVEL METRICS**

- Number of jobs created
  - What kind of jobs and how many?
- Taxes paid to local government
- Invest in more infrastructure to expand their business
- Number of investors
- Dollar amount of investments
- Rate of return on investments
- Has the business been able to leverage community capital to access additional funding or other traditional forms of investment?
- Are the businesses who raise capital continuing to grow and thrive?
- Purchase goods from/Pay for services of other local businesses

**COMMUNITY-LEVEL METRICS**

- Has there been subsequent economic development in the area?
- Are other businesses using community capital?
- Creation of new community-oriented spaces
  - Gathering spaces
- Impact on safety of the neighborhood/community
  - Reduced crime
  - Street lighting
- Are entrepreneurs getting the technical assistance they need to be successful?
- Foot traffic in the neighborhood
- Impact on sales of other nearby businesses
DATA COLLECTION

Throughout the course of our interviews, we came across few entrepreneurs who collect and track community impact metrics. Many of the entrepreneurs expressed that their focus throughout the community capital raise was fixed on their revenue and ensuring they meet their business goals. Additionally, entrepreneurs generally had other work coinciding with their capital raise, thus limiting their capacity to also collect data and track community impact metrics. These findings have led us to recommend additional research into who or what entity would best suited for data collection.

IMPORTANT FACTORS

INTERMEDIARY ORGANIZATIONS

As a relatively new investment field compared to traditional forms of investment, successful community capital projects often pull from the expertise and guidance of external, intermediary organizations such as Honeycomb Credit, Milk Money, and Localstake – three community capital investment platforms interviewed for this report. By providing outside guidance, intermediary organizations in the community capital space can serve in a backbone role that benefits not only their intermediary organization, but also businesses pursuing community capital investing. Intermediary organizational support produces tangible collective impact through an integration of multiple partner efforts aiming for the same goal – effectively utilizing community capital for financial success and social impact.6

Intermediary organizations in a backbone role are generally described as being an “anchor entity,” or “quarterback,” – responsible for coordinating the work and devising both an effective process and goal-oriented approach.7 According to this description, Intermediary organizations

6 http://ccrc.tc.columbia.edu/media/k2/attachments/establishing-backbone-collective-impact.pdf

have the opportunity and responsibility to fill critical gaps that entrepreneurs are unable to accomplish on their own. Moreover, several of the intermediary organizations that our team spoke to reference their ability to unlock the growth potential for small, local businesses, while providing tools for entrepreneurs to revitalize communities and neighborhoods. Combined with a sentiment to make local investments easier and more accessible for small business entrepreneurs, intermediary organizations often bring a diverse range of skill sets that make them uniquely suited to assist entrepreneurs pursuing the complex and nascent field of community capital investing.

Intermediary organizations further see their role beyond just a representing a marketplace for entrepreneurs and their companies to find investors. By providing a “comprehensive service” that oversees numerous aspects of the community capital investment process, intermediary organizations embed themselves into the mission and success of the businesses they are tasked to support. Intermediary organizations are often responsible for designing the front-end investment structure, marketing strategies, managing investor relations, tracking investment performance, and navigating the complex community capital legal frameworks.

Businesses looking to expand can be resistant to hiring intermediary, or external, help in the hopes of finding a “unicorn” employee or manager that can cover an unrealistic level of responsibilities. This unfulfilling search leaves entrepreneurs or managers in situations they are not adequately prepared to solve, and the community capital investment landscape is no exception. Intermediary organizations frame their services to cover the responsibilities of a “unicorn” that will enable entrepreneurs the opportunity to focus their time and energy on critical business decisions related to expansion, operations, and social impact, rather than being stifled by the complexities of community capital investment.

By providing crucial backbone support and comprehensive services, intermediary organizations provide a variety of mechanisms for small business entrepreneurs to effectively engage in community capital investing. As indicated from interviews with intermediary organizations, transformational changes in the community capital landscape result from entrepreneurs feeling empowered to pursue this form capital investing for future efforts. Moving from collaborative community capital investment processes with an intermediary organization to small business empowerment necessitates:

- Positive experiences using community capital investing
- Innovative and aspirational entrepreneurs looking to benefit their companies and the community
- A commitment to community-focused investment strategies that result in durable, local economic development

Intermediaries have unique opportunity to both support small business entrepreneurs in their real-time community capital investment projects, while laying the foundation for future expansion and success of the investment field. Through our interviews, it is apparent that community capital investment professionals seeking to provide entrepreneurs with roadmaps for success understand the importance of making community capital investing accessible, repeatable, and a better alternative to traditional investing strategies. Therefore, intermediaries play an integral role in elevating community capital investing to the national stage so that it can empower small business entrepreneurs to pursue it as an axiomatic investment option.

**OUTREACH AND EDUCATION**

In conducting outreach to investors, entrepreneurs named several possible sources that they utilized. Some mentioned starting with friends and family, particularly in cases when they are offering equity in the company. More established businesses may approach their own customers. The advantage here is the existing connections and the familiarity of that they have with their business. Business connections are also a possibility. Some entrepreneurs would hold information sessions at their homes or attend rotary club events to network and raise awareness for their fundraise and business. Most entrepreneurs conducted their outreach locally, though a few sought to broaden their pool of investors out-of-state depending on the nature of their business. This may make sense for businesses that look to expand nationally. Minimum investment amounts and number of investors also depends on the type of the raise. For instance, debt-based raises may be more suited for lower minimums, whereas equity-based raises tend to benefit from higher minimums. Part of the reason this may be desirable for entrepreneurs is that it would lessen the investor pool to help ensure better investor relations. Intermediaries could also serve as channels for marketing and communications to get the word out about entrepreneurs’ raises. However, the experience with intermediaries was slightly varied, with one entrepreneur stating that, while there were some events, they were infrequent and poorly attended. Generally, intermediaries can be a great source to navigate the legality, marketing, and investment transactions of the project.
Some entrepreneurs stressed the importance of telling a unique and compelling story. Entrepreneurs should be clear on what aspect of the business the money will help fund. If the product is new or if the business is mission-driven, these aspects of a business can draw possible investors’ interest. Some entrepreneurs sought possible investors who were from underrepresented populations or tapped into their own employees, especially for mission-driven businesses that want to assist traditionally underserved groups gain equity.

Because community capital is relatively new, educating possible investors on it is crucial to getting them on board. There were some entrepreneurs who said that people were hesitant to invest because they had never heard of it. Some mistook community capital for a GoFundMe campaigns. Some people were also reluctant to input their personal information required onto the online platform. While this may be an issue, one entrepreneur was able to take advantage of community capital’s novelty to gain people’s interest.

INVESTOR RELATIONS

Once a campaign is successful, it will be important for entrepreneurs to maintain a level of engagement with investors, others with a larger number of investors may only send out monthly newsletters. Intermediaries can also play a part by providing a platform to inform investors of revenues and returns. If the business is a brick and mortar establishment with products or services, they may also hold tours for investors.

CAPACITY

A successful raise often depends on the existing administrative capabilities of the business. Given that entrepreneurs have limited time to run the business, fundraise, and then track data, entrepreneurs may face challenges if they do not have enough support. An intermediary may be a good source of help for technical assistance. Some interviewees have also suggested that entrepreneurs seek the help of attorneys and CPAs to help navigate regulatory matters. Another important source of support are other entrepreneurs working in the crowdfunding space. A strong network would not only be useful for sharing experience and knowledge, but also be a source of moral support.
CASE STUDIES

To highlight our research, we selected case studies that best exemplified the success and shortcomings we found, while also taking into consideration the great variation that existed among the projects we interviewed. To ensure we had the best representation, we focused on ensuring we had variation in the following areas:

- Geographical location of the business / organization
- Whether the venture was successful or unsuccessful
- The project goals and business type
- Status as a mission-driven, non-mission-driven, for-profit and not-for-profit business model

**ALBION MALLEABLE BREWING COMPANY | ALBION, MICHIGAN**

Albion Malleable Brewing Company is a restaurant and brewery located in Albion, Michigan whose mission reaches beyond serving great food and beer. The vision for Albion Malleable Brewing stemmed from the desire to create a place in Albion, a small rural town that has lost jobs from manufacturing, that would contribute to community development and growth by bringing jobs back and give people something they would be proud to invest in.

To start the company, they offered a revenue sharing option with a 1.5 return on a $1,000 minimum investment and raised $180,000 through 43 investors. They estimate to have it paid off in their first two years with an approximate 19% ROI.

**Motivation for Incorporating Community capital**

Albion Malleable pursued traditional forms of capital from banks and investors while also starting a community capital campaign. A community capital model aligned with their vision and mission for the company and City of Albion at large; they wanted to help grow the local economy and the ROI investment would circulate within the community, creating wealth.

They believe that community capital raise helped them secure their traditional loans and because this project drew in investors from both its mission and high ROI, they believe it will allow them to have a captive audience for future investments.
Successes & Challenge

Successes
Albion indicated that their intense dedication to getting it done, despite the extensive time commitment over the two and a half years of getting the business launched, was key to their success. In addition to their own commitment, they had a lot of help along the way from people donating time and expertise, making it a true community effort.

Challenges
They experienced a significant learning curve in their knowledge and education on how to get a community capital project off the ground. To beat this, they did a lot of research on the subject, such as reading Locavesting, and tapped into community capital champions like Chris Miller from NC3 and Localstake.

Metrics for Community Impact

1. Profit and loss
   There is a premium with capital investment, because it requires giving back some of the profits to payback the lenders, and it’s no small chunk of change, so tracking profits and loss is vital.
2. Economic impact
   Their impact on other local business, marketing opportunities, and making the City of Albion a premier destination is significant. Since opening, Albion Malleable has employed 30 people (17 FTE) from the community. Additionally, they have noticed a crowding-in effect; 3 new businesses have opened on their block since they first started, which has led to increased property values.

Advice for Others Interested in Community Capital
Albion Malleable believes that there isn’t necessarily a silver bullet to success, but, having a strong vision and mission to connect to the public is one of the most important factors. There is a lot of risk in making an investment like this, particularly for those in the restaurant industry, so if it’s just about the numbers, it will be hard to reach the goal. Once you have a vision, it’s important to get out there and connect with the community by meeting people and shaking hands.
Century Partners, founded in 2014, is a Detroit-based real estate investment company pursuing sustainable revitalization in under-invested Detroit neighborhoods. Focusing on residential housing development that champions community engagement, outreach, and meaningful place-making, Century Partners aims to democratize investment opportunities by providing the public - with an emphasis on residents -- the ability to invest in the revitalization of their own neighborhoods and address wealth disparity gaps.

David Alade, a founding partner of Century Partners, indicated that the company tried using community capital investing through a crowd impact investing platform called Rabble. Century Partners aimed to build a capital fund of $550,000 to serve as part of their larger $5,000,000 fund that would be invested into Detroit’s neighborhoods to aid in the rehabilitation of historic homes. Prior to approaching the crowd investing arena, Century Partners successfully engaged friends and family investors into their real estate development projects. However, Century Partners encountered challenges with the structure of community capital investment projects, particularly for their real estate and residential housing development projects. Lacking both a comprehensive legal framework for joint title ownership, and a mechanism for community capital investment funds to be invested in tandem with other funding sources, Century Partners refocused their efforts to leverage the rules and regulations that existed before the passage of the Jobs Act in 2012.

**Motivation for Incorporating Community Capital**

Century Partners pursued community capital for two primary reasons. First, they wanted to build the support among local Detroit residents while creating sustainable and durable economic growth for residents, alongside their profits as a company. Second, a critical element of Century Partners’ community-centered philosophy involves democratizing access to homeownership and real estate investment, especially through a long-term lens. Community capital was seen a viable mechanism to (1) support Century Partners’ mission of revitalizing Detroit’s distressed neighborhoods and (2) enable Detroit residents to gain access to property ownership and local investment opportunities.
**Successes and Challenges**

**Successes**
Operating as a unique real estate investment company that engages in holistic community revitalization, Century Partners combines their expert knowledge of real estate investing development with integrative community outreach and social impact goals. By establishing their company with an emphasis on local neighborhood and community interests, Century Partners has effectively engaged in projects benefitting long-time residents of Detroit. Their approach has enabled long-time residents from the communities to invest alongside Century Partners to rebuild and reinvest in their communities in an ethical and transparent way. Additionally, Century Partners has helped bridge the gap between neighborhood residents in under-resourced areas and the burgeoning Detroit downtown. To accomplish these successful projects, Century Partners has effectively raised funds and incorporated “friends and family” both accredited and qualifying non-accredited investors into their projects. Century Partners has further equipped their organization with a strong human capital component that has enabled them to successfully navigate the complex real estate investment field.

**Challenges**
Century Partners encountered challenges using community capital as a mechanism for their real estate and residential housing development projects. The legal frameworks in place complicated the process with which Century Partners hoped to utilize community capital to benefit the long-time residents of Detroit's under-resourced neighborhoods. The legal frameworks lacked a comprehensive joint title ownership component and a mechanism for community capital investment funds to be invested in sync with other project funding sources.

**Metrics for Community Impact**
Century Partners indicated that they do not have specific numerical targets, particularly during their experience with community capital investing. Their primary goal is to democratize real estate investing and engage as many people from the local neighborhoods as possible in the process, while still making a profit as a company. Some of the metrics for community impact may include:

- Neighborhood Employment
- Blight Reduction
- Crime Reduction and Safety
- Property Value Appreciation
Advice for Others Interested in Community Capital

Century Partners indicated two important factors for other companies that are interested in pursuing community capital, particularly those engaged in real estate investment:

- Have in-depth knowledge of real estate development and associated legal frameworks related to community capital.
- Live in the neighborhoods and communities that one’s company is investing in to keep a finger on the pulse of the needs of the community members.

SPOTLIGHT: GIRLS | OAKLAND, CALIFORNIA

Spotlight: Girls, located in Oakland, California, was founded in 2006 as Glitter & Jazz. The company taught worked to empower youth through theatre. Programs support youth organization in training and consulting and taught students during out-of-school times. Following a summer camp for which only girls registered, Glitter & Jazz narrowed their focus to engaging and empowering girls. The company changed their name to Spotlight: Girls and legal status (LLC to B Corp) in 2015 to reflect their new mission to empower girls through theatre. In 2016, Spotlight: Girls kicked off their first DPO with the goal of raising $100,000 to expand their reach, build marketing tools, and hire additional employees. They raised $62,500 from 40 investors on Wefunder.com. They have an accreditation from B Lab, indicating their commitment to a triple bottom line: profit, social impact, and environmental sustainability. At the time of this report, Spotlight: Girls is in the middle of their second raise.

Motivation for Incorporating Community Capital

Spotlight Girls was unable to access capital through traditional bank loans, so they turned to community capital. They were drawn to community capital because of the opportunity to raise money on their own terms. The community capital model aligned with Spotlight: Girls’ mission of having a social impact and engaging the community. After their community capital raise, Spotlight: Girls hired staff and increased their marketing and outreach efforts.

Successes and Challenges

Successes

Though raising money through a DPO while running a business was challenging, Spotlight: Girls benefited from having the support of other entrepreneurs and professionals knowledgeable about the community capital process. Their social impact mission provided a compelling story for
investors and helped them reach their investment goals. The community capital venture gave legitimacy to the company and connected them to other types of impact funding that would have been otherwise unavailable to them. Without the DPO, Spotlight: Girls would have had to do more bootstrapping and may not have grown at the same pace.

Challenges
Running and managing Spotlight: Girls concurrently with raising money through a DPO was challenging for Spotlight: Girls to balance. The time and effort it took to reach out to potential investors and manage current investors significantly added to their workload. The general public’s lack of familiarity with community capital provided another challenge to their raise. Spotlight: Girls needed to both identify potential donors and educate them on what community capital investing means for investors and for the company they are investing in. Some community members were apprehensive about using online platforms to invest. These platforms, which are highly regulated, require investors to input personal information, which made some individuals nervous. Educating possible investors on the funding process and model took time and effort. On the other hand, the novelty of community capital piqued some people’s interest in learning more and investing.

Metrics for Community Impact
Spotlight: Girls evaluates their programs holistically. Their mission is very social impact-driven. While they did not mention quantitative metrics of impact, they determine their community impact based on the level of growth and involvement that the girls display. The metrics for the success of their DPO are focused on revenues and meeting their fundraising goals. Currently, they have not developed social impact metrics for their raises.

Advice for Others Interested in Community Capital
Entrepreneurs should understand that raising capital through a DPO is hard work. Those who chose to start the venture, should give themselves 2-3 months to prepare for the raise. It would be beneficial to identify the ultimate purpose of the money for effective marketing and investor relations. The development of a cohesive and compelling story is critical to a successful raise. Entrepreneurs should understand the different forms of community capital and which is best suited for them. For debt-based raises, entrepreneurs may want to have lower minimums to engage a larger number of possible investors. Whereas for equity-based raises, they may benefit more from higher minimums in order to ensure higher quality investor relations.
Because of the highly regulated nature of community capital investing in California, entrepreneurs should seek the assistance of an attorney and a CPA.

VERMONT EVAPORATOR COMPANY | MONTPELIER, VERMONT

Founded in 2015, Vermont Evaporator Company is a family-run business that manufactures small sap evaporators for individual and home use. After recognizing the need for a moderately-priced and efficient way to produce maple syrup in VT backyards, the Justin and Kate McCabe, the founders of Vermont Evaporator Company, began experimenting with prototypes in their garage. They listed 10 spare evaporator models on eBay, which sold out in just 10 days. After this kind of public reaction, the McCabe’s decided to officially launch Vermont Evaporator Company. That’s when Kate turned to community capital investing. Team members spoke to Vermont Evaporator Company’s Co-founder, Kate McCabe, in an interview on 11/01/18.

Motivation for Incorporating Community Capital
As a first-time business owner, Kate did not have access to traditional capital sources to finance her start-up. She turned to a patchwork of community capital resources for funding. First, the McCabe’s applied for a low interest, $50,000 loan with Community Capital of Vermont. Next, Vermont Evaporator Company partnered with Milk Money, an intermediary equity crowdfunding platform in Vermont, to start a community capital raise. With Milk Money, Vermont Evaporator Company raised $31,050 in capital from 43 investors, using a convertible debt model, with 5 percent interest for 5 years with a minimum investment requirement of $250. Vermont Evaporator Company put its initial capital toward inventory, operating capital, and capital equipment. Vermont Evaporator Company did not pursue community capital as a long-term financing, but instead intended to use financing to build credit in its first year, before securing traditional bank financing.

Successes and Challenges
Successes:
Vermont Evaporator Company believes the support of intermediaries, Milk Money and Community Capital of Vermont, contributed to their success. Milk Money provided expertise, training, logistical support and connections to potential investors. Community Capital of Vermont offered business operation support, such as QuickBooks training.
Another factor influencing Vermont Evaporator Company’s’ success was the speed and convenience of its regulatory approval process. Because of Milk Money’s positive reputation with the Department of Financial Regulation in Vermont, the approval process was quick, allowing Vermont Evaporator Company to maintain its momentum. Vermont Evaporator Company had an effective marketing strategy. Branding the business as family-owned, and the product as “uniquely Vermont” excited community members and investors.

Challenges:
Vermont Evaporator Company expressed frustration with the varying state laws that prohibited them from receiving investments from interested parties across state lines. Vermont Evaporator Company posits they could have raised three or four times the amount they did, had the business been able to receive funding from neighboring states.

Metrics for Community Impact
Above all, they are interested in making profit, measuring its growth and success with revenues. Vermont Evaporator Company’s’ revenue has grown 50% annually, year-after-year.

Additional Potential Metrics:
From our interview and correspondence with Vermont Evaporator Company, we learned the business is specifically interested in measuring growth, and success with Revenues. Our additional research finds other potential metrics for Vermont Evaporator Company could include:

- **Infrastructure Investments**: Vermont Evaporator Company has invested $50,000 in capital improvements to its factory building.
- **Tax Base**: Vermont Evaporator Company has paid $5000 in taxes.
- **Reinvesting in Vermont**: Vermont Evaporator Company has put $300,000 into the economy (and is growing)\(^8\)

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\(^8\) [i] https://www.wcax.com/content/news/Montpelier-backyard-maple-evaporator-company-expands-467015003.html
Job Growth: Vermont Evaporator Company has created two jobs since inception and is considering adding a part time employee.

Advice for Others Interested in Community Capital
To other entrepreneurs interested in using community capital investing, Vermont Evaporator Company suggests pursuing start-up funding from multiple community capital sources. In their experience, the capital raised from either Vermont Community Capital or the community capital campaign would not have been enough alone to launch the business.

**PVGROWS | PIONEER VALLEY REGION, MASSACHUSETTS**

The Prow’s Finance Working group, formed in 2009, develops economic opportunities for the food system and agricultural sectors in the Pioneer Valley in Massachusetts. The Working Group identified obtaining capital as a challenge to the small- and medium-sized food-based businesses in their target area. PVGrows Investment Fund launched in 2010 as an initiative of the Finance Working Group. The pilot program loans up to $250,000 to businesses in the local food system economy alongside options for technical assistance [link].

The Investment Fund now consists of three loan pools of different sizes and terms to create appropriate funding options for agricultural and food-based businesses. The Community Investment Pool incorporates community capital--investment by non-accredited investors--into the loan fund. The Patient Capital Pool allows accredited investors and other qualified investors to support the loan fund. Lastly, the Risk Capital Pool, fully funded by foundations, covers losses on investments for the first five-year term for investors in the Community Investment Tool.

These distinct investment pools allow foundations, individuals, and corporations to participate in strengthening the food and agricultural systems in Pioneer Valley. The Investment Fund continues to accept investment into the Community investment and Patient Capital Pools. Additional terms for each fund can be found on the PVGrows Investment Fund website [link].

**Motivation for Incorporating Community Capital**
The PVGrows Investment Fund was initially fully funded through foundation support. The success of the technical assistance and loan programs helped PVGrows garner additional community support. They decided to incorporate community capital into their loan model because investment by non-accredited investors fit into their mission to democratize loan access and grow a more vibrant local economy.
Successes and Challenges

Successes
PVGrows status as a community lender embedded within a community development corporation with a positive reputation and strong community ties has contributed to the organization’s success. As a community lender, they look beyond a prospective borrower’s financial plan. PVGrows knows the entrepreneur and their community. They know if the estimates the prospective borrowers make on an application are accurate and, critically, if the local community can support a business expansion or proposed new business. Additionally, the loan process incorporates two oversight committees to determine, first, if projects fit within the mission of the Loan Fund and, second, if the financials make sense for lending. These strong guardrails have meant PVGrows Investment Funded projects have performed well, despite their higher risk profiles.

Challenges
Initially, the PVGrows Investment Fund had difficulty bringing in loan applications from entrepreneurs. Their technical assistance programming proved vital for helping businesses reach a point where they could take on debt. This led to some financial mismatch, in which the loan fund began needing to pay out interest without earning back those rates from debt repayment. Fast-forward to today, and the Investment Fund essentially faces a reverse challenge: too many loan-ready entrepreneurs for current levels of capital. A second challenge has been structuring loan packages that are accessible to people in low-income, disinvested communities within the Pioneer Valley region. The Investment Fund functions relatively traditionally in that they generally require collateral or down payments. For many entrepreneurs of color who have been historically underserved by capital investment and who live in poorer communities, meeting these loan terms is particularly challenging. PVGrows is amid building connections and programs to reach underserved communities, with a focus on urban areas that haven’t received loans from the Fund to date.”

Metrics for Community Impact
To determine the success of the loan program and its impact on the Pioneer Valley economy, PVGrows tracks the following metrics:

- Number of investors
- Dollar amount of investments
- Are entrepreneurs getting the technical assistance they need to be loan-ready?
Do businesses return for a second or third loan to continue to grow their business?
Are the businesses who receive loans continuing to grow and thrive?

Advice for Others Interested in Community Capital
When asked what advice they would give others interested in creating a community-funded Investment Fund, PVGrows stressed the time-intensive and challenging nature of the process. While capital raises are always challenging, the added difficulty in launching an Investment Fund stems from the upfront capital requirement. Generally, at least three years of funding is needed to get started, because of the time required to build entrepreneurial capacity and loan-readiness before bringing in revenue through loan repayments.

CONCLUSION

By harnessing the wealth existing within a region to support local businesses, community capital investing offers a promising opportunity for entrepreneurs to launch or expand community-focused businesses. Additionally, community capital can enable the democratization of investing, empowering the general public to make collective decisions that impact their local communities. However, tracking local impact that results from community capital investing remains a challenge. To better understand how entrepreneurs, communities, and municipalities might measure impact at the local scale, we interviewed a variety of entrepreneurs who utilized community capital in their business ventures.

We developed a standardized interview framework and identified key business-level (i.e. number of jobs created) and community-level (i.e. subsequent local economic development) metrics that could be used to gauge and track short and long-term impact resulting from community capital investing. Additionally, we determined critical factors that have enabled businesses to succeed in their community capital investment pursuits (i.e. assistance from intermediary organizations).

Going forward, community capital investment proponents should consider processes for implementing key business-level and community-level metrics in addition to determining how the information is collected.
Appendix List

A. Project Interview List
B. Albion Malleable Brewery Post-Interview Memo
C. Berkeleyside Post-Interview Memo
D. Century Partners Post-Interview Memo
E. Detroit City Football Club Post-Interview Memo
F. Fulton Street Investors Post-Interview Memo
G. Gringo Jacks Post-Interview Memo
H. PV Grows Post-Interview Memo
I. Sonoma West Post-Interview Memo
J. Spotlight Girls Post-Interview Mem
K. Tecumseh Brewing Post-Interview Memo
L. Unity Vibrations Post-Interview Memo
M. Vermont Evaporator Post-Interview Memo
N. WaterFX Post-Interview Memo
O. Working Fields External Interview Framework Post-Interview Memo
P. External Interview Framework
Q. Internal Interview Framework
<table>
<thead>
<tr>
<th><strong>Project Name</strong></th>
<th><strong>Location</strong></th>
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<tbody>
<tr>
<td>Albion Malleable Brewery</td>
<td>Albion, MI</td>
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<tr>
<td>Berkeleyside</td>
<td>Berkeley, CA</td>
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<tr>
<td>Century Partners</td>
<td>Detroit, MI</td>
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<td>Detroit City Football Club</td>
<td>Detroit, MI</td>
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<td>Fulton Street Investors</td>
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<td>Gringo Jacks</td>
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<td>PV Grows</td>
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<td>Spotlight: Girls</td>
<td>Oakland, CA</td>
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<td>Silicon Valley, CA</td>
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<tr>
<td>Working Fields</td>
<td>South Burlington, VT</td>
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CASE NOTES

John Rogers | Albion Malleable Brewing

Summary of the Interview:
John pursued community capital investments both out of necessity and alignment with Albion Brewing’s mission. John offered $1000 minimum revenue sharing to raise $180k of capital. He also pursued traditional forms of capital simultaneously. John believes by getting people involved in Albion Brewing, through their capital investment, he encourages them to buy into the mission of Albion community development and growth. John faced challenges with educating the public and managing the time commitment of the raise against starting a business. He thought his success had a lot to do with people supporting his/Albion Brewing’s vision. John points to tangible metrics to evaluate community capital like job growth, community investment (infrastructure, new, close businesses), educated community members wanting to invest, increased property values and TIF financing.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
John had Albion Brewing in the works for 2.5 years before it opened. He really wanted to create a place in Albion that would contribute to community development and growth---a place in Albion that both serves good food and beer and makes people want to stay and invest and feel proud of their community. A community capital model really aligned with John’s vision and mission for the company and city of Albion.

Albion Brewing offered revenue sharing options at a $1000 minimum to raise $180,000 of capital. He secured this amount with 43 investors. He offered a 1.5 return on the dollar and will have it paid off in his first two years. He estimates this amount to a 19 percent ROI.

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
At a high level, John wanted community capital to help grow the community. The ROI investment would circulate the community, creating wealth.

On a tactical level, John believed the people of Albion deserved access to good food and beer. he also believes it is important to remind people of Albion’s history and get them excited about growing community.

John talked about his process securing capital. While he went after both traditional capital forms from banks and investors, he also started his community capital campaign. He believes that his community capital raise helped him secure his traditional loans. In the future, because this project really drew in investors from both its mission and high ROI, John believes community capital will allow him to have a captive audience for future investments.
Q3: What were the main objectives for the community capital project?
The high-level objective was to grow the community of Albion. As a smaller rural town that has lost jobs from manufacturing, they wanted to bring jobs back and invest in the community. On a more tactical level, they wanted to serve great food and beer, and they wanted it to have a brand / mission, not just serving food to serve food. Great service should be accessible to people anywhere, especially in Albion. The thought process is: ‘What do we do, sell food and beer. How? We do it by getting people excited, good service. Reminding them of the history of our community. Why? Great quality of life and staying connected to a mission.

Q4: Project design: process of working with investors?
John partnered with Localstake during his community capital raise. Through Localstake, John was able to receive cost-effective expertise. Localstake helped Albion Brewery navigate the legality, marketing, and investment transactions of the project.

John said Localstake was a good channel for marketing and communications. He also ran investor information sessions. He didn’t have as much interaction with investors as he had wanted. He intended to spend more time cultivating relationships, however, he does believe most people that invested were people he talked to personally.

Q5: Aspects of your project that went well. What factors enabled these aspects to go well?
Generally, a fanatical commitment to getting it done made it successful. 2.5 years. Started oct. 2015 and opened in May of this year, construction began in august. We’ve had a lot of help along the way. A lot of people donating time and expertise. Huge learning curve along the way. Money in the bank and people willing to loan us money.

Q6: Challenges encountered during the project? How were they addressed?
Main challenges encountered were in the 3 guys’ knowledge and education on how to get a community capital project off the ground. They did a lot of reading (read Localstake) and trying to beat the learning curve. The community capital champions really helped them through this- Chris and Localstake helped make all the information more knowledgeable.

Q7: Measures used to evaluate the project?
Profit and loss are the only things that matter. You may a premium with capital investment, because you must give up some of the profits to payback the lenders, and that is no small chunk of change.

Economic impact is also very important. Albion has had 30 employees and 17 FTE. The impact on other local business and marketing opportunities and contributing to making Albion a destination. Albion Malleable Brewing was the first new business on their block, and since then 3 new businesses have opened too. There is a real crowding-in effect, which has led to increased property values.

Q8: Keys to success for community capital projects? Advice for others?
Key to success is vision and mission oriented. If it were strictly a financial calculus, they wouldn’t do it even with a high rate of return - The risk is huge. The restaurant industry is. What we sold people on was a vision for Albion which people is why invested.
Advice- project a vision. Early and often, get out there and start shaking hands.

[Lance][Berkeleyside]

Summary of the Interview:
The online newspaper started in 2009 to cover local events in the Berkeley area. In 2014 a reader brought to his attention that he could take part in a Direct Public Offering to raise more money. They were able to raise $1 million with 355 investors. The money increased their capacity to cover local issues with more photographers and journalists on the ground. Many of their investors are higher income and do not invest for great monetary return. The effect they hope to have on the community is to have them fully informed of their local community issues.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
DPO, minimum $1,000 investment, closed
They raised over $1 million and don’t expect to give investors their capital back. They MIGHT get to a point of a 3% return.

They choose a $1,000 minimum for two reasons. First, the set the $1000 minimum because they wanted to stretch readers that they believed that can donate that much to do so. Secondly, they wanted to narrow the number of investors, so they would be able to treat them/maintain relationships overtime.

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
BerkleySide investigated conventional ways of building capital (3-4 wealthy people to invest lots of money), and in the middle of this process, they were contacted by a reader (Dec. 2014 during BLM protests) who said if you need capital, you’d be a great candidate for a DPO. The staff at BerkeleySide thought this would be in tune with who and what the paper is. By raising money from residents and involving residents would support their business, they would also be following the mission of the paper.

Q3: What were the main objectives for the community capital project?
They had created BerkleySide to influence the community (tagline: Breaking News, Building Community) and they wanted to cover news that no one had up to this point. The staff wanted to incorporate this into their capital raise. The point of the capital raise was to build their capacity to cover the news.

Q4: Project design: process of working with investors?

Q5: Aspects of your project that went well. What factors enabled these aspects to go well?
They did not have issue raising money from investors. This is largely because their minimum investment was $1,000, most of their investors were high-income earners. Because a significant portion of their readers are high-income to begin with, it was not a great challenge for them in reaching out to investors. While they were able to get the word out through their online medium, they were most effective by holding small gatherings.
Q6: Challenges encountered during the project? How were they addressed?
They applied to the CA Dept of Business Oversight in Feb 2016. Their lawyers said it’d take 4-6 months to get approval, so they planned to spend time over the spring and summer working on their investment system and creating a plan for marketing and launching the investment. But they got approval in 3 weeks, well before they had any idea what they were going to do. So, by the time they launched their DPO, 6 of the 12-month clock had already expired. So, they were forced to submit a second application.

A second challenge was with staffing the DPO. They usually have a collaborative office environment with all three staff members contributing to projects. They found through this process that they needed one person to take the lead/take charge.

Third, while raising money, they got a lot of rejection from potential investors. This was a minor challenge and seen as “part of the process.”

Q7: Measures used to evaluate the project?
Lance said he would measure Berkeleyside’s success solely by the $1million it raised. Although Lance spoke about how Berkeleyside hired a new reporter and didn’t have to think about the extra cost of videographers and photographers, he would not “draw a correlation” between these capabilities and increased capital. He was very careful not to call them metrics.

Q8: Keys to success for community capital projects? Advice for others?
Lance is currently offering advice to a lot of contacts interested in pursuing community capital projects. He tells them, if the community really cares about the service they provide, and they feel a deep connection to the community, a DPO is an effective platform to raise capital. He also believes it is important that the community have means to be able to participate, as Berkeley did.

[David Alade] | [Century Partners]

Summary of the Interview:
Century Partners first tried to use community capital investing structures to build a capital fund of about $500,000 to serve as part of their larger $5,000,000 fund that would be invested in their real estate projects. However, the structure of community capital investment projects, particularly for real estate projects, is complicated and doesn’t really provide a legal framework for joint title ownership or allow for community capital investment funds to be invested alongside other funding sources. Century Partners decided, instead, to leverage the rules that existed before the passage of the Jobs Act to bring “family and friends” investors into their projects. Additionally, Century Partners have a community centered mission and view their investments through a long-term lens. This has allowed them to center the growth of the neighborhoods and communities where their investments are located.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Initially, they tried to crowdfund through Rabble. This failed. However, they have incorporated non-accredited investors through “friends and family” allowances. They also have community members invested through traditional mechanisms and prioritize ownership, community employment, etc.

**Q2: Motivations to pursue community capital for the project. Why did they use this approach?**
Build support from Detroit residents, create sustainable & long-lived economic growth for residents alongside their profits

**Q3: What were the main objectives for the community capital project?**
They don’t have any specific numerical targets, want to democratize real estate investment and get as many people involved as possible. This has allowed folks in the communities to invest alongside with them to rebuilding and reinvesting in their community in an ethical and transparent way.

**Q4: Project design: process of working with investors?**
Interactions with investors are fairly “standard” in that they get quarterly service reports, but they team from Century Partners lives in the communities where they are investing, they see and talk to them on a regular basis.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**
They have been successful in raising funds and incorporating “friends and family” non-accredited investors into their projects. Their investments also have been successful. They have knowledge of real estate investing and development--their human capital has allowed their projects to succeed.

**Q6: Challenges encountered during the project? How were they addressed?**
Legal frameworks didn’t really match up with what they were trying to do

**Q7: Measures used to evaluate the project?**
Their profits, employment from within the neighborhoods & ensuring they gain skills and good experience

**Q8: Keys to success for community capital projects? Advice for others?**
Their knowledge of real estate development & living in the neighborhoods they’re investing in have helped them keep a finger on the pulse of the needs of community members.

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**NC3 Analytic Memo**

[Sean Mann] | [Detroit City Football Club]

**Summary of the Interview:**
Sean Mann is one of five owners of the Detroit City Football Club (DCFC), which was launched in 2012. Sean recently started full-time working for DCFC due to expansion of the club. He is a passionate
Detroiter and proponent of the grassroots organization that has a motto of “Passion for our City, Passion for the Game”. Sean mentioned DCFC has a very loyal and committed fan base, which has been critical to their success in the community capital investment arena. Initially had a fundraising projection at minimum $400,000 to $750,000. $400k raised a few weeks out and the remaining $350k was raised in time. They have had 499 investors. Goal is to pay back investors in 5.5 years but they are moving faster than previously thought and now aim for 3.5 years. Community capital carried risks (admin capacity, education, debt-structuring), but enabled them to move beyond a growth plateau as an organization. It also presented a feasible avenue for growth considering their “rabid fan base” and ability to get the community to invest in DCFC’s success.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
DCFC is a true grassroots soccer team that launched in 2012.

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
Sean is a Detroiter and mentioned that giving back to the city is important, especially considering the challenges that Detroit has faced historically. Also motivated out of a need for resources. Company was at a plateau for growth and community capital investment provided a viable path out of the plateau. Also, this pursuit allowed them to tap into their greatest asset - the fans.

Q3: What were the main objectives for the community capital project?
Detroit as a city was having a moment and they really wanted to create a sports team that captured that.

Q4: Project design: process of working with investors?
There were 5 of them who own equity in the club and did a capital raise through revenue share with payback. They have 499 investors and raised just shy of $750k. Design, wasn’t terribly different than a GoFundMe campaign- there was lots of outreach and marketing. At the last minute, they saw exponential growth in investment. Overall, the management of the infrastructure, making sure checks are going out and stuff has been onerous. There are lots of hassles and the amount of work that must go into making sure that those 500 people are kept updated etc. is huge.

Q5: Aspects of your project that went well. What factors enabled these aspects to go well?
Their minimum goal was $400k, which they didn’t hit until a few weeks out from the end, and then at the last minute they hit $750 right before the deadline. They also feel like they’ve been able to make somewhat of an impact, although it’s hard to measure that. They have a lot of dedicated fans- people have met spouses, friends and business partners through it. They don’t totally understand or know all the ramifications, but, it’s inspired people.

Q6: Challenges encountered during the project? How were they addressed?
The biggest challenge they have faced, which is one that they see as their fault, is the way they structured the debt. They have a 22% return, so there is a lot of pressure on them regarding the amount of profit they need to make. There have been times when they’ve passed up revenue because of the implications it would have on their payback. But that was a decision they made, not something that was forced on them because of the law. Administration has been the biggest challenge. Community capital was a risky
proposition, so they tried to make it as appealing as possible. The actual return is significant, which is great for investors but incredibly challenging for them. Sean indicated that traditional bank financing would have been better for them because of the clear-cut nature of the payback.

**Q7: Measures used to evaluate the project?**
The only benchmark they’ve been using, the most important thing for them was ensuring that all their investors are paid back within 5.5 years. At this pace, they are on track to have everyone paid out in 3.5 years from the initial raise.

**Q8: Keys to success for community capital projects? Advice for others?**
Keys to success: Thoughtful branding / marketing. It’s important to tell a story about how using this mechanism gave others a sense of investment and connection to this thing in the community. He said that is what sets community capital apart in a sense- their fate is in the hands of the fans.

Advice: Sean said he wouldn’t suggest others use it as a starting point for a new project or product. He thinks community capital projects need to be something where you have a proven product, committed fanbase, clientele, etc., but want to grow and people can get excited by your next chapter and that they have a role in that. Then, make it as streamlined and as easy as possible since a lot of people haven’t made these types of investments before- there is a lot of education that goes into it.

[Craig] | [Fulton Street Investors]

**Summary of the Interview:**
The investment project was not successful. Craig faced real hurdles from the State of California regulatory process that made the raise for the DPO very difficult to complete.

**What did we learn from the interview about the following research questions?**

**Q1: Project description, form of capital program, and current status of project?**
Fulton Street Investors wanted to raise funds to purchase property that entrepreneurs could invest in to start brick and mortar businesses in downtown Fresno. They were able to raise 150K to 200k but were unable to get off the ground due to barriers from California regulators that delayed the project for 2 years.

**Q2: Motivations to pursue community capital for the project. Why did they use this approach?**
Craig has been in the revitalization field for 32 years or so.
In the past, he had put together LLCs and partnerships, but was amazed and dismayed at how hard it was to get normal/non-accredited people to invest in their own community. When you form an LLC, you can only talk to people who are accredited (aka rich) about investing.
He initially got the idea from Market Creek Plaza, NV, where a local community invested in an underserved neighborhood. Non-accredited community members were able to invest, and while it was a small fraction of the whole development project, they were able to profit alongside accredited investors. The project was also funded by a foundation ($100 million), so Craig worried it would not really be a replicable model.

Existing investment methods tend to keep money out of areas that need investment most. Craig wanted to set up a DPO to get locals to invest in their own community. He then wouldn’t have to convince rich people to prioritize Fresno, where few of them might live. And the local community would be able to build wealth.

**Q3: What were the main objectives for the community capital project?**
Buy businesses in downtown Fresno, CA; fix them up with local builders; then lease the buildings to local businesses.

Why?
--Generally, people who invest in poor areas aren’t “shining stars”
--Most property owners buy property in these areas because it’s cheap and, in turn, they get low performance tenants
--Really need to show how much the community loves their downtown and what it’s like for them to invest in downtown
--It can be hard to talk people into investing in a disinvested downtown, so Craig wanted to show people the impact their investment could have.

**Q4: Project design: process of working with investors?**
Due to the two-year delay, Mr. Sharton felt that it was difficult to build momentum with investors. Also, the $1 million minimum that the state of California required made things even more difficult.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**
The idea was good; people were interested in it and continue to be interested in it.

DPO is a good idea, though it’s not familiar so there’s more work that needs to be done to explain how it works. But, there’s good opportunity to invest and feel like you made a difference

Fulton St Investments was able to raise somewhere between $150-200K with relatively low effort.

**Q6: Challenges encountered during the project? How were they addressed?**
Timing seemed to be challenge for Craig. In the two years it took him to get approved, he lost a lot of momentum personally and with community members.
Structure of the DPO was huge impediment for Craig. He had a $1 million minimum. Non-accredited investors were only able to invest up to $500. He believes this structure was over conservative to the investor.

Craig thinks size of community might have been a problem for his project. He suggested that maybe projects in smaller cities with a stronger sense of community identity might be more successful.

Q7: Measures used to evaluate the project?
Had the project been able to raise the DPO, Craig would have looked at:
--jobs, revitalize the downtown, preserve historic buildings (these seemed to be goals for the project without a clear metric; may have been more qualitative and more of a way to get people to put their money into the project rather than a clear metric)
--anything they would have made in terms of rent (net profit) would have gone to investors & would have been the main metric to track the success of the investment.

Q8: Keys to success for community capital projects? Advice for others?
Craig thinks this is a great option for entrepreneurs, despite his experience. He recommends that other people look at how much they want to raise, and the administrative costs involved with the approval process to determine if community capital projects are the most efficient format.

Usually, the public doesn’t understand the details of DPOs, so entrepreneurs should have strong social media platforms to share their story. He also recommends working with an agency like Cutting Edge Capital to understand funding sources and the approval process.

He believes it is important for investors to have an emotional draw to the project. A good selling point for community capital projects is when people feel like they are investing in the betterment of their own community.

[Jack] [Gringo Jacks]

Summary of the Interview:
Gringo Jacks attempted to expand their production of chips, salsa, and BBQ sauce using community capital funds. Jack aimed to raise $250,000 in one year, with donations at a $1000 minimum. The campaign raised $80,000 from August to February before Jack ended the project. He believes his timing (project coincided with the recession), commitments at his restaurant, and limited resources to dedicate to capital raising played a role in the project’s failure. If successful, he intended to measure his community impact through job growth, investment in manufacturing infrastructure, and contribution to Vermont farmers/sustainable local food system.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Jack’s campaign allowed Vermonters only to put in a minimum of $1,000 to reach a $250,000 goal in one year. Once 25 percent of funds were raised, the company could start utilizing the money. Stakes
were a convertible debt loan to equity at a 6 percent interest rate accruing until Dec. 31, 2019. Jack raised money from August to February before shutting his project down as a failure. He continues to operate his restaurant, Gringo Jack.

**Q2: Motivations to pursue community capital for the project. Why did they use this approach?**
Jack wanted to fill a market demand for his products and grow to distribute to a larger audience. One of his main objectives was growth.

He is a part of the community and listens to their needs and there was a need to expand desired products into a larger facility.

**Q3: What were the main objectives for the community capital project?**
Gringo Jacks hoped to expand its production of chips, salsa and BBQ sauces using community capital funds. Jack wanted to raise enough capital to triple his staff, move to a larger manufacturing facility, and cover the costs of packaging and distributing his products. He also planned on creating a sales team to market his products.

Additionally, Jack hoped his project would impact the community. He wanted to create jobs, support local farmers, and contribute to local food systems.

**Q4: Project design: process of working with investors?**
Clarified that this was about working with community capital investors. Indicated having two press conferences and a roadshow to spark interest, around the state of Vermont. Also utilized PR to increase awareness. Indicated having a series of 2-minute pitches and longer 10-minute pitches prepared. Milk money partnered with branches of VSECU.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**
They raised 25% of their goal, approximately $80,000. Had a well-rounded marketing plan built into the strategic plan. Jack mentioned he learned a lot about community capital throughout the process.

**Q6: Challenges encountered during the project? How were they addressed?**
1. Only raised 25% of goal over the 7 months from kickoff to shutdown (approx. $80,000 of $250,000) Was afraid he wasn’t going to be able to do what the money needed to do with that little.
2. This project was a pioneer in local community capital fundraising after legislation had been changed to allow non-accredited investments, required more energy
3. Didn’t adapt quick enough to the changes that would have made growth a little easier / focus enough on the needs of growing this business while also running his restaurant.

**Q7: Measures used to evaluate the project?**
If they had been able to raise funds and get growth in product line, would have doubled the workforce (was at 7 employees, would have gone up to 14 or 15 at factor and then got a sales team) would have eventually maxed out space Would have eventually engaged with more local vendors, distributors and farmers.
Community impact would have been on helping build a sustainable local food system. When local farmers had a flush of tomatoes or jalapenos, they would not only buy from them but create a value-added product for them that they could sell at their own farm stand.

**Q8: Keys to success for community capital projects? Advice for others?**
Community capital can take longer than you think, and takes a lot of energy, pulling you away from other things. It’s the young small companies’ Achilles heel -you need the capital to grow and the time you spend growing the capital keeps you from growing the way you need to use the capital.

**Summary of the Interview:**
Honeycomb Credit have been in existence for two years and have offered platform for one year to help small businesses get loans ranging from $25,000 to $100,000. It was founded by Ken Martin and George Cook, who met while getting their MBAs at Dartmouth. With the decline of community banks, Martin sees crowdfunding as a viable source of capital for small business owners. Though Martin is no longer actively involved in Honeycomb, he still maintains close contact with Cook and believes in the positive externalities that crowdfunding can have for communities. In the year that they have launched their platform, they have a 100% success rate with no campaigns failing to meet their raise.

**What did we learn from the interview about the following research questions?**

**Q1: Project description, form of capital program, and current status of project?**
Honeycomb is a platform for entrepreneurs to raise capital from the community. Martin said that community investors serve as qualitative underwriters that small community banks once did. That is, investors know the businesses and can vouch for the good that they have for the community. The minimum to invest is $100. Because most investors are above average income, Honeycomb stresses positive externalities for communities more than the return on investment for individual investors. Honeycomb is big on local community development, irrespective of geography, recognizing that communities are crucial to the success of these projects.

**Q2: Motivations to pursue community capital for the organization. Why did they use this approach?**
Serving this critical role for small businesses to unlock their growth potential and revitalize communities and neighborhoods. Incorporate elements of positive externalities to small business loans and decisions on loans -- avoid the notion of detached investor from NYC. Giving entrepreneurs an ability to expand and benefit their communities. He discussed the idea of product market fit -- opportunities for both investors and businesses. Giving investors a financial stake in their communities and greater sense of ownership.

Given that there is little track record for small businesses other than an entrepreneur's income, there is no data point and no proxy for credit risk of small businesses. Community banks did qualitative and quantitative underwriting--but important is qualitative side. Community banks know entrepreneurs. But
now underwriters no longer know the community because they are from the outside. Bring underwriting decisions back to the communities that it impacts. Crowdfunding brings back qualitative data points.

**Q3: What were the main objectives for the community capital project?**
The main objective was to offer small businesses an opportunity to raise funds that are too big for small business credit cards, but too small for big banks. Martin cites a Harvard Business Case Study that found that some 70% of entrepreneurs need loans of under $100,000. Martin said that the platform of crowdfunding also serves as a marketing tool for entrepreneurs as well as Honeycomb Credit.

**Q4: Project design: process of working with investors/entrepreneurs?**
Mentioned three examples of entrepreneurs that had already been established to expand their enterprise. They had engaging stories that attracted local investor support. They have a bit of a playbook for advice that they provide to potential small business owners looking to expand.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**
Engaging stories and perceived value from the public, or community investors. Need to market the business and value added through social media and other online campaigns to generate buzz. Establishing local gathering places or scaling up current capacity to serve underserved populations. Integrating ideas of positive externalities into their business model at Honeycomb to consider projects that will bring benefits to local communities.

**Q6: Challenges encountered during the project? How were they addressed?**
Regulations posed challenges to their work, Regs CF in 2016. [https://www.sec.gov/smallbusiness/exemptofferings/regcrowdfunding](https://www.sec.gov/smallbusiness/exemptofferings/regcrowdfunding)
The problem was that the regulation-imposed SCC security law on community lending.

**Q7: Measures used to evaluate the project?**
Key findings for campaigns over the year of their launch:
1. Having a physical location really matters
2. Brand and social media presence (brand that is local)
3. Growth—emphasize how the raise will help them and their community

Honeycomb Credit has not come up with conclusions on metrics at this point. However, they recognize qualitative positive externalities as a valuable part of crowdfunding. In the long-run, they hope to see an increase in the taxable base in communities.

**Q8: Keys to success for community capital projects? Advice for others?**
Honeycomb currently has a 100% success rate for projects, however they understand that failures will likely happen as time passes (only been in operation one year). They mentioned it is not necessarily bad to be a failed campaign; other benefits may emerge in the long run. Encouraging small businesses to think in the long-term and develop strong stories, a sense of value for the community and potential investors.

*Follow-up Questions:*
Summary of the Interview:

We spoke to John and Rebecca about their community capital fund.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Debt financing give loans to food/agricultural businesses.

They started the fund 3 years ago, pilot program before that to use capital from foundations to test the model. They set out to raise and deploy 2.5 million and are at the halfway point.

- 3 pools of capital--community investment pool ($1-10K, 10K or more, 100K or more at different rates) all 25 borrowers are functioning and doing well; 4 in the pipeline
- First 3 years-- got $1 million in quickly but not a lot of entrepreneurs
- Now they have more entrepreneurs and need more capital
  - Why?
    - Takes a while for entrepreneurs to get through the pipeline to get to the point where they can jump into the loan process
    - They also did some advertising to bring more entrepreneurs in

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
They want to democratize loan access and grow a more vibrant community/local economy. They did a pilot program that was funded through foundation support and it worked well enough that they got additional foundation support--it also fulfilled their mission.

Q3: What were the main objectives for the community capital project?
To enable the people in the community to build their own economic equity and remove barriers for those who traditionally were not able to participate. This helps ensure that the community is not reliant on outside companies to drive economic development. They hope that this creates longevity

Q4: Project design: process of working with investors?
They got investors to give to the fund through relationship building with financial advisors (the highest performing fund pool is for investments between $10-100K). They are starting to try bringing in additional non-accredited investors (particularly those between $1-5K)
Q5: Aspects of your project that went well. What factors enabled these aspects to go well?
Other than a few late payments, they have not made any bad loans. All projects have been performing well. Projects do not have full collateral, instead they generally rely on cash flow.

The reputation of the CDC. Having PV Grows embedded into an existing organization with a strong, positive reputation and strong ties to community organizations really helped them.

They are a community lender, so they don’t just look at financial plan. They know about the borrower and the community they’re in--they know if the estimates the business makes are correct and if the community the business is in can support business expansion/new businesses.

They also have two committees that oversee the lending.
First--does it fit the mission? Is it a mission fit project?
Second, Loan review committee--haven’t had many rejected. The projects that don’t get through to this point tend to get weeded out.

Q6: Challenges encountered during the project? How were they addressed?
They had a hard time bringing entrepreneurs to the table. So, they provided a lot of technical assistance to get them to a place where they were ready to take on a large loan. It was particularly difficult not to have the entrepreneurs because they had lots of investments and were paying interest on those funds but were not earning back those rates since they couldn’t get loans out.

Now they have more entrepreneurs and want to lend more money than they have currently can loan out. Their capacity switched, essentially.

Now they have a planning grant to reach people of color, people in low-income areas, but they haven’t figured out how to reach people who have been historically cut out of building wealth. They’re still relatively traditional in that they require collateral or down payments.

Q7: Measures used to evaluate the project?

- # of investors
- $$ amount of investments
- What does the pipeline look like--are entrepreneurs getting through to a place where they are loan-ready?
- Do businesses return for a 2nd or 3rd loan?
- Is the business they lent to growing & thriving?

Q8: Keys to success for community capital projects? Advice for others?
Advice to others: “Don’t do it.” They want people to recognize the challenges of starting a venture. People need to know that they need three years of funds to get the project off the ground since it will take some time to generate steady revenue. Interests rates were higher than they liked for the first round at 4%; they hope to lower it to 3% so that it can be more manageable to entrepreneurs. Going forward, they want
to take pledges from larger investors instead of taking the money and paying the interest. They also suggest not overthinking it after seeing how simpler some other funds were structured.

[Lynn Johnson] | [Spotlight Girls]

Summary of the Interview:

Spotlight Girls was founded in 2008 as Glitter & Jazz. The company changed their name and legal status (LLC to B Corp) in 2015 to reflect their new mission to empower girls through theater. In 2016, Spotlight Girls kicked off their first DPO with the goal of raising $100,000 to expand their reach, build marketing tools, and hire additional employees. They have an accreditation from B Lab, signaling their commitment to a triple bottom line: profit, social impact, and environmental sustainability. Spotlight Girls is currently in the middle of their second raise.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Spotlight Girls did a raise of $62,500 from 40 investors on Wefunder.com in 2016 that went mostly to marketing and marketing assisting for the business. They are currently in a middle of another raise on Crowdfundingmainstreet.com.

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
Lynn learned about community capital from an advocate of the movement, Jenny Kassan. She couldn’t access traditional capital and was drawn to the idea of raising money on her own terms. She was influenced by Jenny’s message “Only one percent of the population is accredited professional investors. What if we added in the other 99 percent?” Lynn appreciates how the community capital model aligns with Spotlight Girls’ mission of having a social impact and engaging the community. She believes that if she could raise capital by increasing awareness and engaging her community, she could build base support for her movement.

In pursuing community capital, Jenny was able to hire staff and increase marketing efforts. From her perspective, the capital raises legitimized Spotlight Girls and connected Lynn to other types of impact funding she might have not known about without the campaign. Without her DPO, Lynn predicts Spotlight Girls would still be bootstrapping for investments and not growing at the pace it is.

Q3: What were the main objectives for the community capital project?
To raise the funds needed to grow their organization and expand the reach of their mission.

Q4: Project design: process of working with investors?
Johnson mentioned that the novelty of community capital offered an advantage as well as a challenge in approaching investors. The challenge was that not a lot of people know what it is; the excitement was that it was something new. She said she tries to target women investors and offer equity in the business. In getting the word out, she attended several conferences and held some private events to educate possible investors.
Q5: Aspects of your project that went well. What factors enabled these aspects to go well?
Though there were challenges with doing a DPO while running a business, Lynn felt that it was good to have the support of other women entrepreneurs in this space. She attributed some of their success to their social impact mission. Again, the fact that community capital is relatively new, she was able to capture people’s interest.

Q6: Challenges encountered during the project? How were they addressed?
Lynn spoke about the challenge of educating community members about the community capital funding process and model. She discussed how the “traditional professional investor’s hat does not fit the crowdfunding hat.” Traditional investors wanted larger returns. Lynn noted that other community members were apprehensive about using online platforms to invest. The online platforms, because the investment model is novel and highly regulated, require investors to input a lot of personal information like social security numbers.

Additionally, Lynn said the DPO was a lot to manage while trying to run her business. It requires constantly reaching out to potential investors.

Q7: Measures used to evaluate the project?
“Have they reached their fundraising goal?”
They evaluate their programs more holistically; their mission is very social impact driven, so their programmatic impacts do include how well the girls who participate in their camp integrate the programming into their lives and outlook. However, their metrics for the success of their DPO are focused on revenues and meeting their fundraising goals. Lynn had not thought about connecting social impact to the goals of their raises.

Q8: Keys to success for community capital projects? Advice for others?
For entrepreneurs: It’s hard work, allow yourself 2-3 months to prepare for the raise. Tell a good, compelling story. Don’t try to do the raise by yourself: get an attorney and a CPA. Know what you want to do with the money that you’re trying to raise--what are your goals?

Debt-based raises can more easily have lower minimums whereas equity-based raises tend to benefit from higher minimums in order to ensure better investor relations.

[Kyle] [Tecumseh Brewing]

Summary of the Interview:

Tecumseh Brewing was started about 4 years ago through a community capital investment project that was set up so that investors receive 1.5 times their investment over 5 years through monthly revenue sharing (7% of revenue divided out among investors). Their project was on the LocalStake platform and was fully funded within one month of posting. It took about four years for them to get their capital investment set up and going, which created buzz in their small-town community (Tecumseh, MI). Many of their investors were in Tecumseh, Metro Detroit, and Ann Arbor. They had investments that ranged
from $250 dollars to $11,000 or more. One of the benefits of this form of investing was that they have been able to turn these relationships into repeat investments. They are thinking about starting a second community capital project in Tecumseh to buy the community center, which is still in the works.

**What did we learn from the interview about the following research questions?**

**Q1: Project description, form of capital program, and current status of project?**
They business is currently in a good position and has been able to pay its investors. 7% of monthly revenue is paid to their investors until each investor makes back 1.5% of their initial investments. Their success was due in large part to their ability to get in front of people to get the word out and answer questions.

**Q2: Motivations to pursue community capital for the project. Why did they use this approach?**
Their motivation for getting into community capital was due to the barriers they faced in securing a bank loan. Big and local banks wanted to see “more skin in the game.” Once Kyle Dewitt met Chris Miller and learned about crowdfunding, he saw it as a viable option. They also wanted community involvement in & support of their project.

**Q3: What were the main objectives for the community capital project?**
It was a good way for Kyle to raise the necessary funds to start his project. He wanted community involvement.

**Q4: Project design: process of working with investors?**
Investments could range from $250 $100,000, with the largest they’ve received being $11,000. Investors can also visit the brewery and see the work they are doing. To keep investors informed, they upload financial reports on Localstake and disburse monthly funds to people’s accounts.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**
The funding came together smoothly, and the platform worked well. They purposefully set up the funding mechanism to be easy to understand for people who haven’t done a lot of investing before. The fact that their project was based around beer and establishing a social venue for the community to gather in also helped: beer is fun. They also had local ties to Michigan and Tecumseh. Kyle’s wife had already opened a boutique and his business partner was from that town. Kyle went to UMich-Ann Arbor.

**Q6: Challenges encountered during the project? How were they addressed?**
Explaining to people that community capital investment is NOT like a Kickstarter: people thought it was a donation and wanted to know if they’d get a t-shirt. Once they did the education explaining it’s not a donation and that you make an investment, they got even more interest.

The other challenge, which led them to community capital, was getting a small business loan from local banks--none of them were willing. Except a small local bank that wanted to move forward, but they needed to first work out collateral to support the loan.

**Q7: Measures used to evaluate the project?**
Being able to pay back investors in 5 years.
Did people make their investment back in 5 years?
Did they reach their investment goals?

Q8: Keys to success for community capital projects? Advice for others?
Go for it!
Get your books and business plan and numbers in order first
get help from Washtenaw Community College’s Small Business Development Council

Tarek Kanaan | Unity Vibrations

Summary of the Interview:
Unity Vibrations is a combination wholesale / direct seller / brewery whose business model combines kombucha and craft beer. Their mission was to start a locally based business that involves the community and distribute their product nationally. In 2009, Rachel and Tarek sought out to raise $136,00, which they raised successfully through 25 investors with a minimum donation of $1,000. Overall, their project has been successful on all accounts. They distribute nationally to 15 states, have a music venue, tasting room and have grown their business to 10 employees. They are currently in the middle of their second community capital raise with a goal of reaching $500,000. To date, they have raised half.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Unity Vibrations held their first raise in 2009 with 25 investors and raised $136,000. There is a 7.6% payback to investors on monthly revenues until 150% is paid back. They are currently in the middle of another raise where their goal is $500,000, where they are halfway towards. The businesses are currently valued at just under $1 million.

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
The motivation for community capital was to start a locally based business that can involve the community. They do hope to be a national business and are currently in 15 states. Given the popularity of Kombucha in California, they intend to focus on distributions out west.

Q3: What were the main objectives for the community capital project?
Because consumer good companies are capital intensive businesses, they needed the capital to effectively expand. They currently have 10 employees and was able to double their building capacity since the raise. Also due to the raise, they were able to offer the community places of gathering through their tasting room and music venue. They also provide a benefit to the community by doing business with local suppliers.

Q4: Project design: process of working with investors?
Unity Vibrations has local as well as out-of-state investors in California. They were able to get out-of-state investors through the website Foundersuite.com. Though, most of their investors are local, as well as consumers of their product. To engage their investors, they send out quarterly newsletters.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**
The revenue sharing agreement that they developed is great- they have a manageable payback and during good months they’re able to pay more. They also have had a good community impact so far, which was one of their motivations- they’ve provided jobs (10 employees), music venue room, support other local suppliers through purchasing, and have a tasting room.

**Q6: Challenges encountered during the project? How were they addressed?**
The biggest challenge was that there isn’t a lot of organization around accessing community capital, except for pitch event. Finding investors is also challenging. They went through Localstake who had 1,000 investors at the time, however, 90% of their actual investors came from connections that the company made. Another major challenge is that a lot of the angels’ group are tech focused and not on the other types of capital projects that exist, like UV. As a mom & pop style business, they didn’t have a lot of expertise and knowledge, which would have been helpful.

**Q7: Measures used to evaluate the project?**
Profit and Loss are the only measures that matter.

**Q8: Keys to success for community capital projects? Advice for others?**
Key to success: You want your project to be attractive to investors so that they want to put their money there and not the stock market. For this business, he noted that Kombucha’s current popularity coupled with their niche of microbrewery in the product has made investment opportunity exciting to prospective investors.

Advice for others: Connect with these other organizations that can help you build your project, like Localstake, Foundersuite, Investible. And look to other business / business models to guide benchmarking other models. He also noted that he wished he had access to capital sooner. He mentioned “strategic planning” as being an important part of the process.

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Summary of the Interview:
Kate started Vermont Evaporator (EV) four years ago to fill a need in her Vermont community for small-scale sap evaporators. When Kate couldn’t access tradition capital, she partnered with Milk Money and Community Capital of Vermont. She connected with 43 investors to raise about $30,000 with Milk Money using a convertible debt model. They secured a ($x?) loan from Community Capital of Vermont. In terms of local impact, Kate talked about generating community wealth and producing a uniquely “Vermont” product. She touched on the importance of cooperation from regulators. She also expressed frustration at the limitations of community capital laws to only apply to certain states. Kate believes
community capital fills an important gap for start-ups and small businesses to get them off the ground, but they should still look for more legitimate forms of capital after the first few years.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Vermont Evaporator started with a loan from Community Capital Vermont and a raise campaign through Milk Money. They were able to raise $31,050 from 43 investors. Minimum investment was $250. Several their investors were family members, who received shares of the company. For other investors, they did a convertible debt loan with 5 percent interest over the next c. Currently, VE has paid off its CCV loan and is in its fourth year of operation.

Q2: Motivations to pursue community capital for the project. Why did they use this approach?
After moving back to Vermont, Kate McCabe saw a demand for individuals who wanted to make their own maple syrup, so she and her husband decided to start a business that was specific to Vermont to “export a product and import money.”

Q3: What were the main objectives for the community capital project?
McCabe saw the opportunity for community capital as mainly a for-profit venture.

Q4: Project design: process of working with investors?
Kate mainly reached out to family and friends to fund her project. She explained that Milk Money also helped provide a platform to meet investors. Through Milk Money she engaged in public events, social media campaigns and private networking events. She also had coffee chats with potential investors.

To market her company, Kate spoke about the “family-run” qualities of VE as well as the uniquely Vermont product she planned to produce.

Kate expressed frustration at the current status of community capital regulations and their differences across states. She had investors interested in her company in Virginia and other states, but regulations prohibited them from investing. Kate believes she could have raised three times as much without these regulations.

Q5: Aspects of your project that went well. What factors enabled these aspects to go well?
Kate said VE was successful for a few reasons. She believes the support from Milk Money played a huge role in her success. They provided logistical support, training, and offered a platform to connect with investors. Because she didn’t have the capital to start her business, let alone provide her own support services, Kate thinks the help of community capital experts at Milk Money contributed to her success.

Kate said Milk Money’s relationship with the the Department of Financial Regulation in Vermont eased her community capital process. She said because of the good relationship with the Department, VE was able to receive approval very quickly. The speed and convenience of the regulatory process contributed to Kate’s success.
She also said that beyond the loan, Community Capital of Vermont offered valuable support, such as technical support to learn and do QuickBooks operations. Beyond that, having the community that is involved in community capital ventures to talk to be a good source of emotional support as well.

In marketing her raise, Kate said she focused on the fact that it is a family-owned business that is taking on a venture that is very specific to Vermont, which is facilitating the production of maple syrup.

Q6: Challenges encountered during the project? How were they addressed?
Kate mentioned that regulations in different states made the process more difficult to raise money across state lines. She had some investors from New Hampshire that was interested, but due to its state regulations, they were not able to make it happen.

Q7: Measures used to evaluate the project?
Given that it is a private business, it seemed that Vermont Evaporator was mainly focused on making a profit. She said she had a certain number of wealth she wanted to generate personally, for her and her family. She mentioned in the abstract that she hopes the community would benefit from the returns on their investments and this would ultimately have a broader impact. But she did not mention other metrics to evaluate the success of project.

Q8: Keys to success for community capital projects? Advice for others?
Kate said that the loan from Community Capital Vermont and the crowdfundinng raise would not have been enough on their own, but together it was just what she needed to get the company off the ground and then later approach a bank for more capital.

[Mickey Wiles] | [Working Fields]

Summary of the Interview: Mickey Wiles is the co-founder of Working Fields, a job placement agency focused on giving individuals recovering from substance or alcohol abuse help with job placement, counseling and training. He believes employment is one of the largest hurdles for recovery. Working Fields partnered with Milk Money to raise $100,000 with a $250 minimum using a convertible debt loan structure and 6 percent returns. As a result of his raise, Mickey has expanded the number of people he has been able to serve and matched them with Vermont employers.

What did we learn from the interview about the following research questions?

Q1: Project description, form of capital program, and current status of project?
Working Fields is a mission-based staffing agency for people in recovery from substance abuse. In addition to being placed with a short-term assignment, they have a recovery coach who supports them through the process. At the end of the program, if they are successful, they can transition to full time work with their employer.

Convertible debt @ 6%. After 3 years, voluntary conversion to convert to stock or membership shares or begin a 5-year amortization of the principal plus accrued interest.
Project is currently doing well.

**Q2: Motivations to pursue community capital for the project. Why did they use this approach?**
He had some money, but not enough, and couldn’t get capital the traditional route. The business requires paying the employees through his payroll and then invoicing the businesses, but money received will not come in for 2-4 weeks. Capital is used to support them during the gap between their payroll and receipt of funds until they have established enough cashflow to subsist on their own.

**Q3: What were the main objectives for the community capital project?**
Nobody else was doing this work, the mission itself is benefitting the community. Wanted to give people in substance abuse recovery a second chance. Even though not all people who go through complete successfully, he believes they are all a success in some way- and that this project has made an impact on the 300 that has gone through.

**Q4: Project design: process of working with investors?**
Mickey said he tapped his business connections to help raise his capital. While Milk Money held events to connect him with potential investors, he said they were poorly attended and not held frequently. He thinks Milk money can/should do a better job at this. His minimum amount was low, $250. He received $35,000 from the Vermont community foundation.

**Q5: Aspects of your project that went well. What factors enabled these aspects to go well?**

**Q6: Challenges encountered during the project? How were they addressed?**
Mickey didn’t encounter many challenges. He mentioned one specific instance with a Vermont citizen who wanted to invest through a self-directed IRA. The regulations for investing via IRA were not yet defined and Mickey had to work with Milk Money and his attorney to clear a path for this individual to invest. This process took time and money to complete.

While he didn’t discuss this when asked about challenges, Mickey mentioned the process of connecting with potential investors. He said if he did not have such a large network as an established businessman in the community, he would have had a hard time spreading the word about his project. While Milk Money provided a platform to connect with potential investors, he only received one investment from Milk Money that was from someone he had not found himself.

**Q7: Measures used to evaluate the project?**

Measuring the success of the project was difficult for Mickey to define. He succeeded in raising $110k from investors and serves more people. But he explained that not everybody that walks through his door find success through his business. Often, they come back and try again. While he can’t directly track “success” of his project because of this, he believes he is influencing everyone Working Fields opens its doors to.

Indirectly, Mickey mentioned he has seen growth in number of people served and more community awareness for his project.
Q8: Keys to success for community capital projects? Advice for others?
Mickey believes community capital project fill a gap in investment structures for startups. He mentions that angel investors typically want to see a track record from startups, but community investors can help entrepreneurs with great ideas but no access to capital. Community capital projects require people to fully develop their business plans, determine how much money they really need to raise and find a capital raise type to set their business up for success. An improper funding structure can lead to failure. He thinks it is important that businesses have an established platform to connect with potential investment entrepreneurs. Going out and finding them, especially without a large network, can be a large burden. He believes Milk Money could do a better job at this.

INTERVIEW FRAMEWORK

External Interview Framework

Local Investing: Stories of Community Investment and Impact

Introduction:
Thank you for taking the time to discuss your Community Capital Project with us.

We are current graduate students with the LLM-Ford School of Public Policy, and are working with the National Coalition for Community Capital (NC3), a non-profit collaborative organization that focuses on the democratization and localization of community and business investment. NC3’s main focus is to retain capital in communities, with an emphasis on those who have historically been isolated or under-represented from investment opportunities.

NC3 and their board members have been actively involved in a variety of community capital investment projects nationwide and are looking to build and strengthen this movement at a national scale. In order to do this, NC3 reached out to the Ford School to identify and analyze a variety of community investment capital projects that will illuminate stories and data currently lacking in the community capital sphere. NC3 board members have connected us with a variety of entrepreneurs across the United States that have engaged in community capital investment projects. We are able to bring a cohesive narrative to their work.

Project Goal:
The goal of this project is to (1) create a universal framework to measure community capital investment impact supported by stories and data and (2) develop case studies that highlight the successes and challenges encountered by community capital investment projects.

Project Confidentiality:
This project will feature using factual information provided by interviewees to address the project goals stated above. Your responses to the questions will be kept confidential. First, any parts of our final report that include opinions on behalf of the interviewees will not be attributed to the individual or organization. Second, a select number of interviewees will be used to help write case studies on community capital investing. Should our project feature your organization as a case study, we will highlight the name of the organization, however, we will not use direct quotes or personal opinions and will send a draft to you and your organization for review prior to publishing and sharing with NC3. If you have any questions or would like to revisit parts of the interview afterwards for revision, please reach out to one of our team members. Our contact information is provided below.

Thank you!
Internal Interview Framework

Interview Guide

Local Investing: Stories of Community Investment and Impact

Introduction:
Hello, my name is Jay and I am a master’s degree student at the University of Michigan’s Ford School of Public Policy. Thank you for taking the time to discuss your Community Capital Project with us!

We are working with the National Coalition for Community Capital (NC3), a nonprofit collaborative organization that focuses on the democratization and localization of community and business investment. NC3’s main focus is to retain capital in communities, with an emphasis on those who have historically been isolated or under-resourced from investment opportunities.

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Thank you!
### Internal Interview Framework Continue

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Project Design</th>
<th>Community Capital Process (Benefits)</th>
<th>Community Capital Process (Challenges)</th>
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<tbody>
<tr>
<td>- From your perspective, how would you describe the main objectives for your community capital project?</td>
<td>- Describe the process of working with investors?</td>
<td>- Describe the aspects of your project that went well, What factors enabled those aspects to go well?</td>
<td>- What challenges did you encounter during the project? What barriers or gaps? How were these dealt with? What do you wish you had known?</td>
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<tr>
<td>- How did you identify the project’s objectives?</td>
<td>- What was the raised capital intended to address? Did that stay consistent?</td>
<td>- How did your project benefit the community? Do you have measures of success?</td>
<td>- How were the challenges addressed?</td>
</tr>
<tr>
<td>- Did the objectives change during the project?</td>
<td>- What has your community changed throughout the period that the ACC program has operated?</td>
<td>- External organizations/npo partners?</td>
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<tr>
<th>Project Assessment</th>
<th>Success</th>
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<tbody>
<tr>
<td>- What measures have you used to evaluate the project?</td>
<td>- What do you consider key to success for community capital projects?</td>
</tr>
<tr>
<td>- How about after the process/currently?</td>
<td>- What advice would you give to current entrepreneurs interested in starting a community capital project?</td>
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</table>

Correlation with capital and what they are able to do. He doesn’t look at it as metrics. He doesn’t draw straight lines between gpo and their increased capabilities.
DEFINITIONS OF KEY TERMS

**Accredited Investor** – is an individual or business entity that “has the financial sophistication and capacity to take high risk, high-reward path of investing in unregistered securities sans certain protections of SEC. It is based on either income, net worth, asset size, government status or professional experience.” (Investopedia)

**Benefit Corporations (B-corps)** – “Certified B Corporations are social enterprises verified by B Lab, a nonprofit organization. B Lab certified companies based on how they create value for non-shareholding stakeholders, such as their employees, the local community, and the environment. Once a firm crosses a certain performance threshold on these dimensions, it makes amendments to its corporate charter to incorporate the interests of all stakeholders into the fiduciary duties of directors and officers.” (Harvard Business Review)

**Debt Financing** – “occurs when a firm raises money for working capital or capital expenditures by selling debt instruments to individuals and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid.” (Investopedia)

**Equity Financing** – “the process of raising capital through the sales of shares in an enterprise. Equity financing essentially refers to the sales of an ownership interest to raise funds for business purposes.” (Investopedia)

**Non-accredited Investor** – “is anyone who fails to meet the SEC income or net worth requirements for accredited investors.” Generally, it is anyone who makes less than 200,000 a year, or less than $300,000 a year for joint income.

**Revenue sharing** – a practice that uses “profits to enable separate actors to develop efficiencies or innovate mutually beneficial ways.” (Investopedia)
**Success fees** – “is a compensation structure paid to an investment bank for successfully closing a transaction. The success fee is usually calculated as a percentage of the company's enterprise value and is contingent on the completion of the deal.”—(Investopedia)