OPPORTUNITY ZONES MEETUP

COLORADO INDOOR AG COOPERATIVE CASE STUDY

GUIDEBOOK

prepared by
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The Opportunity Zones Meetup is sponsored by the following organizations

DAKIN CAPITAL LLC

Karl Dakin provides services in investor profiling, crowd building and capital campaign planning, staging and management.

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CASE STUDY

This Guidebook is part of a series of publications developed to assist individuals, communities, businesses and property developers and Opportunity Zone investors in understanding how Opportunity Zone investments may benefit by rolling over capital gains into communities to address local challenges.

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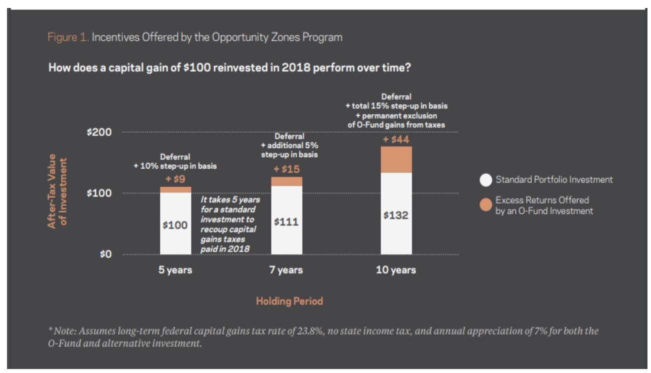
OPPORTUNITY ZONES

The Tax Cuts and Jobs Act passed in December of 2017 authorized tax incentives for investments into businesses and properties located within designated geographic areas – Opportunity Zones. The incentives are intended to influence investors to provide capital to distressed economic areas to generate jobs and aid the local economies. Opportunity Zone regulations and oversight are enforced by the Internal Revenue Service.

All investors with capital gains may benefit from investing in Opportunity Zone Funds. However, if the United States experiences another economic downturn and/or Wall Street experiences a correction, investors may find Opportunity Zone investments a superior alternative.

An investor who holds stocks with an appreciated value over the original purchase price may sell their stocks and roll over their gains within 180 days into one or more Opportunity Zone Funds that re-invest the money into Opportunity Zone Businesses and Properties. The payment of taxes on the capital gains is deferred until earlier of 2026 or the date when an investor sells their investment in the Fund. Investors who leave their money in an Opportunity Zone Fund for 5 to 7 years will have their capital gains taxes reduced. If an investment is held in an Opportunity Zone Fund or 10 years, <u>all of any gain on the Opportunity Zone Fund investment is tax free</u>.

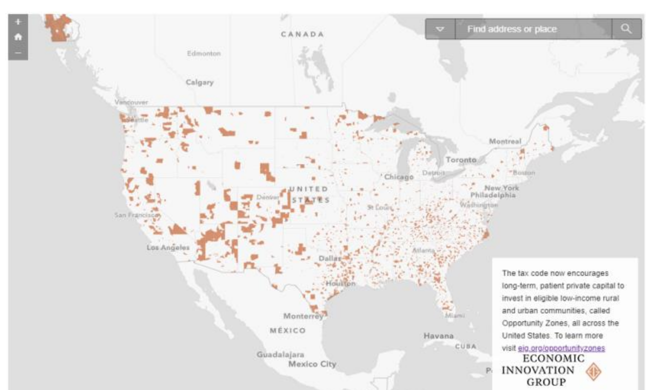
Analysis by different investment advisors project that an investment in an Opportunity Zone Fund will earn 5% more money after taxes than an investment without the tax incentives. Investments that experience high rates of return will experience even greater benefits.



A Fund may be a single investor, single purpose fund where an investor places their money to acquire a specific Opportunity Zone Business or Property. A Fund may also be a multiple investor, single or multiple purpose fund in the form of a private equity or hedge fund. The Fund may be collaboration with local, state or federal government agencies or districts as part of a community improvement project.

All existing laws governing the sale and purchase of securities apply with the standard restrictions on the participation of non-accredited investors, publication of the offerings and regulatory reporting.

Opportunity Zones have been certified in each of the fifty States. A national map of Opportunity Zones and the history of the legislation may be obtained from the Economic Innovation Group at: https://eig.org/opportunityzones. Additional information with local maps and projects may be obtained from the economic development offices of each state. Communities are encouraged to create a 'prospectus' detailing each Opportunity Zone investment within their area.



As proven by the JOBS Act and investment crowdfunding, a business seeking investment through an Opportunity Zone Fund must recognize that the establishment of a new capital source does not automatically result in an investment. An investor will not simply make an investment because of the new tax incentives. An investment in an Opportunity Zone Fund is a long term investment that requires 'patient capital'.

An Opportunity Zone Fund, or its sponsoring Opportunity Zone Business or Property, must be 'ready to receive capital' by developing a capital campaign where it clearly communicates its potential to qualified investor candidates that have a high interest in the success of the business or development project. This Opportunity Zone Fund must stand ready to pitch itself whenever investors make the decision to switch to different investments.

An Opportunity Zone Business or Property Developer must compete for investment money by making itself more attractive than other investment opportunities. In addition to all of the common activities that may make an investment more attractive, some actions that may enhance the appearance of the opportunity and reduce the perception of risk include:

- Investments that include land, buildings, equipment or other capital assets that serve as collateral
- Quantification of social metrics representing 'impact' benefits to a community or a cause
- Joining with other Opportunity Zone Businesses where the investor is investing into a pool of investments
- Participating in an economic development project where part or all of the risk may be shifted to a government agency, foundation or other organization

Opportunity Zone Businesses and Property Developers may throw off some cash flow to investors over the life of the investment that will be taxed as ordinary income. Certain investments may be structured to generate capital gains that can be rolled over into additional investments. If an investment does not generate cash flow, investments should be structured to enable an investor to borrow money against their investment, similar to a loan from a 401K retirement fund.

Although there are trillions of dollars of capital gains that may be directed into Opportunity Zone Funds, the rules governing the time for deployment of investments makes it difficult to set up classical large scale funds. Businesses and property developers seeking Opportunity Zone investments may be unable to find ready sources of funding resulting in their having to create their own Funds and complete all of the work associated with completing a capital raise.

CASE STUDY: COLORADO INDOOR AG COOPERATIVE

The citizens of the State of Colorado import nearly all of the local produce that they consume in restaurants where they eat or that they purchase from grocery stores to prepare at home.

The State of Colorado will benefit greatly from local food production by creating local jobs, improving the local economy, increasing food security, mitigating climate change and providing fresher, tastier food that is more nutritious and healthy. [Harvesting Opportunity]

To displace the current food distribution system that imports produce, it is proposed to create a new statewide system that grows food across the state and processes the food in regional food hubs: the Colorado Indoor Ag Cooperative. Currently, restaurants make use of 60+ leafy greens, fruits and vegetables weekly in serving their menus. The Cooperative must be able to deliver this produce year round with consistency to meet the needs of these large food purchasers.

As conceived, turnkey greenhouse businesses with 60,000 square feet of growing space will be established in communities across Colorado. At least one greenhouse business may be sited in each Colorado county. Each greenhouse business will be optimized for growing one or more leafy green, fruit or vegetable plants.

All crops will be transported to three to six regional food hubs where the produce will be prepared for sale and distributed directly to urban restaurants, grocery stores, schools and food manufacturers.

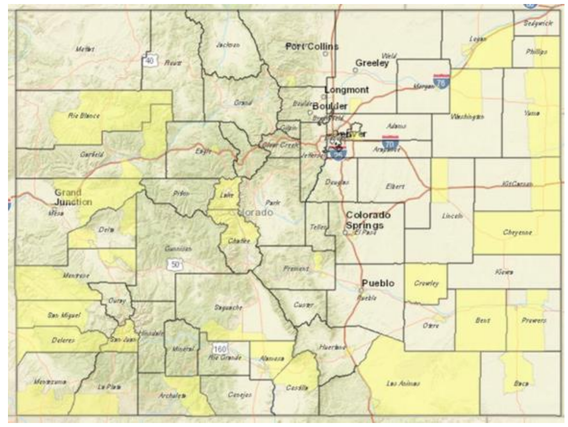
A portion of the prepared produce will be backhauled to each community with a greenhouse business for local delivery.

Each greenhouse business will be privately operated with community ownership. The business will operate as a licensee and a coop member of the Colorado Indoor Ag Cooperative. Ownership in the Cooperative will be held by each greenhouse business, each food processing hub and by the general public.

The Cooperative will assist each community with an assessment of local food needs and workforce capabilities resulting in a local master food plan. The Cooperative will negotiate multi-year forward contracts with food purchasers across the State. A budget and business plan will be created that provides for the construction and operation of a greenhouse facility that can grow the food to fulfill the contracts. Skills training will be provided as necessary for all job positions created.

It is projected that the capital cost to establish the Cooperative and to construct and start operations of all greenhouse businesses and food hub will be approximately $410 million. Funding will be completed through a capital stack comprised of private investment, USDA debt financing and a variety of grants and specialty debt financing. Funding will be raised through a capital campaign for the Cooperative and for each food hub and individual greenhouse business.

It is anticipated that 90% all of the food hubs and most of the greenhouse businesses will be sited within Opportunity Zones to attract investors.
https://choosecolorado.com/opportunity-zones/



Qualified cities include: Akron, Alamosa, Avon, Brighton, Brush, Buena Vista, Burlington, Canon City, Colorado Springs, Craig, Dacono, Englewood, Fort Garland, Fort Morgan, Holyoke, Idaho Springs, Kit Carson, La Junta, Lamar, Las Animas, Leadville, Limon, Lochbuie, Longmont, Meeker, Monte Vista, Montrose, Naturita, Norwood, Olney Springs, Pagosa Springs, Paonia, Rico, Silt, Springfield, Sterling, Tawaoc, Trinidad, and Walsenburg.

Candidate food processing hub cities include: Fort Collins, Golden, Colorado Springs, Pueblo, Alamosa, Durango and Grand Junction. Additional hubs may be added as Colorado's population grows.

The Cooperative will collaborate with other local community programs that are taking advantage of Opportunity Zone investing to address other challenges of jobs, housing, local transportation, food, healthcare, Internet access, training/education, infrastructure, establishment of new industries, public safety and tourism.

Successful establishment of the Cooperative is projected to supply over half of the local produce consumed within Colorado, create 975 direct jobs and over 3,000 indirect jobs with most of the jobs located within rural communities.

FUNDING OPTIONS

Every project may be funded in several ways. A capital strategy should be developed for each project that identifies all sources of capital and prioritizes investor candidates based upon the time, money and skills of the organization seeking to raise funding. Each option has its own challenges.

A preliminary analysis of the Colorado Indoor Ag Cooperative project suggests several options:

- Monolith
- Simple Capital Stack
- Tiered
- Tiered and Distributed
- Extended Activities

Monolith

In this approach, the Colorado Indoor Ag Cooperative would seek a single investment of $410 million.

The dollar size of the offering may fall within the capabilities of a single Opportunity Zone Fund or a syndicate of large Opportunity Zone Funds.

The Coop may create a dedicated Opportunity Zone Fund limited to investment in the Coop, but the size of the Fund would require limitation to accredited investors within a 506c offering.

Simple Capital Stack

In this approach, the Colorado Indoor Ag Cooperative raises a portion of the $410 million through an equity investment and borrow the remainder. Depending upon the availability of debt financing in this size and the debt to equity ratio, it may be necessary to raise through an equity sale 20% to 40% of the total amount: $82 million to $164 million. This money may be raised through an Opportunity Zone investment, a classical investment or a program related investment (PRI) from a foundation.

Debt financing may be obtained from a foundation or through a bank loan that is guaranteed by the US Department of Agriculture, the US Small Business Administration or the US Department of Commerce. There are limits upon the loan size from each of these sources which means that a single, simple loan is probably not available.

Tiered

This approach creates three different legal entities with responsibilities for sales, food processing and food production. By breaking the total cost of $410 million into different levels and reducing the relative size of the equity and loan combinations, it opens up more possibilities.

Tiered and Distributed

This approach is recommended where 70+ entities are created and funded separately: the Coop, each food processing hub and each community greenhouse business. Each entity is smaller is size which makes raising equity investment into each entity easier and meeting loan limits possible.

In addition, the food processing hubs and community greenhouse businesses are distributed over 70+ communities where they will have significant economic impact. As a result, these communities would support each individual capital campaign because they stand to gain from all of the non-monetary benefits: jobs and fresh food. Using common templates, the cost of raising capital will be only slightly higher than doing a single raise.

Extended Activities

This approach anticipates joining forces between food production and housing and skills training and infrastructure development. The collaboration with other groups may prove easier than raising funds within the silo of local food. It also opens up additional funding sources which may only be available through local taxing districts, municipalities, and community organizations.

Notes

INVESTOR CANDIDATES

The following groups have been identified as stakeholders that will benefit from the success of the Colorado Indoor Ag Cooperative and may support one or all of the fundraising campaigns to establish Opportunity Zone Funds. These groups have been ranked in order of their likelihood of making an investment:

1. Restaurants, Groceries and Retail Food Stores
2. Communities
3. Future Agronomists
4. Colorado Citizens
5. Vendors
6. Social Causes
7. Service Providers
8. Investors

[See Stakeholder Chart – Schedule A]

These investors may invest money in amounts ranging from very small ($100) to very large ($100 million).

Incentives or perquisites for making an investment may be tailored to provide secondary (non-monetary) benefits that have greater value to each group.

Certain investors may contribute products or services that may be used as incentives for others to make investors.

Notes

DEALS

Equity

Opportunity Zone

The subject to this guide is Opportunity Zone investments which must take the form of cash for equity ownership.

Equity investment may also be available from other capital sources without the tax incentives. It will be possible to break out the capital raise into stages with certain stages earning a return on investment high enough to attract angel investors.

Equity investment may also come in the form of a program related investment (PRI) from a foundation that is willing to earn a lower rate of return because the production of local food advances its mission.

Debt

Bank loans may leverage equity investments. The debt to equity ratio is uncertain, but if a significant portion of the entire investment is placed into land, buildings and equipment that may serve as collateral, this should serve to greatly reduce the equity portion of the entire investment.

Loan guarantees are available from the USDA, SBA and DOC that may enable a bank to make a loan by reducing the risk associated with the opportunity. There are many established programs within federal, state and local government agencies directed to local food production and economic development.

CO-PACE is a specialty loan program established within Colorado and adopted by 22 counties that enables loans from qualified institutions with the loans paid back out of property taxes. To qualify for loans under this program, the building structures must exceed standard environmental standards.

Incentives

Equity investors may be incentivized to support the Coop or any of the food processing hubs and community greenhouse businesses through a grant of price discounts in purchasing food. These investors may be individuals at the consumer level or any commercial entities such as a restaurant or grocery store or government programs such as schools.

Options

It may be possible to launch the Coop in stages where different investors participate in each stage. By creating a cash exit over the short term, the scope of possible investor candidates will be increased.

Notes

CAPITAL RAISE

This project offers several different approaches to conducting a capital campaign in different dollar amounts. These capital campaigns may be sequenced or conducted in parallel.

Seed Funding

The Coop may raise a small dollar amount which is sufficient to achieve momentum through planning of the entire food production system and advocacy in recruiting participation of multiple communities.

This funding may take the form of a grant or an equity investment in the Coop.

A rough estimate is that as much as $500,000 is needed to complete planning, obtain cost bids for constructing and operating both food processing hubs and community greenhouse businesses and to recruit formal commitments from 70+ communities to participate.

Investment into Coop

In addition to direct investment into the Coop, an investment may take the form of ownership in a Food Processing Hub where the Coop holds an equity interest in the Hub.

Investment into Food Processing Hubs

Each food processing hub may conduct its own capital campaign. It is anticipated that the campaign will take three stages: planning, construction and operation.

These capital campaigns may be combined with the capital campaigns of the Coop and individual community greenhouse businesses.

Investment into Community Greenhouse Businesses

Each community greenhouse business may conduct its own capital campaign. It is anticipated that the campaign will take three stages: planning, construction and operation.

These capital campaigns may be combined with the capital campaigns of the Coop and individual food processing hubs.

Supplemental Funding

The construction and operation of the food processing hubs and community greenhouse businesses may be incorporated into larger projects and/or infrastructure development/redevelopment or urban renewal or other economic projects.

Notes

FUNDING CHALLENGES

A preliminary analysis of the Colorado Indoor Ag Cooperative projects shows several challenges to raising funds:

- Large $ Amount
- Low ROI
- High Risk
- High Complexity
- No Prior Examples
- Established Competition
- Uncertain Time Frame
- Needed Infrastructure

Each of these challenges represents a likely objection to making an investment which will narrow the number of prospective investors.

Large Dollar Amount

The project has an estimated cost of $410 million. The size of funding needed automatically limits the number of capital sources simply because there are very few individuals or organizations who have this amount of money and fewer still who would invest in a project focused on local food production in Colorado.

Low Return on Investment

It is projected that operation of the Colorado Indoor Ag Cooperative collectively with each of the food processing hubs and local greenhouse businesses will generate a low return on investment of less than 10% per year. When compared with other businesses completing for investment funding, the Cooperative will not compete well.

High Risk

Although there is an established market for food produce, the combination of low ROI, high complexity and well established competition reflecting a 'commodity' marketplace, all create an appearance of high risk. The high risk will bar certain capital sources from investing that are normally conservative and will give preference to lower risk options in order to meet their fiduciary money management obligations.

High Complexity

As conceived, the Colorado Indoor Ag Cooperative may be comprised of 70+ operations that are producing food produce that may be sold to the approximate 11,800 eating and drinking establishments in Colorado. To match the needs of this market, the Coop will need to plant, grow, harvest, process and deliver 65+ fruits and vegetables year round. The more 'moving parts', the greater potential for failure. This complexity raises the perception of risk and may be too big for investors to 'wrap their minds around'.

No Prior Examples

There are no examples of an operation of a scaled indoor food production system growing a full spectrum of fruits and vegetables. This suggests that the Coop may not be commercially feasible and leaves the door open for mistakes from performing tasks for the first time.

Established Competition

The food produce industry has evolved over a long period of time and has trended to large scale, multinational businesses with substantial resources and brand recognition. Every dollar of sales by the Coop will take away sales from existing players within the industry. It is anticipated that this competition will strongly oppose new entries into the industry.

Uncertain Time Frame

Although it is possible to project the time to launch of a single food processing hub or local greenhouse business, it is uncertain how much time for the Coop to achieve a critical mass upon which it can build to implement its entire plan.

Needed Infrastructure

The buildout and operation of the Coop will likely require new or upgraded housing for its employees, skills training to employees to work within controlled growing environments and new or improved Internet, water, waste and power systems – particularly within rural communities. This missing or inadequate infrastructure may delay implementation of the Coop's plans or force additional investment to enable operations.

Notes

NEXT STEPS

The funding of the Colorado Indoor Ag Cooperative is a big undertaking. This project would benefit from additional planning and engineering.

Efforts will be made to obtain planning grants from communities, foundations and government programs to cover these costs.

The project will also be benefited by validation of interest. This may be accomplished by collecting letters of interest from communities where a food processing hub or community greenhouse businesses. Additional validation may come from individual commercial food purchasers (restaurants, grocery stores and retail food outlets) and the organizations that support them.

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Mr. Dakin is a professional entrepreneur with 40 years' experience in innovation commercialization. Mr. Dakin is a:

- Respected educator
- Extraordinary communicator;
- Developer of innovative funding approaches, and
- Small business advocate.

Mr. Dakin is engaged in new product, business and economic development. He splits his time between helping organizations raise funding, leading individual projects and sharing information on entrepreneurship, strategy development and early stage capital formation.

He is the:

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- CEO of Invest Local Colorado LLC, an investment crowdfunding platform services provider and registered Intermediary in Colorado.

A frequent writer, speaker and instructor on entrepreneurship and raising capital, Mr. Dakin is a member of the Board of Editors for the Journal on Technology Transfer and Entrepreneurship published by Bentham Science Publishers. He leads a Meetup group on Opportunity Zones and is supporting several projects.

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SCHEDULE A – INVESTOR CANDIDATES