



CAPLAW Webinar Transcript

Social Enterprise Case Study: CT Food 4 Thought

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[Caroline Santilli, CAPLAW]

Good afternoon and welcome. Since we only have an hour together today, I'm going to jump right in. My name is Caroline Santilli, and I'm a Staff Attorney with CAPLAW. I'm thrilled to have with me today Bill Rybczyk, the President of New Opportunities Inc, which is a Community Action Agency in Northwest Connecticut. New Opportunities operates a social enterprise called CT Food 4 Thought, which is a hydroponic farm growing lettuce, kale, and arugula. CAPLAW has just released a case study about CT Food 4 Thought, and we are thrilled to be exploring this enterprise a little bit more today and giving you an opportunity to ask your questions about community action and social enterprises. So without further ado, we will jump right in. Again, I want to say hi to Bill, as well as his guests from Connecticut who may be tuning in. Thank you for joining us, Bill.

[Bill Rybczyk, New Opportunities]

Well, thank you very much for having me. This is really exciting for us to be able to, you know, this has been a you know, as we'll learn about this has been a long journey. And you know, it's been really exciting kind of recapping it and talking through with the team at CAPLAW. Before we dive in, I do want to acknowledge someone where none of this would be happening if it hadn't been for him. I see Dr. James Gatling has joined us this afternoon. So very excited that he was able to join us because the fact of the matter is, and when you see the study, none of this is happening without his vision and leadership. So Dr. Gatling, it's great to have you.

[Caroline]

Yes, thank you so much for joining us Dr. Gatling. So, to give you a sense of what we're going to talk about today, we're going to start off with an overview, or just some framing, to discuss, to kind of set a working definition of what social enterprise means in the context of community action. And then talk about why CAA's choose to start social enterprises including why New Opportunities decided to embark on this journey themselves. And then as we go through the case study, which I think is a link to the case study is going to be put in the chat. So you can refer to that later. We're going to talk specifically about a few different facets of CT Food 4 Thought's journey. So we're going to talk about the role of the board of the Community Action Agency in getting this enterprise off the ground. Work gonna talk about leveraging relationships within the community to build the business's capacity and allow it to thrive. We're going to talk about the legal structure of the business. And as well as some unexpected pivots that the team made over the course of, of their history so far, and we're gonna finish up with talking a little bit more about how your receipt of federal grants can impact the operation of your social enterprise as a Community Action Agency. So sometimes, you'll hear folks refer to a social enterprise, sometimes you'll hear about social entrepreneurship. And just to give us a basic definition of what that means. The Social Enterprise Alliance defines a social enterprise as an organization that addresses a basic unmet need, or solves a social or environmental problem through a market -riven approach. You may also hear,

as I mentioned, you may hear about social entrepreneurship, which is basically using the techniques associated with startup companies and entrepreneurs to develop and implement solutions to social problems and to meet social objectives. And within the, the area of, you know, in our experience, we've encountered two major types of social enterprises, you have some, some social enterprises are mission-centered, meaning in addition to generating revenue, they also advance a particular social objective. For example, you know, social enterprises that have a workforce development component, such as a training component, you know, for example, a catering business that trains low-income people to work in the food service industry. You can compare that to a revenue-centered social enterprise whose primary objective is to generate funds to support the mission of a nonprofit, or another project with a social impact. An example of this would be, you know, if the catering business mentioned above, was operated to generate income rather than to provide job training.

And I should note that, you know, both of these types of enterprises seek to generate income, you know, and to have revenues from sales, but they do have this, you know, component of a double bottom line. So they're supporting a social mission, whether that's through generating funds or through generating funds and some other aspect. And for Community Action Agencies, the social enterprise should not be, you know, should not take the place of traditional fundraising efforts. Typically, you know, we see, see successful CAA's operating, you know, on both of these fronts. So, there are many, many different reasons to investigate a social enterprise for your agency or to start a social enterprise. One of the most common is to reduce dependence on government grants and private fundraising, and to diversify funding streams. There may also be an untapped market for services in your community that you are already providing, you know, for example, through grant-funded services or you know, for example, weatherization.

You can also embark on a social enterprise to expand the mission of your organization and provide opportunities, you know, in the form of employment or other investment to promote community economic development. And there is, you know, it's also, you know, I think the fostering of social enterprise can also have an impact on the culture of your organization and how you provide grant-funded services as well. So, we're going to talk a little bit about how CT Food 4 Thought got started. And you'll see here some, a little bio for New Opportunities, Inc, the CAA that started CT Food 4 Thought hydroponic farm. And so Bill, do you, do you want to tell us a little bit more about why your organization wanted to start a social enterprise in the first place?

[Bill]

Yeah, absolutely. And I think you know, when you look at those reasonings from, from the last slide, really we honed in on both bullets one and bullet four. As I said, the actual, the actual dream of CT Food 4 Thought actually goes back about 30 years, you know, prior to my time with New Opportunities. And you know that, as I mentioned, Dr. James Gatling, you know, had a vision and, you know, really tied into that first bullet, the same thing that was true in 1992 is true in 2022, which is, you know, our funding streams continue to decrease, the amount of funds to be able to support our work continue to decrease. And then in fact, even you know, what we would call a victory is level funding. But yet our costs of doing business continue to rise and rise each year. So even even though we call it a victory, it really is a challenge. And those resources continue to dry up. So being able to have other avenues, and other funding streams, that that weren't tied in with government grants but also supported the mission. I think that's the critical element is that, you know, you always want to be in alignment with what you do as an organization. So the vision for CT Food 4 Thought was always something that was supportive of the New Opportunities mission, which is, you know, increasing economic opportunities for the most vulnerable, to be able to be an economic driver in the communities that we serve, and then

also be able to expand and innovate. And I think that's the other hallmark of what New Opportunities is, has always been, as a Community Action Agency is that being out in the front of being an innovator, and not being afraid to take on some chances and take some risks and say, think outside the box. You know, alright, well, nobody's really doing this, but that's alright, you know, how can we go about it? So I think that, you know, that was really our driving factor. But I think that, you know, the number one driving factor was just the resources to support our work. We know that the need is not going away, in fact, it continues to grow. But the resources to support our mission, are just that, you know, are not rising at that same level. So to be able to have something that supports what we do, but can also generate revenue, unrestricted revenue, you know, was a real driving factor.

[Caroline]

Thanks, Bill. I think you've mentioned that this has been a long time in progress--over a decade, I think I heard. So you know, it's true that it takes a long time, and a lot of hard work, to get a business off the ground, as you can all imagine. Can you tell us a little bit more about the timeline for this project, including up to where you all are now and where you see, you know, the business currently?

[Bill]

Yes. So yeah, it really, you know, although the vision went back about 30 years, we really started diving in on this a little over 10 years ago. And, you know, I'll talk a little bit in a little bit about the partners that we developed, but we started going all in on this concept in 2012. And, you know, that started with, you know, what are we going to do in business plan development? It took persevering work and multiple iterations of that business plan in different models. But it really, you know, it has been a decade in the works. We're going to talk about the different shifts, in terms of the ponc shifts, the "ponc pivots", I think that's what you called it in the study, we like that. We like that terminology of "ponc pivot". And, and then, you know, really kind of came to the forefront about four years ago, we got approved for a million dollars through our state Department of Economic and Community Development. And that's what really springboarded us to be able to launch the initiative. You know, what you see there, what you see on the screen is the initial stages of our first three greenhouses being erected. So they, you know, have been fully developed. We've got a warehouse and three greenhouses. We're harvesting our product on a weekly basis right now. The first seeds were planted at the end of December of 2021. You know, we're very excited that we were just recently approved for phase two, which is three more like units that you see on the screen. So that's kind of where we are right now is, you know, we've got just about, you know, 10 months of growing under our belts and developing product. And then we've got these other three greenhouses in the works. And then also, you know, for the next phase, we've got a parcel of land across the street from our current site that we can fully develop with somewhere between 15 and 18 greenhouses.

[Caroline]

Wow, great. I think that's a long journey. Yeah. And I think you mentioned phase two, which is phase two of your financing agreement with the Savings Bank of Danbury. And so I think in in you'll see, folks, we'll see in the case study, that there was a long phase, as you mentioned, of business development and kind of honing the idea and the plan for the business. And then there's a phase of, you know, getting financing for the business. And for you that came in kind of a mix of, you know, public loans and private loans. Which is, I think it's a unique arrangement that I think Community Action is uniquely poised to, you know, take advantage of.

[Bill]

Yeah, without a doubt, I think that that's part of what, you know, part of what our organizations can bring to the table is bring partners and be able to have those kinds of conversations, because of the work that we do. You know, it's so impactful in needed in our community.

[Caroline]

Yeah, thanks. So, in the case study, we talk specifically about the role of New Opportunities' tripartite board in the planning, and all of the phases of this project, really. And I think it's, it's important to start with the board, because, you know, when it comes to a social enterprise, it's the board's job to think strategically about where the agency is going, and to also maintain organizational stability over the long term. So the board is concerned, obviously, with the agency's growth, but also with that stability over time. We, we also encourage boards to take a role in fundraising. So they may, you know, have ideas for how to generate unrestricted income to support the mission. And, you know, on a tripartite board, and even on, you know, on a non-tripartite board, board members are usually selected because of their connections to the local community. So you can take advantage of that as you're planning for a social enterprise and business partnerships in relation to the enterprise. So we do, you know, sometimes in the beginning stages of this, you'll see in the in the case study that there was a working group that involved board members, you can also create a board committee to investigate various ideas for a social enterprise. You know, since board members are volunteering their time, you know, it can be helpful maybe at the earlier stages when you don't have a lot of unrestricted funding to support the planning and production of business plans. And then one other thing that we touch on in the case study is how Dr. Gatling's vision, you know, really was carried forward through to Bill when he assumed the role of President. I think the board as a body has also stayed very committed to the project of this hydroponic farm over the years. So, Bill, do you want to add anything about the role that your board played in, in launching CT Food 4 Thought?

[Bill]

Yeah, I think that the partnership with the board, you know, was really critical. They had bought in and, you know, a lot of the board members, you know, have been with the organization for a number of years. And throughout this process, they immediately bought in to what we were doing. Especially when they saw, you know, our first—even just the first iteration of—the business plan. They saw how much research and everything had gone into it. You mentioned our working group, and our board treasurer was involved with that. You know, one of the one other kind of interesting things in terms of casting vision in your board, buying in, is the board actually named this facility nine years ago.

[Caroline]

Really cool.

[Bill]

Yeah, they, you know, they named the facility nine years ago in honor of a past board chair. So we had that name out there. And that was kind of a driving factor. And we would, you know, continuously provide updates. And, you know, I think, you know, I know I can attest to it and Dr. Gatling can, that in those times where we were kind of in a holding pattern waiting to hear, wait and hear, you know, there wouldn't be a meeting that would pass by where someone wouldn't say, "Dr. Gatling, what's going on with the fish farm? And what's going on with the greenhouses?" Yeah, man, you know what, they

would constantly bring it up. You know, sometimes it's taking the first step before you see the second. And by having that name out there. I know for me, that was a driving factor that "we have to do this". Yeah, we have to get this done. So that, I think, speaks to the partnership, that we had the board and their commitment to seeing something because, you know, again, when you're first talking about these things, you know, when you don't have a frame of reference, it can sound a little crazy. Yeah. Crazy.

[Caroline]

Yeah. Little pie in the sky. Yeah. That's beautiful. I love it, that's really nice that the board's commitment is still, you know, is still visible on the side of the building. So you mentioned partnerships, Bill, and I want to give you a chance to talk about some of the amazing partners that you've had throughout this journey, from the business planning phase to, you know, to the phase of documenting your construction. Really every item on this list, which is just a few categories of partnerships where CAA's might look for, you know, look for allies. Can you tell us a little bit more about how your partnerships in in each of these areas made the project possible?

[Bill]

Yeah, absolutely. Because we have worked with some great people. And I'm gonna kind of take it in progression. In the first group, and I see him I see him on the screen, John Rosen, I'm glad I'm so glad John's here with us. He's right next to Dr. Gatling on my screen. So that's perfect, too. But NewTechHaven, Dr. Gatling had connected with the University of New Haven. And then this group of retired executives, NewTechHaven, really just embraced this project wholeheartedly. And they've been working with us for, almost for the last decade. And they really helped us with the initial business plan, to really fine-tune it, research, you know, across the gamut, in even just how to frame things and be able to speak to presenters. So that leads to the next which is the former Commissioner for the Connecticut Department of Social Services. He learned about the project, and he convened a meeting with his counterparts at the Commissioner of Labor, the Commissioner of Economic and Community Development, the Commissioner of Energy and Environmental Protection, the Commissioner of Agriculture, He brought all of his colleagues to a meeting for us to present this plan. And, you know, had it not been for that, that, that first million dollars from the state Economic and Community Development, that never, never would have happened. So I mean, he bought into this concept and saw what we could do with it. And, you know, was so committed that he convened that meeting, and then we were continuously providing updates.

And, you know, that led to the next group, which is the corporate advisory, which, you know, I'm glad he's listed as Bill Rybczyk. You're right beneath me, but it's Jon Jensen. I think I gave the wrong link. But I'm glad Jon's here. The corporate advisory came to the table again with you know, expertise in the business world, and just being able to look at the real estate aspects and the economics of things. In all working together. I think that the great thing is that we all were committed and moving in the same direction. Everyone we worked with NewTechHaven in the state in corporate advisory. All just gravitated towards this mission and vision and wanting to see and be successful.

And then, you know, we connected with American hydroponics. And again, through our research and lots of iterations, you know, we were able to find a group that was again, like minded and doing projects along the same lines with their installation of greenhouses and providing technical consultation. It was another, you know, another group that we were able to work with.

And I think that the other big piece was state legislators, state representatives from the Torrington area

that really stood behind this project and advocated on our behalf. And, you know, really got that million dollars approved through the Bond Commission of Connecticut. And so you know, that, you know, all the all these great people have all brought different things to the table and different experiences, but all with one common goal and mission, they want to see us be successful. And succeed.

And then, you know, and then lastly, you know, very interesting in the most recent partner, although we've been with him now, about two years, is captured Time Productions. You know, just so happened that the members of the corporate advisory were out for lunch one day, and they strike up a conversation with a gentleman who just happens to be an award-winning documentary filmmaker. And he's got a farm, that's, you know, 20 minutes from our site. And, you know, he met with Dr. Gatling and I on a Monday, and we were getting our first delivery, all everything you see behind us in this picture was delivered on a December and Friday. And for those that know Northwest Connecticut, it was cold. But this film company was there with a drone and filming, because they said, there's only one time for these trucks to be coming in for the first time with this delivery. And we want to film it really from the beginning. So, you know, it's those kinds of things that, you know, it's just amazing to know that you've got the right people at the table, and all coming together. So I mean, it's just amazing how some of these things have come together.

[Caroline]

Yeah, fortune favors the prepared. And I think the bottom line from this slide, and your amazing experiences that you've shared, is that for a Community Action Agency, you don't necessarily have to be a marketing expert, or a CFO or a, you know, an aquaponic farmer, in order to start a business. You really have to create relationships with people who have expertise. And that's what that's what the team at New Opportunities has been able to do. One decision that the CA does have to make, here's a segue, is how to structure its social enterprise, legally speaking. So now I'm going to get into, you know, a few slides to provide context about some of the legal structures that we've seen CAAs use for social enterprises and some of the different considerations that come along with each of these arrangements.

So really, there are two primary, you know, primary structures that we're talking about here. One is operating your social enterprise at the CAA level. So almost like you would any other program, think Head Start, weatherization, CSBG, and your social enterprise, it's all housed within your 501(c)(3) nonprofit or your public body for a public CAA. The alternative is that you create a separate legal organization. And in many cases, this will be a wholly-owned subsidiary of, for example, the private nonprofit. And in that case, CAA will run continue to run their grant funded programs out of what is now the parent entity, and will run the social enterprise from a separate corporate entity that it owns 100% of. And the social enterprise entity may take a variety of different forms and you know, you may think, for example, a corporation, an LLC, or when we'll talk about that in a minute, but those different forms are what you'd be deciding on that for a subsidiary organization.

So for each of these approaches, there are some benefits as well as some, you know, areas to be aware of. So if you decide to start a social enterprise as part of your agency, one of the pros is that you don't have to go through the process of forming a separate entity and maintaining it as an independent organization of the CAA. And the social enterprise can also utilize and accept tax-deductible contributions due to the nonprofit's tax exempt status. If your social enterprise is substantially related to your exempt purpose, and we'll touch on this in just a minute, you can avoid paying corporate tax on those operations, on the proceeds of those operations.

And then you can compare this to some of the benefits of having a separate subsidiary organization,

the foremost of which is that the nonprofit parent, if proper, separate existence is maintained, the nonprofit parent is shielded from the liabilities that are incurred by its subsidiary. So, you know, if there's a lawsuit against the subsidiary, the nonprofit parent will be able to isolate the judgment, if it's brought against the subsidiary, and won't jeopardize the assets of the charitable assets of the agency... So subsidiary organizations do not have an exempt purpose, they can be operated purely to generate profit, and they can engage in activities that are unrelated to the exempt purpose of their nonprofit parent. And subsidiary organizations can also offer ownership shares, to investors. And this can be a helpful way to generate startup capital, you know, in the early stages of a business, they can also offer equity to employees, which is, you know, another way to incentivize folks to work for the agency without necessarily taking on a huge operating a huge overhead budget, at the early stages.

So these are the areas of law governing each type of social enterprise. And you'll notice that they are the same. And so the environment in which you're operating, you're subject to rules from the Internal Revenue Code, your grant statutes and the Uniform Guidance, but the different rules that social enterprises should be most careful of, in each of these categories, are different depending on the form that the social enterprise takes. So with respect to operating an agency's program at the level of the agency—so, you know, not forming a separate legal entity, as I mentioned—these social enterprises share liability with their CAA parent, which means that they need to meet the same requirements that the parent does for tax exemption. So they need to be organized and operated primarily for the 501(c)(3) purpose identified in the nonprofit's articles of incorporation. So for a nonprofit, just as a refresher, the articles of incorporation are kind of like the constitution of your organization. And they, you know, for nonprofits, they state a tax-exempt purpose, such as “fighting poverty in our community”. And in order to operate a social enterprise at the CAA level, your social enterprise should be somehow tied to that tax exempt purpose. And this is because when, when your operations are not substantially tied to that purpose, the IRS imposes a tax on that unrelated activity at the corporate rate. So a limited amount of unrelated activity is permissible, but a substantial amount can get you in trouble with the IRS and can also result in the imposition of unrelated business income tax.

So unrelated business taxable income is the proceeds of—I'll go to the next slide and come back—just to help us kind of understand this. Unrelated business taxable income is defined as income from a trade or business that is regularly carried on and is not substantially related to the tax-exempt purpose or charitable purpose of the nonprofit. So if your agency is operating a social enterprise at the nonprofit level, you know, it seems quite likely that if you generate enough income, if you start to generate income, and that income is not related to the charitable purpose of your organization, that that's going to create unrelated business taxable income. And under the Internal Revenue Code, tax-exempt nonprofits are taxed on the income that they generate, or are taxed on their unrelated business taxable income, at the corporate income tax rate, as I mentioned. So if you generate income—unrelated business taxable income—of over \$1,000, you do need to report it on your annual form 990-T. And it is taxed at the corporate rate. But there are deductions that are available for certain expenses, you know, directly related to carrying on that business. But again, if you are going to be operating a social enterprise at the nonprofit level, this is something that you want to be aware of, and that you should discuss with your accountant and legal counsel in order to plan so that you don't get exposed to that unrelated business income tax. This is a list of some of the deductions that are excluded from unrelated business income tax. But we'll move on and talk about some of the major concerns with relation to a subsidiary organization from which a nonprofit or from which a social enterprise is being operated.

So with respect to a subsidiary organization, as I mentioned, you should talk to a local attorney about the legal entity types that are available in your state, as well as their consequences for your agency. If your social enterprise is organized as an LLC, a partnership or an S corporation, it's actually going to

be seen as a pass-through for tax purposes, which means that its activities and income are attributed to the nonprofit parent. So it doesn't really create that liability shield that we mentioned as being one of the benefits of operating your enterprise as a subsidiary. So you want to avoid it, you know, if that is a core priority for your organization, then you will not want to form a pass-through entity, you want a C corporation that is taxed independently of its parent.

It's very important to once you form that entity, it's important to maintain its independent existence so that the liabilities of the subsidiary won't be attributed and passed on to the nonprofit parent. And the way that you do this is by observing corporate formalities at the subsidiary level, which basically means that your subsidiary should have its own separate organizational documents, like articles of incorporation, and have its own separate bylaws or operating agreement. There should be separate boards, board meetings, board minutes--you're going through, you know, the operations of the subsidiary and making sure that everything is done independently from the parent. And, you know, there are sometimes concerns and in certain communities that, you know, there aren't enough board members to operate the business independently. And, you know, there can, you know, we have seen, you know, some CAA subsidiary boards which have maybe one or two members that are the same as the members of the CAA's tripartite board, but the boards of the subsidiary and its parents should not be identical. That will likely result in the liabilities being passed up. And, you know, basically the IRS has indicated in informal guidance that there should not be a majority of members that are the same between the parent and the subsidiary. If you do operate the social enterprise at a subsidiary, failure to observe these corporate formalities may result in the debts, income, and liabilities of a subsidiary being attributed to the parent. And there's also, you know, of course with respect to federal funding that's being utilized at the at the nonprofit parent level, what you don't want to happen is that accidentally, you know, something happens and your grant funding is jeopardized as a result of the operations of your social enterprise. So that's another thing to be aware of.

So, with respect to operating a subsidiary, the, you know, the subsidiary can generate income that is, then taxed at the corporate rate, and then it is able to be passed, exempt, passed in a tax-exempt way, from the subsidiary to the nonprofit parent. That can be done as a dividend, a grant, or, you know, some other arrangement. But remember that your for-profit subsidiary, you know, will also have a different tax environment that it's operating in, than your nonprofit. So it may be subject to sales and property tax, for example. So these are just some of the considerations in relation to structure that we talked about in the case study. The CT Food 4 Thought team has thought about these in detail and has actually had an experience that I think is really important to highlight, which is that they actually changed their minds about the structure of their organization and, you know, kind of demonstrate that it's not necessary, you don't necessarily have to, you know, commit for the lifetime of your business to one particular structure when you create a social enterprise. So I'm going to turn it over to Bill in a second to just talk about, you know, throughout this process, I think your team has maintained a very incredible flexibility to change in response to different circumstances. So we're going to talk about a few of those pivots that you made in, in your journey as a business so far. But I want to touch first on the legal structure. So I understand, you know, and folks will see in the case study, that you started the organization as a separate subsidiary, but you've actually decided to roll the subsidiary up into the CAA parent. Can you tell us a little bit about why that is? And your process?

[Bill]

Yeah, absolutely. And the other two groups of people that we had at the table, throughout this entire process, are great partners to us. That's our Corporation Counsel, they've been with us from the outset. They were involved in our biweekly planning teams, and really gave us insight. And, you know, we were very thoughtful in wanting this to be different. So while it was, you know, a wholly owned subsidiary, the

original structure was a C Corp, because we wanted to have that kind of distinction. And, you know, that was after research and back and forth and determining, you know, to really try to make it different. Where we ran into issues is now that we're up and operational, is really not wanting to limit ourselves on the funding side. You know, we had a number of opportunities that were missed out on because of the C Corp structure. I think the other thing you mentioned, our financing in the US, we have a great financial institution partner. But, you know, as a wholly owned subsidiary, it was "New Opportunities and CT Food 4 Thought" named on anything that we did. So New Opportunities was already connected to this, you know, in terms of loan documents and everything like that, even with the private financing. So we again went back with our team, talked with our accountants and our attorneys. And then, you know, involved the board, of course, all throughout this process, and really felt like making the conversion to have it be a division of the agency made more sense, both now and into the future. And again, you know, maybe somewhere down the road, as this expands, and we move out, maybe that gets revisited again. But we really felt like you want to maximize things as we're really starting to ramp up and get things off the ground. That this change made the most sense for our project.

[Caroline]

Thanks, Bill. So let's talk about the ponc pivot. You mentioned earlier, a fish farm, and I don't think you're running a fish farm. So tell us why you're not running a fish farm?

[Bill]

Yes, well, yeah, as it's kind of outlined in the case study, Dr. Gatling's an avid fisherman and a chemist. And so he was extremely intrigued by the potential of growing fish. And then also, you know, as we investigated, using fish excrement to fertilize plants. And that's the concept of aquaponics. And, you know, through the New Tech Haven team, and through the corporate advisory, we went through a lot of models and presentations. And really, we had honed in on what we thought was going to be a commercially viable model on the aquaponic side. And, you know, unfortunately, as we started diving deeper, and really looked at the numbers—and this is where having people that have been successful in business and know what numbers are and what they can and can't do. We, you know, decided that, it was not going to work. And, you know, as difficult as it was, because this was four years, four or five years of intense research and discussions. It wasn't an easy decision. But, you know, as my friend John always says, sometimes you're lucky when you don't know it. And I think that, you know, making that shift to hydroponics. We started talking with local greenhouse growers in Connecticut, and, you know, realized that hydroponics, although it has been around for decades and decades, that there are new technologies and new ways to approach the growing process, and nutrients for the plants and the systems and the technology. And, you know, that's what connected us up with American Hydroponics and their NFT growing systems and installations. And so, um, you know, as we then started running those numbers, and looked at hydroponics and, you know, one of the big things with aquaponics is the electricity costs. And, you know, with hydroponics, you've got the sun on your side. So that, you know, that is, you can't replace that. And so, you know, what we found is that hydroponics was, you know, a very good way to go. Because we are always committed to produce, because the research points to the fact that 80 to 85% of the produce comes from California. So having a spot right in between New York and Boston, you know, on the east coast, where, you know, our product can get into stores the next day, you know, the same day, really, in terms of the travel, you know, it was something that wasn't that you didn't have a whole lot of. So, you know, it was a shift. It was a painful shift to be completely honest. We invested a lot of time into the aquaponic model. But we're thankful that, you know, that we made the shift to hydroponics.

[Caroline]

Yeah, great. At that time, that reminds me of one of those points we saw earlier that there was an untapped market that you all of a sudden saw, you know, and you took, you had the capacity to take advantage of that. So you mentioned American Hydroponics, and I want to provide a little context for those who maybe haven't read the case study yet. But this is a hydroponic farm company that provided you with some training and technical assistance, really, in terms for getting your hydroponic farm set up. And also they had a purchaser in mind who would be willing to buy your entire crop for the first for the first year if it met certain standards, so that was a guaranteed purchase agreement that you entered into with American Hydroponics, but you recently decided to continue using them in an advisory role, but to try to go, you know, compete on the open market with your produce. Can you tell us a little bit about that, and why you made that pivot?

[Bill]

Yes. So, again, you know, we had great discussions and partnerships with American Hydroponics and still do. But what they saw was what we saw, which is this in-between New York and Boston market. And, you know, their normal, their traditional book of business is installing these greenhouses, providing technical assistance, and, on the growing side, they saw the opportunity. And, you know, were willing to provide us with a head grower to train our team for the first 12 months. And then as you mentioned, had a distributor that was purchasing our product up until the end of June. But, this was new to their, to their model, you know, they were providing the technical assistance, but they weren't on the commercial purchasing side. So I think it was a learning experience on all fronts. And I think, you know, as we got around to looking at the future, you know, I think that decisions on their side regarding the guarantee side of things, I think probably, you know, were at the forefront of their mind and their ability to do a guarantee. And, in our, our mind, was the product mix. And what we were learning is that, you know, although we had a buyer, you know, they, they weren't buying the most profitable and lucrative thing that we had that we could grow.

And so, you know, we decided that at the end of June, we would move on our own and this comes to partnership as well, you know, this again opens up different avenues. And, you know, as we are looking to lock in some, you know, some wholesale contracts, you know, what we have had since early July, is that we've worked with an organization called CTX, FoodShare in Connecticut that provides produce and other food to the emergency shelters and the food banks all across Connecticut. It turned out they had a farmers to neighbors grant that they just received. So they have been purchasing the lion's share of our produce since early July. And now that's getting out all across the state to the most vulnerable in our communities, in terms of hunger insecurity, and, you know, it's allowing us an opportunity to still generate revenue. But while we're seeking to lock in, you know, more long-term deals with distributors or other potential grocers, these have been great outlets. We also have a Northwest Connecticut food hub that we've been working with that's putting produce into the schools in the region. So I mean, you know, it's still, you know, ties right in to what we do, and what New Opportunities and CT Food 4 Thought is all about. But it's allowing us to be mindful and thoughtful, because you don't just develop sales relationships overnight, these things take time. And we're being given the adequate time to be able to do that, you know, although, you know, when we highly anticipate by the end of this month, locking in some of those more commercial sales contracts. But above everything else, you got to have something that, you got to have something that you produced and can be harvested and sold. And I think that that's the great thing that's come out of the American Hydroponics partnership that we had, is we got off the ground, we had, we now have a very successful growing team, we've got, you know, we're on the cusp of hitting some of our 7000, 8000 head a week targets, you know, we've gone over the crest of 5000, and we've got product that's going out into the marketplace. So I think that,

you know, if we hadn't had those relationships and discussions, you know, none of that would have happened. So I mean, you know, but you have to be, you know, everything's got to make sense on all fronts. And, you know, that was really where we landed on things, that it's got to work for everyone, not just one partner.

[Caroline]

Wow. Yeah, that's helpful. Thanks, Bill. I want to just mention that we do, I want to make sure that folks have a time to ask their questions. So if you do have a question for Bill, please don't hesitate to put it in the chat. I know we got a question about legal structure. I hope we answered that sufficiently. But please don't hesitate to add your questions in the chat and we'll hopefully get to them in a few minutes. So I want to talk briefly about the overlay of federal grants that all people are getting their questions in. I'm sure you're all familiar with the concept of program income, which is income generated from grant supported activities or earned as a result of the grant award. And this includes fees for services or rent from property acquired under federal awards, etc. And the rule with respect to program income under the Uniform Guidance, the default rule is that program income is actually deducted from total allowable program costs to determine net allowable program costs on which federal share is based. So essentially, what that means is that income generated as a result of your grant activities actually reduces the allowable grant, the allowable costs to your grant. And so it's essential to be thoughtful when conducting a social enterprise that, to be aware of whether you are utilizing grant funded equipment or, or, or programs, and in many cases to avoid using those equipment or programs because that will actually reduce the amount of your federal awards, and you don't want to jeopardize your federal awards as a result of operating a social enterprise. So there is an option, you know, if prior approval is received from your federal funding sources, to allow that program income to be added to your federal awards, but again, it requires prior approval, and, you know, isn't commonplace. And so that's important to think about with respect to utilizing federal awards. I should note that, you know, we mentioned that New Opportunities, put up some collateral for, for an operating loan for the business. And that was from unrestricted assets. Because you can't encumber, you know, real property or equipment that is financed with federal awards without approval from your awarding agency. So if you are going to be utilizing equipment acquired with federal funds to produce your proceeds from your social enterprises, we recommend charging fair market value for the use of that equipment, and remembering that the federal government has an interest in equipment or property that is purchased with federal awards. So you want to, in most cases, keep those separate in order to avoid generating program income. We have a question in the chat: Can you tell us about the opportunity for getting grant funding versus traditional equity based investments? Are you finding that most funding opportunities for your social enterprises are for 501(c)(3) nonprofits? So, Bill, you mentioned that, you know, you kind of missed out on an opportunity because you had a C Corp structure? And can you tell us a little bit more about how funding availability has driven your decision making?

[Bill]

Yeah, I think that what we have found is that not being able to take advantage of some of the things that we're doing related to job training, and being able to, you know, have internships and, and even, you know, on the financing side to have government backing like the USDA guarantee programs, you know, which have a lot more flexibility in terms of their term. You know, all those things were tied in to a 501(c)(3) and a nonprofit. So, you know, it definitely, definitely was a barrier. You know, so I would say yes to the question. A lot of what we saw, as we investigated, you know, it really was more of a nonprofit type funding scenario, as opposed to be able to find private equity because, you know, this isn't traditional equity. We're not just guaranteeing, you know, a 7% or 8% or 10% return, you know, part of the impact

here is going back in the community and increasing employment opportunities, seeing people increase their incomes. So it's not your traditional kind of investment. I think that's where, you know, that's where the struggle was, you know, in terms of private equity is that they want to see that steady return. At some point, I mean, you know, they know it's not going to happen overnight. But at some point they want to see that.

[Caroline]

Yeah, interesting. And who is better at applying for grants and community action agencies? So they wanted to stick with what they knew. I want to flag also a couple, since we're at time, a couple of resources that are available from the National Community Action partners, in addition to our CT Food 4 Thought case study. So we have another case study on social enterprises that were implemented at Pace Community Action Agency in Indiana. So definitely check that out on our Resource page. The National Community Action Partnership also has a profile of a hydroponic farm program at the Community Action Agency in Puerto Rico. So please, please don't hesitate to check that out on their website at the Centers of Excellence. And then, also we'll make these slides available, here's a slide with additional examples of social enterprises that community action agencies have, have created and engaged in. And if you have specific questions about an idea that you have for your agency, or you want to talk through something that's been brought up here on the webinar today, please don't hesitate to contact us. And we would be happy to discuss this in more detail with you individually. So with that I we had some great experience shared in the chat. Thank you so much. But I guess we will let you go since we are out of time.

[Bill]

Yeah I just wanted to point out, that's the sign I was talking about that our board approved in 2013. That's the name, and one last thing because there's another Rybczyk on here. Want to say hi to my sister, Kelly that's on there. Glad that she could join us. And she's got a new role and is exploring social enterprise. So glad she could be with us this afternoon.

[Caroline]

Wow. That's great. Thank you, Bill. Thank you so much, Bill, and thank you to all of CT Food 4 Thoughts, partners for joining us. We're so happy to be you know, able to share this resource and to have heard about your amazing experience. So, with that, we will let you go. Thank you all for joining us. Have a great rest of your afternoon. And we'll see you soon.

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