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To: REGION FIVE SUSTAINABILITY PROJECT
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I. EXECUTIVE SUMMARY

Angel investing is a unique tool for economic development work. Traditionally, it involves wealthy individuals investing their personal money in what are often risky start-up business ventures. These investors have differentiated themselves from typical venture capitalists by funding entrepreneurs' ideas before any products or services have been produced. In many cases, an innovative business model has succeeded because of these funds and created thousands of jobs. Minnesota-based Best Buy was a recipient of such funds.

State and local governments' interest in angel investing has been on the rise. While these have typically been private transactions, federal and state governments have regulated these areas and have not been involved in the actual investing. As the angel market has expanded, however, so has the interest of public officials. States have begun incentivizing this activity through tax credits. Some have even prescribed tax dollars for contracts with private angel investment organizations in order to spur investments that will lead to job growth.

When the Minnesota legislature authorized the creation of regional development commissions, it gave these commissions broad powers to implement programs that are intended to help the region's sustainability. These powers are broad enough to empower the Region Five Development Commission to establish a fund, establish a public-private partnership or create a separate entity. The level of complexity may vary depending upon the model Region Five chooses. Creating and operating the entity, soliciting, distributing and recouping funds, promoting the fund and other details need to be attended to.

Regardless of Region Five's level of involvement, it appears it can play some role to implement a mechanism that can bring large sums of money to start-up ventures in Region Five. Angel investing is within the scope of Region Five's power, and such a fund may be appropriate for the counties of Cass, Crow Wing, Morrison, Todd, and Wadena. Many entrepreneurs would benefit from an injection of capital. If this is the path Region Five chooses, however, it should proceed carefully.

II. INTRODUCTION

Small businesses represent more than 99% of all employers in the United States, and over half of all employees in the country have jobs under these leaders. These private sector businesses also generate 60% to 80% of new jobs each year and are often touted by politicians as the engines of the United States' economy. Yet, there is often a disconnect between the numbers and reality in smaller cities and rural parts of the country. An aging workforce and unpredictable population shifts can make hiring difficult. Lack of capital often impedes a creative and ambitious set of entrepreneurs.

It is within this setting that this memo explores the option of an angel investment fund, which would collect funds from a diverse set of public and/or private sources, and invest that money in high-risk entrepreneurs in the Region Five area. This model has worked very well in the private sectors on the east and west coasts, although relatively few angel investors have developed in the Midwest. Such a public-private partnership could go a long way in coalescing multiple forces to benefit those who might not otherwise have a chance to pursue economic success. Region Five would see an expansion of job opportunities. Businesses in Region Five would see an opportunity to grow and expand. Investors into an angel fund could see the potential for locally based financial opportunities. If Region Five decided this was an endeavor worth pursuing, it should proceed carefully in its planning and implementation of the project.

III. ANGEL FUNDS

A. Angel investors

Private angel investors are wealthy individuals who personally finance entrepreneurial ventures that tend to be both characterized as "high-risk" and "high-growth" start-ups. Although angel investors are known for more private dealings, some estimate that these investors provide $25-30 billion a year to new start-ups. These wealthy individuals are known for their lack of formality in approach to business relationships and the contractual obligations they require for loans. Angels also usually have a uniquely personal relationship with the entrepreneur. They will frequently invest in areas in which they have substantive knowledge, such as in the fields of biotechnology or e-commerce. Angels also typically live within a few hours of the start-ups' main locations, making the relationship between the angel and entrepreneur even more personal. Typical loans from angel investors most frequently range from $100,000 to $5 million. While angel investors have traditionally maintained this informal manner of doing business, there is an increasing trend of professional organization.

Individual angels will sometimes join together to create what are known as angel groups or angel syndicates. This collaborative style of investing allow for a steadier stream of deals, increased opportunity for interaction with other investors or venture capitalists, the ability to fund larger projects, and the ability to invest in amounts large enough to request preferred, rather than common, stock. These groups usually consist of a pool of six to twelve angels, although angel networks have caused a recent expansion of these groups. The largest known formal group of angels was Silicon Valley's "Band of Angels," a group that had expanded to 110 members by 1998 and was responsible for funding many of the technological advancements over the last fifteen years. The Angel Capital Association is the leading trade organization for angel investors. In 2011, it reported 158 groups in North America. Notably, the group lists only one Minnesota angel investment group: Rain Source Capital. Angel investors should also be distinguished from traditional venture capitalists. Before angel investors established any meaningful presence, start-up companies tended to float or sink during their initial months or years. Then, if the company demonstrated a certain level of success, venture capitalists would swoop in, providing more capital in exchange for preferred stock options. Beginning in the mid- to late-nineties, however, angel investors emerged and took a very large role in the world of equity investing. Rather than waiting on the sidelines during the initial months of a start-up, an angel investor or angel group got involved as soon as an entrepreneur had a business plan. In contrast to venture capitalists, angel investors typically require fewer contractual obligations as well, often taking only common stock rather than the more highly valued preferred stock. Additionally, it is not common for a venture capitalist to live near his or her investment; the reverse is true in the world of angel investing. It has been suggested that angels tend to provide a farm system of venture portfolios that feed into the venture capital market. A more detailed comparison of these two groups will appear later.

B. Structure of Angel Investments

Angel investments are relatively simple arrangements. Angels loan their own personal funds to an entrepreneur. After a previously-specified time or series of events has passed, the entrepreneur will ideally begin to make enough money to start paying back the angels. While the initial investment may have been given to the start-up company as cash, the angel will typically receive stock instead of cash in return. Occasionally, the angel will ask for additional rights in exchange for the investment, including voting rights or the power to veto a board of directors' decision.

Angel investors are typically looking for some specific things when reviewing borrowers' proposals. The borrower must conduct proper due diligence before approaching an angel with an investment opportunity. Formal business plans should be available for full review. This may need to include staffing schedules, product distribution schedules, and detailed lists of costs of goods. The company should also have documents relating to corporate structure and governance completed, including charter documents, a corporate organizing chart, and any stock records. Start-ups also usually approach angels with financial documents in order. This can include income statements, balance sheets, and cash flow statements. Of course, proposals will also always include a schedule for repayment of investment capital.

C. Characteristics of Angel Investors

In her book, *Angel Financing for Entrepreneurs*, Susan Preston lists the things that are "the essence of an angel." These investors typically have a sense of social responsibility and enjoy community involvement. They take a role in the start-up's process, often acting as a mentor or advisor to a new entrepreneur. They provide early-stage investment dollars, usually when a company has a product or service that they are still testing and may not be commercially available. Angels tend to invest regionally and do so in smaller increments than other investors, using their own personal wealth. They are more likely to tolerate the loss of their entire investment, which is typically not a burden because they have diversified portfolios. They take a long-term view of their investments.

Angels are often former entrepreneurs with a background in business. A study of angel investors nationwide found that the median investor had approximately nine years of investing experience and at least 14 years experience as an entrepreneur. The median age of an investor was 57 years old. The study also found that they invest, on average, 10% of their own overall income, a considerable portion of any person's net worth. Typical angel investors also seem to be more educated; the median investor was found to have attained at least one master's degree.

D. Angels' relationships with entrepreneurs

The relationship between angels and entrepreneurs usually begins with a meeting between the two. The entrepreneur is usually presenting a business proposal to the investor in a formal setting. Susan Preston explains that presentations are usually short, as angel investors usually have many entrepreneurs who are interested in their money. Thus, a well-structured presentation should take no more than ten minutes and include an introduction that includes a one-sentence description that captures "the essence" of the company, a description of the market for the entrepreneur's product, and a discussion of how the product is a solution to market needs. Next, the entrepreneur should describe what makes the product superior to others in the market and how that information will be portrayed to the relevant community. The presentation should continue with discussions of the company's management and financial projections. Finally the presentation should end with a calendar of milestones as well as the funding request of the angel, always including a brief summary of the timing of exit and liquidity of the investment.

Once an angel and entrepreneur agree to terms and the angel writes the check, relationships tend to vary. While the level of involvement is different in each relationship, some norms seem to emerge. One study noted that investors spent about four hours each week on existing investments. Angels primarily act as a monitor of the investment's performance, but some more experienced investors act as an informal sounding board and advisor to the entrepreneur. This may especially be the case when an angel invests a greater than usual amount of money. Because angels are investing their personal money in good faith, they will want to be kept abreast of any developments with the company. These usually come in quarterly updates regarding the status of the company, and should include not only successes and deadlines met, but also setbacks or other events that may delay or prevent the investor's ability to cash in on his lent capital. An exit strategy, as previously discussed, is very important to an angel investor. An angel will usually leave his or her role in one of two ways: by acquisition (or merger) or through an initial public offering.

E. Current trends in angel investing

The angel model is relatively new, but some trends have emerged in the modern era of investing. Government is taking an increasingly larger role in participating in the angel markets. For example, a major Canadian city recently contributed $2 million to a private angel investment group to encourage economic development. This iteration of angel investor funding has begun in the United States as well. In Oregon, the state runs the "Growth Account Board," which does not invest in individual companies, but instead contracts with angel groups to encourage investing. In places like Washington D.C., private groups are seeking to diversify the field by training women to become angel investors.

Others think the angel investment market is going to start shrinking. One of the most famous angel investors, Sean Parker, thinks the model was operating in a bubble and that investors are not seeing the kinds of return on their investments they did in the beginning. Mark

Suster, another prominent entrepreneur-turned-venture capitalist, agrees with Parker and suggests that this is because the number of angel investors has grown too quickly. Suster suspects that there are too many angel investors and too few marketable ideas. This has led to investors paying too much for early-stage investing. According to a Star Tribune article from this spring, venture capitalists have been moving towards funding later stage companies, requiring angel investors to provide multiple rounds of initial funding. This increasing financial burden has caused many angel investors in Minnesota to decrease their level of investment. It has yet to be seen what long-term effects of Minnesota's Angel Tax Credit have on angel investing in the state.

Still others think that angel investors are merely replacing traditional venture capitalists. This may be especially true in places like England, where the government is providing increasing tax incentives to fund start-up companies. About half of all states have such a credit, ranging from 10%-50% of the overall investments. In 2010, Minnesota passed a similar tax credit, which provides a 25 percent income tax credit for qualified investors. The credit is not unlimited, however. The state allowed for up to $16 million in the credit, and all of it was claimed before the end of the year. In 2012, that number will drop to $12 million.

F. Shortcomings of the Angel Model

There are some shortcomings of the angel investing model. First, as has been stated, the investments made are extremely high-risk: many businesses fail. They are considered high-risk because, unlike investments made by typical venture capitalists, the angels are providing loans to start-ups that have not yet begun manufacturing products, providing services, or making money. Rather than invest in a proven company, angels take a risk with no collateral and no track record of a successful business.

The essence of angel investing is more than mere money: it includes a personal investor-investee relationship -- a relationship that can be very time consuming and emotionally draining for the investor. As has been stated, angels take on a greater role than the mere title, “Investor.” They act as advisers to young entrepreneurs and sometimes guide them through difficult times. Angels may be dealing in an area of their own expertise and feel an emotional attachment to the sector of the economy, and because angels are investing their personal funds, they likely have a greater emotional attachment to the success or failure of the business.

Angel investors are usually only able to provide enough capital to acquire common stock equity, rather than the more lucrative preferred stock that comes with investing greater amounts of money. This can be a deterrent for an angel who is investing his or her personal money and cannot realize a greater reward in exchange for a greater risk. This deterrent, however, seems offset largely by the thrill the angel derives from investing in and providing guidance to a new start-up company.

Initially, entrepreneurs were referred to angel investors through a business connection, a practice that continues. Because angels do not advertise or market their funds, entrepreneurs without business connections can have a hard time connecting with one; some suggest this is due to a lack of finders or intermediaries, commonly used in the venture capital world. This last concern has been somewhat abated by the growth of the Internet. Matching systems have popped up online, like Private Placement Finder, which places angel investors with entrepreneurs. Perhaps the most well known matching service was originally called Angel Capital Electronic Network, or ACE-NET. This service initially began as a program initiated by the Small Business Administration, the government entity that is tasked with helping the growth of small businesses. The group is now known as Active Capital. The purpose of these kinds of services is to aggregate lists of entrepreneurs looking for capital. Still, because angels remain somewhat elusive, it has been difficult to collect data or conduct studies on angel investing.

Once an angel is connected to a start-up, the owner seeking investment will typically provide a presentation and a business plan to the investor. This process of reviewing business plans can be time-consuming, revealing another pitfall of this model. Then, due to poor business plans or too high of a risk, an investor will turn down the proposal. Although data is hard to collect regarding angel investors, the approval of a business plan is a rare event; most, it seems, are rejected.

G. Angel Investors Compared to Traditional Venture Capitalists

Private angel investing is a relatively new phenomenon. For many years, investors have given money to companies that are already up and running; these people have typically been known as venture capitalists. Angel investors and venture capitalists do share some similar qualities. Both are highly selective and go through similar due diligence processes. Both types of investors typically have established criteria or requirements that must be met before they will invest. They each use similar terms of agreement that include stock options and possible ownership rights. Both groups are also usually comprised of the same professional and career profile: former entrepreneurs or highly educated and wealthy individuals who are interested in moving into investing. Both kinds of investments involve individuals who are wealthy enough to risk large sums of money in a company.

There are some important things that differentiate the two groups. First, angel investors typically invest their own personal wealth, whereas venture capitalists most often invest a third party's money. Angels tend to look for more modest returns on their investment, while venture capitalists attempt to spread their investments out a little more broadly in hopes of getting a "home-run" investment. While both groups will frequently seek stock options in return for investment, angels are willing to take common stock, while venture capitalists usually require preferred stock. This and other terms usually included in a venture capitalist's contract but not in those of an angel will typically cede more control to a venture capitalist. One of the most significant differences is the timing of the funding. Angels will typically get involved when the start-up is merely a business plan. Venture capitalists, on the other hand, begin investing after a company has proven itself and is looking to expand.

IV. REGION FIVE'S QUESTIONS

As the Region Five Development Commission explores the possibility of establishing and implementing an angel investing group, the principal inquiry is: Does the Region Five Development Commission possess the statutory authority and the authority under its articles of incorporation to create an angel investor fund to invest money in high-risk entrepreneurs? If Region Five is not permitted to establish such a fund, or if it does not seem logistically feasible, what alternatives could serve the Region? First, the statutes authorizing the creation of Region Five and its statutory powers and powers under its articles of incorporation must be examined in careful detail. Next, Region Five should consider whether the obligations and challenges of running an angel fund are worth the endeavor, or if it is better suited for an external organization.

A. What are Region Five's statutory powers?

In 1969, the Minnesota Legislature passed the "Regional Development Act" because it found that "problems of growth and development in urban and rural areas of the state so transcend the boundary lines of local government units that no single unit can plan for their [sic] solution without affecting other units in that region." The legislature thought that by allowing multiple jurisdictions to operate together, they would be more effective. Additionally, the legislators believed coordination of local governments could provide "an effective means of pooling the resources of local government to approach common problems."

A reading of the entire act seems to give the regions broad powers. The purpose of these commissions was to "work with and on behalf of local units of government to develop plans or implement programs to address economic, social, and physical, and governmental concerns of each region of the state." Minn. Stat. § 462.383 (2010). The commissions were also empowered to "assist with, develop, or implement plans or programs for individual local units of government." *Id*. Importantly, the legislature also granted the regions the right to exercise *all powers which may be necessary or convenient* to enable it to perform and carry out the duties and responsibilities of sections imposed by the Act.

The commission is given broad financial powers as well. "The commission is authorized to receive public and private funds for purposes including, but not limited to program administration, multicounty planning, coordination, and development." Minn. Stat. § 462.39, subd. 2 (2010). Furthermore, "[u]pon approval of the appropriate authority from local, state, and federal government units, c*ommissions may be regarded as general purpose units of government to receive funds and operate programs on a regional or subregional basis to provide economies of scale or to enhance program efficiency*." Minn. Stat. § 462.391, subd. 11. [Emphasis added.] This broad power is subject to some oversight. "On or before September 1 of each year, the commission shall prepare a report for the governmental units, the public within the region, the legislature and the governor." Minn. Stat. § 462.393, subd. 1. The report must include financial and programmatic materials, including the RDC's receipts and expenditures, a detailed budget from the previous year, a tentative budget for the following year, descriptions and summaries of past accomplishments and future plans, a listing a plans of local government units submitted to the region, recommendations regarding federal or state programs, and a summary of any audit report made by the commission during the previous year. *Id*. Most importantly, the legislature contemplated a large role for the RDCs as stated clearly in Minn. Stat. § 462.396. There, the legislature granted regions taxing power on all property in the region "to provide money for the purposes of the statutory scheme." Finally, Minn. Stat. § 462.397 gives an RDC its greatest fiscal power: the ability to borrow funds for the purposes of the statutory scheme. Each of these provisions suggests Region Five's powers include the ability to create an angel investment fund.

In terms of planning, the language of the statutory scheme is not quite as broad. "The commission may prepare and submit for adoption, after appropriate study and such public hearings as may be necessary, comprehensive plans for local units of government, individually or collectively, within the region." Minn. Stat. § 462.39, subd 3. Among the things that the Region may submit to local government for adoption is a very broad term: "program." *Id*. These plans can prescribe "guides for orderly development within physical, social, or economic needs of the region." *Id*. "The commission may contract for the services of consultants who perform engineering, legal, or other services of a professional nature for peak workloads, continuing advice on program direction, and for specialized and technical services. The contracts Region Five signs do not have to comply with public bidding laws.

The statute is silent on the question of authority of the RDCs to obtain equity (stock) in a privately held company in exchange for a loan. This issue would need to be researched if the RDC chose to create an angel investment fund with this feature.

In sum, the Region Five Development Commission has the power to establish an investment body in order to provide high-risk loans for entrepreneurs in the five-county area.

The statute gives broad powers to Region Five, including the power to tax to generate funds for the program and merely requires record-keeping and reporting. The limitations placed on those powers are few and mostly for accounting purposes. The statutory scheme has received no treatment, positive or negative, from Minnesota's courts.

Before creating a fund operated or managed by Region Five DC, the articles of incorporation must be examined to be sure it has this authority. If not, the Articles may need to be amended to allow this purpose.

Next, some aspects of a proposed angel investment fund and some alternative implementation options will be explored.

B. How would an Angel Investment Entity that serves Region Five be funded?

There seem to be many sources of money Region Five could pull from to fund an angel group: funds from local banks, public money from the state or federal governments, local foundations, and individuals of any level of wealth.

Community banks serve as an initial place to look for funds. The Community Reinvestment Act requires federally chartered banks to lend to low- and moderate-income borrowers in any community in which they are taking deposits. It may be possible that this law would be helpful in securing money for the community's angel fund.

Region Five could also submit requests for grants from the federal and Minnesota governments. It should also be noted that Minnesota statute gives these development commissions the power to collect taxes from the members of Region Five through property taxes, with a dollar limit specified in the statute. The counties in Region Five could pool a portion of their property tax dollars for this fund. The federal Small Business Administration is one place to begin a search for federal funds.

Local and other foundations could invest in the pool. Foundations often invest in community economic development projects. In some conceived models for this project, it may be best to have a foundation implement the entire program. Foundations may be especially important funding sources because they could provide more than money. Foundations bring knowledge about the community. They are familiar with funding propositions in the area that have worked and have not worked. Foundations also bring administrative infrastructure and experience. Additionally, the Community Reinvestment Fund is a national nonprofit group based out of Minneapolis that provides capital for housing, small businesses, and other community-building endeavors. Typically these funds go to economically distressed communities. Some of these funds may be available to buy up current loans or even help with the administrative tasks of implementing the program.

If an angel entity were to be established and funded, there may be interested parties in the community who would like to invest their personal wealth in such a program. This may be appealing to wealthy community members because investments in government-run investment programs may appear to provide a guaranteed return, even if the return on investment was not as large as they would make in the private sector. Even if wealthy individuals from the five county area seem hesitant to join, the fund could reach out to this group at later dates and continue attempts to persuade these individuals to increase the size of the fund and the capacity to serve emerging businesses. Additionally, as will be discussed later, these wealthy community individuals may be induced to contribute to the fund by tax credits that are available to those who invest in angel investment-like endeavors. Local communities could even choose to extend property tax credits, if they found the practice economically sound, to local community members who would be loaning to the fund. It should be noted, however, that if enough of these individuals get involved, they could trigger great regulatory oversight from the state and federal government. Additional regulations apply to groups that have a donor base larger than 100 individuals.

C. What would a Region serving angel investing group look like?

A Region serving angel fund could take many forms, but there are a number of variables to consider when deciding how to structure an angel investment fund. First, Region Five would need to figure out who would collect the money for the fund and who would be in charge of distributing it. Second, Region Five would need to decide who would receive the money. Third, there are multiple distribution methods, and Region Five would have to figure out which way it prefers. Fourth, promotional efforts would need to be considered. Additionally, repayment is an essential aspect of a fund like this. Finally, dependent on these factors, Region Five would have to make staffing decisions regarding the angel fund.

i. Who would collect and distribute angel funds?

The process for collecting and distributing angel funds requires the trust and confidence of Region Five’s citizens. Thus, any group that is collecting and distributing money should be representative of the communities it is serving. In order to preserve this trust, Region Five should strongly consider including at least one representative from each of the five counties on any decision-making board or committee.

A board of directors or central committee could be charged with soliciting funds, reviewing proposals, or distributing funds. Alternatively, each of these duties could be designated to a subcommittee or smaller group of individuals. By dividing up the duties, the board may be able to recruit individuals with expertise in entrepreneurship or business administration.

The structure and functions of any decision-making group depends the model Region Five may select for an angel investing group. If the group is a public-private partnership, the group would want to include public officials and private citizens in the fund's management. If Region Five were to offer grants rather than loans, see Section IV(D) for a broader discussion of possible models for Region Five's angel fund.

ii. Who would receive the funds?

The initial reaction to this question is apparent: these funds should go to entrepreneurs who want to start businesses within the five county region. Whether or not they need to be currently in the region at the time of application should be decided. There may be businesses in the Twin Cities or even in Wisconsin or the Dakotas that are looking to expand to greater Minnesota. . For more discussion on this, see question (iii) below.

The entrepreneurs who are successful in securing these investments from the angel fund should probably be able to demonstrate the ability to meet certain requirements. The fund's manager(s) would likely need to establish these base minimums. The requirements would likely be similar to the presentation previously mentioned in Section III(B). The requirements could include comprehensive business plans, spending reports, and marketing and intellectual property plans. The presence of these aspects of a start-up would likely indicate that the business is ready to succeed.

iii. What would the financial agreement look like, and how would the money be distributed?

One complicated aspect would be the terms of agreements with borrowers, including the maximum and minimum amounts of these loans, the interest to be paid, the repayment terms, and security to be pledged. Typically, angels invest only because they believe they will get a return on their investment in the form of cash or equity. If the funds are from private sources, their interests will be realizing a financial or equity gain on their investment. A financial agreement that includes equity in the company for the investor must comply with laws regulating securities. See Section E below.

For Region Five, the return on investment could be growth, jobs, and an increased tax base. In such a scenario, Region Five could be less concerned about including terms that require the entrepreneur to pay back the loans.

If a business does not succeed in the Region, on the other hand, what kind of loss might Region Five and local governments face, particularly if they are obligated to repay private investors? The fund must be prepared to take legal action to obtain repayment when necessary. Given the high-risk nature of the ventures being funded with collected monies, the board may want to consider doling out funding in stages, and proceeding with an increase in funds only if the entrepreneur met certain benchmarks. A related concern is that a start-up could see success and subsequently want to expand outside of Region Five or be unable to expand within Region Five.

The distribution of money also may be dictated by the amounts of money being invested. The distribution and management of funds will be different depending on the size of the pool of funds, the number of entities in which Region Five will invest, and the size of the loans. If small amounts are distributed to a lot of start-ups, Region Five may need to retain more people to oversee the distribution and administration of funds; larger sums to fewer entities may require fewer people. The more complex the terms of the agreement, the more oversight would be needed. A staff with specific expertise may be needed to provide entrepreneurial advice or review business plans. Additional employees may need to be hired to collect on the loans, and attorneys may need to be used if an entity is unable to pay back a loan. There would also likely need some mechanism for accountability if a small group were managing large sums of money.

iv. How should Region Five advertise the fund, and what efforts will be made to help potential borrowers that may not have as much experience with leveraging investment capital?

Region Five would probably want to have a way to promote these loans and provide easy access to the loan applications. It may be prudent for Region Five to promote the applications not only in the five county area, but also in the surrounding areas within Minnesota or neighboring states, in order to attract investors and start-ups to the area. Many investors or start-ups may not already live within the five counties but might be willing to invest or initiate their start up in the area.

There would also need to be at least one person to serve as a business advisor with a business background or someone who has been an entrepreneur in the area to review the applications. Additionally, this person could aid start up entrepreneurs regarding business plans, decisions to be made, and the process of receiving and paying back a loan like this. An advisor could also help with other services that entrepreneurs may need such as finding real estate, obtaining licenses, and establishing business entities. An alternative to this may include a committee of business people from within the five county area that would review proposed plans and vote on them. Technical expertise should permeate the process from advising, to reviewing, recommending and deciding.

v. How will the fund assure repayment?

The Board or assigned staff could also be responsible for collecting the money when the loan becomes due. Region Five would have to be proactive on this, as a start up may forget the repayment schedule. There are some circumstances in which a business may not be able to make payments, whether due to a lack of funds or complete failure of the business. Region Five needs to decide, in advance, what its policies will be in the event a business cannot or will not make the required payments. Under what circumstances is it willing to renegotiate the loan, take a loss on all or part of it, or take action to secure payment through legal action or other mechanisms? Under what circumstances will Region Five enforce their loans through court judgments and collecting on those judgments by seizing bank accounts, personal or real property, or foreclosing on secured loans? What staffing or other technical assistance will be needed to implement these decisions? Of course, in the event of a bankruptcy, Region Five may not be able to get anything. These loans are inherently risky, and a well-educated and experienced staff would likely be necessary to oversee this sector of the fund.

v. What kind of staff would be necessary for an angel investment fund?

Beyond the board of directors, the fund may need to hire staff or contract for services to tackle this project. If the fund is unable to attract a board of directors with investment and entrepreneurial experience, it may be a good idea to hire someone with a financial background to advice on funding decisions. Recall that one of the hallmarks of private angel investors is the hands-on relationship. Additionally, the fund may want staff to do initial reviews of proposals and provide feedback to potential borrowers. Advertisers would be required to promote the angel fund, and legal concerns would need to be addressed by lawyers. Salaries and benefits may be something to consider when Region Five is budgeting for the angel fund. These can be costly in the short and long run, and it would be money not spent on investments in the community (although it would be meeting the goal of providing jobs in the community).

D. Who else in Region Five could establish and operate an Angel Investment Fund?

If the advisory committee feels that an angel investor fund is needed in the area, it should identify any political, economic, structural or other problems with the idea, and whether those problems should be undertaken by a government entity or by another group. For example, the advisory group may decide a fund is needed, but voters may feel it is not the role of government or should not be a priority for the RDC. The advisory group may feel there are too many obligations that come with creating such an entity and that another group should take on this project.

There are at least four other options to consider: identifying an existing entity such as a community foundation to create a fund; creating a partnership between Region Five and a community-based non-profit such as a community foundation; starting a Region Five program that could be spun off as its own entity; or creating a new and wholly separate for-profit or non-profit entity.

Region Five could approach an existing community foundation about expanding its current grant programs or investment processes to include those loans typically classified as angel investments. Region Five should look for a foundation willing to loan to a business that may be outside of the normal loan area but still is within Region Five. For example, Bena, in northern Cass County, is a three-hour drive from Brainerd but still within Region Five's boundaries. Some foundations may not want to invest or have the authority to invest, in something removed from its area. Region Five should also look for a foundation willing to accept money of other private individuals or the state or local government. In creating a partnership, Region Five must find a foundation or other non-profit willing to share power with Region Five.

Another option is to create a new institution, either a for-profit institution or a non-profit one under the Internal Revenue Code in Section 501(c). This entity would serve all of the same functions described above but would operate independent of Region Five. One advantage to this structure is that the Region could focus on its other initiatives, leaving the operation and management of the fund to another entity. A non-profit organization could meet the same goals while giving donors a tax deduction for their contributions to the fund.

Urban Homeworks, a not-for-profit entity in North Minneapolis, uses such a model. Urban Homeworks solicits funds from private investors seeking a return of 1%-5% on their investment. The length of the loan repayment period varies, but these funds are used to rehabilitate foreclosed homes and build new affordable housing. New residents purchase these homes, and as the mortgage is paid off, so are the initial investors. Attached as Appendix E is an example of an Urban Homeworks "Loan Participation Proposal."

The partnership model has been implemented in parts of this country and Canada. In this version of the model, the government is involved in accumulating the funds through taxes and other sources and managing the distribution of funds to the entrepreneurs, but rather than running the program on its own, it contracts with an angel investment group that reviews the applications and selects the start-ups in which to invest. This model could be either a grant program or a loan program. The benefits of this model are apparent, as are the downsides. The government doesn't have to create a new entity and professional investors review and select the proposals. The downside is that the government loses the decision-making power and, with a grant program, the entrepreneurs do not repay the loans to the angel investment groups so there would need to be additional funding to continue the program. With a grant program, the only return on investment is job growth and increased tax base. There may be existing angels in Region Five that have gone relatively unnoticed. The Region may be interested in contracting with an already-existing angel or angel group in the area or out of the Twin Cities to arrange the investments for Region Five. Because 501(c) organizations cannot pay dividends as is normal in the investment world, Region Five may want to instead create a for-profit entity that would function like a non-profit but pay taxes on the profits from the investments.

E. Are angel investment funds subject to securities laws?

Angel investing bodies may be subject to securities laws if the investor acquires stock in the company. Both the Minnesota and federal governments have comprehensive securities laws which include extensive reporting requirements. There can be severe consequences for not complying with these requirements; before Region Five moves forward, it should retain an expert to perform detailed research in this area. An examination of the breadth of these laws is outside the scope of this memo, but see Appendix A as a launch pad for further investigation into the topic.

Once the structure of the Angel Fund is determined, there must be a review of the laws governing that structure, including securities laws and tax laws.

F. Limitations/shortcomings of a government sponsored angel investment fund

The Region should consider the current political tensions when deciding whether to pursue such a venture. Public support for government involvement in economic affairs ebbs and flows. For the past few years, there has been a highly publicized campaign to decrease government involvement in the business sector, and there seems to be an exceptional distaste for “bailouts” or the government’s favoring of one company or sector over another. There are also those who believe that the government should take a greater role in regulating and oversee the financial industry. The presence of these political factions may or may not dictate whether or not the Region decides to form or facilitate the formation of an angel investing group. Still it is important to be aware of the political environment within which it operates and to communicate the goals and benefits of such a program. Otherwise, the entity could fail due to lack of public support.

V. TOPICS FOR FURTHER DISCUSSION

As Region Five proceeds, there are a number of topics that should be well discussed and decided:

- **Goals.** Region Five needs to decide what the goals for the angel investment fund would be. Will the purpose of the fund be to attract new businesses, and of what size? Will the driving goal be job creation? Will it function so that existing businesses can expand? Will it serve some other purpose altogether or serve multiple purposes?
- **Structure of the organization**. What kind of entity should be created: a program of the Region Five Development Commission; a program of another existing entity; a partnership with a non-profit or a for-profit entity; a separate non-profit entity or a separate for-profit entity? Who will be involved, and what will the organizational structure look like? What staff or contracted services will be necessary? What efforts will be made to ensure that the fund is maintained over time? What features are needed so that the program supports the goals of the fund?
- **Investment targets**. Is Region Five seeking to promote these funds in the major cities of the Region Five area? Or are smaller communities going to benefit from these funds? To what extent will the fund be used to draw businesses to Region Five from surrounding counties or states? Or will the funds be used to expand existing businesses? Or both?

- **Securing repayment of loans**. Future use of these funds will be contingent on repayment by initial borrowers. Is Region Five comfortable with using court judgment and enforcement actions to seize property or bank accounts of citizens within Region Five's boundaries? How much, if any, of the investment funds would Region Five be willing to forgo?
- **Securities and other laws**. Those who continue to work on this project should carefully examine the federal and state laws and regulations governing the entity selected, particularly securities laws and taxation laws. These laws are complex and comprehensive. An attorney with experience in these fields should be consulted if Region Five decides to proceed with the creation of an angel investment fund.

VI. CONCLUSION

An angel investment fund has the potential to be a source for job growth in Region Five. There are multiple models that could suit the Region's need for funding start-ups, providing jobs and attracting new businesses to the region. Another option, discussed in the memo to the Region Five Sustainability Project dated August 2011, is a micro-financing program. Appendix A is a brief comparison of some of the advantages and disadvantages of a micro-financing scheme and an angel investment fund. This appendix can be used to provide a broad overview of the two subjects for anyone in the Region who is does not read the memos. Careful planning and consideration of the issues discussed in this memo and the micro-finance memo will help insure the success of whichever program Region Five implements.

APPENDICES

Appendix A

Micro-financing vs. Angel Investing

	Microfinance	Angel Investing
Size of a Typical Fund	$1,000-$100,000 (highly dependent on quantity of investors)	$200,000-$50,000,000
Number of Investors in one enterprise	5 to hundreds	1 to 20
Advantages	• Donors can usually choose which groups they want to invest in, developing a greater sense of community. Seeks holistic growth rather than just economic growth. • Easier to finance for those living in rural areas with smaller incomes. • United States Small Business Administration offers certain forms of micro-lending funding.	• Larger sums of money means the ability to invest in more companies or larger companies • May be able to attract larger job creators from outside of the Region
Disadvantages	• More donors might mean that the organization would implicate mutual fund laws. • There may be difficulty in promoting the fund or get citizens to “buy in.” • Management of a greater number of sources of income may require more staff.	• Large sums of money will receive greater scrutiny with possibly more strings attached. • It may be harder for those in rural areas with lower incomes to help finance an angel fund.
Typical funding recipients	• Small businesses with few employees. • Businesses seeking to open a small business or moderate expansion.	• Larger businesses with little more than a business plan or products/services in the testing stage.

Who would be involved?	- Potentially hundreds of small donors - Smaller businesses in need of minor expansion or similar small projects - Administrative staff	- Potentially dozens of larger donors - A small number of larger start-ups - Administrative staff
Size of investments	- Smaller amounts of money coming in, typically in the thousands or tens of thousands of dollars - Smaller investments, a few hundred dollars per investment.	- Potential for larger sums of money, typically in the hundreds of thousands or millions of dollars - Larger investments, tens or hundreds of thousands of dollars per investment.
Ease of implementation	- May be difficult to implement because a system would have to be created to monitor incoming and outgoing money as well as payback on investments - Harder with a greater number of people involved	Easier to implement because fewer people would be involved, so the focus would need to be more focused on regulations and fund administration, ensuring that money is spent wisely.
Political ease and risks	- Given the freedom of this model where individuals can choose which recipients will get the donations - The political focus here would be on the efficiency of implementing the micro-financing scheme.	- Focus would be on whether or not the large investments made were smart or not. - Additional political pressure to make sure that larger, well-established entrepreneurs are not just receiving handouts.

Appendix B

Angel Investor Resources in Minnesota

Rain Source Capital: http://www.rainsourcecapital.com

- Steve Mercil
- http://www.nasvf.org/index.php/learn-about-us/board-of-directors/staff/steven-mercil2

Angel PolleNation

- http://tech.mn/news/2011/07/28/minnesota-angelpollenation/
- Jeff Robbins[1]: http://www.messerlikramer.com/?s=people_bio&pid=41

TC Angels

- http://www.tcangels.com/
- http://www.linkedin.com/in/johnjalexander3

Minnesota Angel Network

- http://mnan.org

[1] Mr. Robbins runs the group named PolleNation. He has invited the Region to attend one of its quarterly meetings in Minneapolis. He can be reached at: 612.672.3706 or jrobbins@messerlikramer.com.

Appendix C

Securities Laws

Federal Statutes:

Securities Act of 1933: 15 U.S.C. § 77a, *et seq.*

Investment Company Act of 1940: 15 U.S.C. § 80a-64

Minnesota Statutes:

Minn. Stat. §§ 80A.40-91

Appendix D

Relevant Works Reviewed

Minnesota Statutes

Minn. Stat. §§ 462.381-462.398

Secondary Sources

Darian M. Ibrahim, The (Not So) Puzzling Behavior of Angel Investors, 61 Vand. L. Rev. 1405 (2008)

Tatiana S. Manolova, Candida G. Brush, and Linda F. Edelman, Entrepreneurship in a Global Economy: Touched by an Angel? Entrepreneurs Seeking and Obtaining Private Equity Financing, 31 W. New Eng. L. Rev. 745 (2009)

Curtis J. Mihaupt, The Small Firm Financing Problem: Private Information and Public Policy, 2 J. Small & Emerging Bus. L. 177 (1998)

John L. Orcutt, Improving the Efficiency of the Angel Finance Market: A Proposal to Expand the Intermediary Role of Finders in the Private Capital Raising Setting, 37 Ariz. St. L.J. 861 (2005)

Further Reading:

- Urban Homeworks. http://urbanhomeworks.com
- "Ottowa Gives $2m to Ontario Angels"

  http://business.financialpost.com/2011/11/29/ottawa-gives-2m-to-ontario-angels/
- "Ore. Growth Fund to Help More Startups in 2012"

  http://www.ktvz.com/news/29909746/detail.html
- "Sean Parker Thinks Silicon Valley Is in Trouble" http://news.cnet.com/8301-1023_3-57326315-93/sean-parker-thinks-silicon-valley-is-in-trouble/?tag=mncol;txt
- "Waterloo Region Angel Investor Group Gets $50,000 in Federal Funding"

  http://www.therecord.com/news/business/article/631894--waterloo-region-angel-investor-group-gets-50-000-in-federal-funding

- "Mark Suster: The End Is Near for Angel Investor" http://www.inc.com/mark-suster-the-end-is-near-for-angel-investor.html
- "Angels 'Replacing' VCs: Cook" http://www.growthbusiness.co.uk/news/business-news/1676728/angels-replacing-vcs-cook.thtml
- "Training More Women to Be Angels" http://www.businessweek.com/smallbiz/running_small_business/archives/2011/11/training_more_women_to_be_angels.html
- "Angel Tax Credit: Positively Minnesota" http://www.positivelyminnesota.com/Business/Financing_a_Business/DEED_Business_Finance_Programs/Angel_Tax_Credit.aspx
- "Even Angels Fear to Tread" http://www.startribune.com/business/119501794.html

Appendix E

Urban Homeworks Loan Participation Proposal

UHW
INVESTMENT
FUND

LOAN PARTICIPATION PROPOSAL

$1,250,000

URBANLOAN LLC, LENDER

URBAN HOMEWORKS, INC., BORROWER

UrbanLoan, LLC

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LOAN PARTICIPATION PROPOSAL

Lender: **URBANLOAN, LLC**
7030 Willow Creek Road
Eden Prairie, MN 55344
612-325-9676

The Lender is a single asset LLC with a direct promissory note to the Borrower. This proposal anticipates selling "participation" interests in the loan to investors. Thomas Hansen will manage the facility. Hansen is familiar with loans and loan participation facilities as proposed herein. There are no fees or compensation to the Lender for arranging or servicing the proposed loan.

Borrower: Urban Homeworks, Inc.
2015 Emerson Ave N
Minneapolis, MN 55411
612-724-9002
612-722-2214-fax
www.urbanhomeworks.org

Formed in 1995, Urban Homeworks, Inc. (UHW) is a not-for-profit Christian Community Development Organization working in Minneapolis and St. Paul, MN. UHW purchases, improves, rents and markets real property to mixed-income clients.

The mission of UHW is to perpetuate the hope of Jesus Christ through innovative community development that produces dignified housing for low-income families, a strategic network of good neighbors and the redemptive development of real estate.

Please see the UHW website (www.urbanhomeworks.org or Exhibit J) for a complete description of the organization and its commitment to alleviate homelessness in the Twin Cities.

UHW is managed by Chad Schwitters as the Executive Director and Ben Post, Associate Director. UHW is led by a dedicated team including Dan Hunt, Director of Housing, Russ Barclay, Real Estate Development Director and a full complement of program and support staff.

The membership of the Board of Directors consists of:

Terry Becker – Chair (CEO - Riverway Companies)
Wayde Johnson –Past Chair (President/Owner – Outland Builders)
Peter Tiede – Vice Chair (Attorney of Real Estate Law – Murnane Brandt)
Robert Johnson – First Past Chair (Retired President – RJ & Sons Consulting Inc.)
Gennae Falconer – Secretary (Associate Director of Programs – Greater Minneapolis Council of Churches Urban Immersion Retreat Center)
Troy Kopischke – Treasurer (President/COO – Steady State Imaging)
Steven Firkus – (CEO – Crew2, Inc.)
Mary Schatzlein – (Director of Family Support Services – Episcopal Community Services)
Beverly Upshaw – (UHW/North Minneapolis Homeowner)
Chad Schwitters – President (Executive Director – Urban Homeworks)

The key component of the mission of UHW is the redemption of two of the most significant assets of a community: real estate ("Community Development") and relationships ("Community Building"). There is a great need in many urban neighborhoods for stabilization. Many homeowners have been forced back into renting and have found themselves stuck with foreclosure on their record. In a race to keep people in housing and keep buildings from being razed, UHW is making concerted efforts to pull together the funds to acquire and "redeem" the real estate while working to restore equitable relationships.

Foreclosure disproportionately affects the lowest-income neighborhoods in the Twin Cities. Sixty percent of all foreclosures have affected renters displacing these tenants and leaving properties sitting vacant, boarded and deteriorating. While UHW focuses on home ownership AND rental, this proposal focuses on the rental portion of their work. **(See Exhibit J for more details about other UHW programs)**

Rental: RECLAIM is a small multi-unit residential rental acquisition and rehabilitation program that is in response to boarded, condemned or foreclosed properties and restores them with the efforts of construction trainees and volunteers. UHW strives to provide housing that is stable, dignified and sustainable. Stability is important in helping low-income families manage their daily lives. UHW creates this stability by offering housing that is safe and that tenants can be proud of. Partnerships with social service organizations provide additional support by serving as advocates for the families and providing necessary social services. Resources from these social service partners combined with a supportive landlord and quality, dignified housing from UHW weaves a strong web of support under the families served by UHW.

Rental: Reclaim is an 82-unit scattered site redevelopment of "affordable" rentals in Minneapolis. The project is broken down into 4 phases (4 separate, wholly owned LLCs). Phase 1 will add 12 rental units. Phase 2 will add 18 rental units. Phase 3 will be a renovation and refinance of 36 of the units currently owned by UHW in need of repairs and updates to remain sustainable in the long-term. Phase 4 will add 16 rental units. UHW will increase their rental portfolio from 56 units to 100 units by the end of 2012. In addition to adding 46 units, UHW will eliminate its amortized debt by $1,770,000 and will add no new amortized debt as a result of this project, further strengthening their financial viability.

Rental: RECLAIM will significantly reduce UHW's long-term liability, nearly double the size of their rental portfolio and most importantly, allow the organization to offer more quality rental units at lower rates to households in need of stable housing

Project: Reclaim is a homeownership program in response to boarded, condemned or foreclosed properties and restores them with the efforts of construction trainees and volunteers. It makes these houses available to low- to moderate-income families on a low-interest contract for deed. The homebuyers commit to correcting credit issues and reducing consumer debt. This effort gives families desiring homeownership the financial space and time to improve their stability and become able to conventionally finance a home. When families can move from renting to owning, they not only have a place to call home, but also become even more engaged in the life of their community. They now control the destiny of their housing. ***Project: Reclaim is not funded by this offering.***

This proposal funds the acquisition and rehabilitation of multi-family rental properties under Rental: Reclaim.

Loan Amount:

$1,250,000

We are looking for 10 – 20 investors who will commit to a minimum of $50,000 with no maximum. We anticipate an average of $100,000 from each investor.

Interest Rate:

Up to 5.00% - Interest will be paid quarterly via ACH transfer – 100% of interest earned will be passed through to loan participants. *Investors have the option to collect no interest and/or donate all or a portion of their investment to support the mission of UHW.*

Loan Collateral:

The loan will be unsecured. The Board of Directors will pass a resolution that will cause property cash flows to be directed to debt repayment and property reserves. Annual cash flows in excess of debt service will be made available to UHW for general purposes.

Term: Ten years

Amortization:

Annual principal reductions based on a ten-year straight-line payment.

Purpose of Loan:

UHW has been awarded or expects to be awarded 8 separate grants of zero-interest-rate loans that will allow it to acquire and remodel 46 new units of residential rental real estate and refinance 36 UHW rental units with debt that essentially has minimal cost associated with it. UHW is required to rent the properties to persons of low-income for the next 20 to 30 years. Some loan/grants will be forgiven over a period of years and some will simply be due in 30 years with no payments or interest rate attached to it. A portion of the funds are grants that will have no restrictions once improvements are made to subject properties.

The lenders and grantors have agreed to support UHW with generous loan terms and grants based on a pledge by UHW supporters to raise $1.25 million in private equity to make the deal happen. The lenders and grantors understand the structure of the transaction as it is being proposed.

The project will be completed by UHW utilizing its network of subcontractors, construction trainees and volunteers. The first three phases of the project have been fully bid. $8.4 million of public resources have been committed from a variety of sources with various funding and reporting requirements. **A full detail of funding sources and uses can be found in Exhibit B.** The total project cost will be approximately $9.65 million. *$1.25 million of private investment will complete the financial make-up of the project.*

Source of Repayment:

The primary source of repayment is the cash flow generated by the 82 rental units financed by this project. Although cash flows are not as strong as one might expect, one needs to keep in mind that rents are kept as low as possible in order to provide affordable housing to the lowest-possible-income households and not to maximize return on investment.

The secondary source of repayment is fundraising by the organization.

The third source of repayment is refinance of the debt by another organization or the refinance and sale of properties.

The below cash flow does show adequate coverage for debt repayments (in $1,000's).

Year	**2011**	**2012**	**2013**	**2014**	**2014**
NOI	$217	$274	$271	$267	$263
Debt Service	$187	$181	$175	$168	$163
Coverage	1.16	1.51	1.55	1.59	1.61

Exhibits: (available in the full document)

Exhibit A is a pictograph of how UHW is structured today and how the organization will look after the refinancing is complete.

Exhibit B details the Source and Uses of funds. The seller loan of $615,721 is the plug figure that results from the sale of the 36 UHW properties to a newly formed LLC at the current FMV. The $1.25 million in private capital represents this request for loan participants. The $1.25 million is actually lent to UHW who then invests it in LLC 3.

Exhibit C details the properties in each LLC, values, and dates of purchase and scope of improvements.

Exhibit D details the remaining UHW debt structure after the refinance is completed.

Exhibit E details the cash projection and debt repayment. The cash projections show that UHW can service the proposed debt without great difficulty. Cash flow is much less than one might expect after such great investment, but one must remember that the intent of the entire effort is to stabilize tenants of low income that have limited resources to pay toward rent.

Exhibit F contains the UHW annual audit for 2007, 2008 and 2009 and pre-audit 2010 financial statements and the budget for 2011.

Exhibit G is the form of the Subscription Agreement.

Exhibit H is the form Participation Certificate that each Investor will receive showing their respective "Participation" in the proposed loan.

Exhibit I provides Borrower detail and history.

Other: The request is not for another handout or donation to another charity. This is a request for a loan participation that will be repaid to you. This is a story of private investment joining with government funding to help end homelessness in the Twin Cities.

STRENGTHS AND RISKS

Strengths

There is a strong and active board.

This is a loan, not a charitable contribution.

UHW has been in business for 16 years.

Even though Balance Sheet shows significant debt, much is non-interest bearing and doesn't have to be repaid.

Debt on Balance Sheet is for the most part Project: Reclaim-related and for the most part appears to be properly structured.

Line of credit is well-secured and is paid off.

Bank seems to be happy.

Management is good and certainly above average.

Accounting is decent.

There is adequate cash flow to repay debt, improving after operating reserves cease.

Ten-year repayment of main repayable debt.

Individual supporters subsidize rent.

Rents are low but have potential for some upward movement if expenses rise quickly.

The City of Minneapolis loves this organization.

There are 82 rental units supporting this loan, $15,000 per unit.

All units are fully remodeled.

Rents are low and the units are decent.

Over 3,500 volunteers support this organization each year.

Many churches are active in this ministry.

This is a "hand up" deal and not a "hand out".

Risks

There is a lot of stuff going on with grants, government loans and rehabilitation of property.

We need ten years to return the full investment.

No collateral, and if there was you most likely would not want to own it.

Low rents with a desire to lower them further.

Cash flow coverage is not huge.

Lousy interest rate.

The City of Minneapolis loves this organization.

There are 82 units that need to be managed and this is more than double what the organization now manages.

We count on the parent organization to manage this.

Urban Homeworks and Rental: **RECLAIM**

TODAY

UHW

36 **units of mixed income rental**

25 **units are rented to low-income families**

11 **units are rented to "Urban Neighbors"**

- **Total debt:** $1,777,600
- **Monthly Interest:** $6,460
- Rents for low-income households are subsidized through private donations (100 Gives 100) and Section 8 (government subsidy)

TODAY: $1.25 million of private investment leverages $8.2 million to accomplish TOMORROW*

TOMORROW

UHW

LLC 1

12
Units Added

- No Amortized Debt
- Rents Lowered
- TDC: $1,463,524
- Start Date: Fall 2010

LLC 2

18
Units Added

- No Amortized Debt
- Rents Lowered
- Lovell Square
- TDC: $1,529,220
- Start Date: Spring 2011

LLC 3

36
Current Units Rehabilitated

- No Amortized Debt
- Rents Lowered
- TDC: $4,193,675
- Start Date: Spring 2011

LLC 4

16
Units Added

- No Amortized Debt
- Rents Lowered
- TDC: $2,120,000
- Start Date: Fall 2011/Spring 2012

OTHER PROPERTIES

RENTAL

18
Rental Units

OWNERSHIP

15
Contracts for Deed

Benefits for Urban Homeworks and the people we serve–

1. Rental units will be offered at lower rates providing more dignified homes to low-income households
2. 15 spots for Urban Neighbors will be added
3. 46 units will be added to Urban Homeworks' rental portfolio totaling 100
4. 36 existing Urban Homeworks' units will be rehabilitated making them sustainable for the long-term
5. 1.77 Million of secured and amortizing debt completely retired
6. 1.25 Million of patient private equity infused in Urban Homeworks
7. Liability for 82 rental reclaim units will be spread across four separate entities owned by Urban Homeworks

*see full list of sources and uses in Exhibit B"