The team at the ABC: From left, Catiya Rivard, Will Savitri, Sarah Nolan, Dave Keramaty, Garth Shaneyfelt, Joe Motika

Nicole Blum and Johnathan Carr of Carr's Cider House

BEYOND "EAT LOCAL"

Susan Mygatt Ragasa and Terry Ragasa of Sutter Meats

Investors put their money where their mouth is

By Ilana Polyak | Photographs by Dominic Perri

Shortly after the midday rush one day this past winter, Susan Mygatt Ragasa was behind the counter at Sutter Meats pressing ground pork into little squat maple breakfast sausages. She carefully stacked the patties three layers high on a platter bound for a display case where they sat alongside thick slabs of bacon, plump Italian sausages and pink roast beef.

The air was thick with the aroma of pastrami and a signature semi-cured product called "beef pancetta" in the smoker as customers weighed the merits of different cuts of steak—ribeye or porterhouse?

In a little more than a year, the Northampton butcher has become a go-to destination for consumers craving local, humanely raised meat. Animals from the almost two dozen farmers with whom Sutter Meats works are slaughtered at Adams Farm Slaughterhouse in Athol. They are then delivered to Sutter Meats for butchering.

"This way we're able to use almost all parts of the animal and introduce the community to different cuts of meat they may not have known about before," says Ragasa's husband and co-owner, Terry.

Things are humming along at Sutter Meats now, but the future didn't always look so bright.

As they were getting ready to open the business in January 2014, the Ragasas had already sunk close to $200,000 of their own savings into the venture. They had secured their 1,300-square-foot store on King Street, but paying contractors, electricians, suppliers, not to mention purchasing the freezers, cutting tables and display cases, required even more cash.

"We got to the point where we were going to have to have to write some big checks," says Susan.

To keep their vision for a small-scale butcher on track, they turned to the PVGrows Loan Fund for financing. PVGrows connected the Ragasas with the Franklin County Community Development Corporation (the CDC), in Greenfield to provided a much-needed cash infusion.

"Our whole business is meant to support the local food system, so it made sense that we would get our funding locally too," says Terry.

The CDC helped the butchers secure a small business loan of $288,000 with an interest rate of 5.75% through Florence Savings Bank, with the CDC kicking in a portion. But the Ragasas got so much more than financing.

The CDC took the lead in helping them refine their business plan so that it demonstrated a sophisticated understanding of the supply of pastured meats in the region and the market for a store like theirs. "The CDC had more information on the local climate [for pastured meat] than we were able to get online," says Terry about their first pass at a business plan using online tools.

MOVING TOWARD FOOD INDEPENDENCE

Community members will now have the ability to help fund the local food economy too. The PVGrows Fund is accepting investments from community members to be lent to local food businesses.

The Fund hopes to raise $500,000 and offer investors a 2% interest rate on their money—though that rate of return is not guaranteed. It will be administered through the CDC. The Fund now operates under the CDC's auspices, as reflected by a recent name change: Franklin County CDC's PVGrows Investment Fund.

The Fund is part of a larger plan to move New England toward food independence, says PVGrows' former executive director Sam Stegman. Food Solutions New England has set a goal to have half of the food consumed in the region to be produced locally by 2060. Right now, just 3% to 5% is. "If you want to reach that, that's a complete transformation of the food system and is vastly different from what we have now," says Stegman.

To get to a quarter of that vision requires $250 million in financing for local food businesses. "We could never create a $250 million fund," Stegman explains. "We just have to create a smaller fund and then have banks and other financial institutions join in. We have to lead the way."

Because investing in just one or two businesses directly can be risky, pooling the money together for a variety of investments helps spread the risk for investors. If one business fails, it won't necessarily mean losses if the other businesses are doing well and making their loan payments. And since the loans are paid back over several years, it further reduces the risk.

For borrowers the first step is an application through PVGrows. A 10-organization committee reviews it for "mission fit," explains Rebecca Busansky, PVGrows Fund coordinator. This committee is made up of potential funders and food and farm specialists. Once an organization's application is deemed appropriate, it moves on to the CDC, which is the loan administrator, for due diligence, the process of vetting for financial soundness.

While PVGrows starts the ball rolling, it may not ultimately loan out the funds. One of the other funders may be better suited due to their expertise. For example, Common Capital is interested in healthy foods, Equity Trust has expertise in land issues and Cooperative Fund of New England provides financing to co-ops in the region.

"That's the advantage of having everyone at the table," says Busansky. "It's so efficient and then you throw in the technical assistance piece that really makes a difference."

SMALL INVESTORS, BIG IMPACT

It's difficult for non-accredited investors—those who have less than $1 million in assets and under $200,000 in income; in other words, most of us—to invest in small businesses.

Typically individuals rely on mutual funds when they want to pool their money and invest in companies. But mutual funds don't invest in local businesses—defined as one where the producer and consumer are a short distance away from each other. An exemption to the Investment Act of 1940, which governs mutual funds, allows non-accredited investors to participate in local funding if they invest in a nonprofit fund to support small businesses.

Through the PVGrows Fund, community members can invest from $1,000 to $10,000.

Though not federally insured, says Jeffrey Rosen, chief financial officer of the Solidago Foundation and one of the original members of the PVGrows finance working group, the investments have some protection. Solidago and the Lydia B. Stokes Foundations are both contributing to a risk loss pool for the first five years, so that in case of default, the pool should be able to cover losses. Both foundations are also footing the Fund's administrative costs.

CAPITAL-INTENSIVE BUSINESSES

The loan fund is not meant to support start-ups, says Busansky. "Our sweet spot tends to be farms and food businesses that have been around for three to five years and are ready to grow to the next level," she adds.

Businesses like Carr's Ciderhouse in Hadley, for instance. Owners Jonathan Carr and Nicole Blum found themselves in a typical small business predicament in late 2013. As their sales were growing (they expect an increase of 50% in 2015), their cash outlays were too. They will need to buy $30,000 worth of bottles and pay $15,000 to print labels on them in March. However, the busy holiday selling season for the business's ciders, vinegars and syrups is in the last few months of the year. What's more, distributors and retailers can take up to 60 days to pay their bills, creating a significant cash crunch.

"Agriculture is a capital-intensive business," Jonathan notes.

When the Carrs applied for their loan, they were connected with Common Capital of Holyoke. Before closing on the loan, Common Capital gave them technical assistance, mostly designing spreadsheets that would help them with their cash flow projections.

Their $45,000 loan from Common Capital will help Carr and Blum avoid bank overdrafts and financing through credit cards.

Artisan Beverage Company, the Greenfield purveyors of Ginger Libation and Green River Ambrosia, was also ready to take its business to the next level when members of the cooperative applied for funding last winter. The worker-owned brewery couldn't produce its beers, meads and kombuchas fast enough in its old 1,200-square foot facility. The company was readying plans for a bigger space, which they moved into last fall, and needed funding to hire a design consultant.

The loan from the Cooperative Fund of New England helped the business take full advantage of its new facility's 3,000 square feet by stacking fermenters on top of one another. "We doubled our production space, but our actual capacity increased by 300% to 400%," says Will Savitri, ABC's president and operations manager.

Before ABC was approved for the loan they got a $6,000 grant for technical assistance to write a new business plan.

"We had written a business plan on our own and it was good, but it was driven in large measure by our values," Savitri explains. "This business plan has more of a business focus. When we're looking to raise $1 million, someone is going to want to see that."

Loans through PVGrows are different, Savitri says. The funders are willing to loan money for things like marketing and sales, activities that carry more risk than lending for equipment as most banks prefer. If a business goes under, equipment can be sold and at least some of the lender's losses can be recouped. But while riskier as investments, marketing activities are essential for business growth.

"PVGrows is willing to take on a little bit more risk for the values they're lending for," Savitri says.

GROWING DEMAND

The timing is right to introduce a fund like this in the Valley, says Doug Wheat, a certified financial planner with Family Wealth Management in Holyoke. His clients are increasingly asking him about more ways to invest in businesses headquartered in their backyard. "Investing locally means knowing where your money is going, like knowing where your food is coming from," he says. "It's very satisfying."

As evidence, he points to the experience of local food businesses that have raised money from the community in recent years. In March 2013 Real Pickles of Greenfield embarked on a financing campaign to buy out its founders, Dan and Addie Rose, and transition to a worker-owned cooperative. The picklers were able to complete the $500,000 campaign within two months with 77 investors.

Similarly, River Valley Market in Northampton launched a $2 million campaign to refinance its start-up loan and raise funds for a remodeling project in March 2014. The member-owned co-op raised $2.4 million from 220 participating member households over a six-month period, says Rochelle Prunty, River Valley's general manager.

One of those local investors is Paul Lipke of Montague. He participated in both deals and is looking for more ways to help out local food businesses. "If it were possible to be entirely invested [in locally sustainable businesses], then I would do it," he says.

He likes being able to see the businesses he invests in and have their products on his dinner table. "Part of the pleasure of this is you're investing in something where you have a real relationship with the person producing your food," he says.

Lipke says he thinks about risk and reward differently when investing this way than investing for other purposes like retirement. His motivation is community development, not necessarily profit.

Wheat, the financial planner, supports this reasoning. Because small businesses are by their nature riskier than larger ones, investors shouldn't be surprised if things don't go as planned.

A pooled approach, such as the PVGrows Fund, certainly helps to minimize the risk, but it's not foolproof. When the Fund was still in its pilot stage, it experienced one default. For that reason, Wheat recommends investors should only commit money they are willing to part with. "There is risk involved," he says. But so many rewards, too.

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