The Challenges and Opportunities of Investing in Low-Income Communities

Pacific Community Ventures' First Five Years

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FOREWORD

In the last twenty years, the United States has lost over 3 million manufacturing jobs -- 56,000 in June 2003 alone. For those workers who still have jobs, many are not being paid enough to live. The value of the current minimum wage, $5.15, is 21% less than it was in 1979. In the context of these economic conditions, the need for bold and innovative action has never been clearer.

Pacific Community Ventures (PCV) is California's first community development venture capital (CDVC) organization. By investing resources and capital in businesses that have the potential to bring significant economic gains to low-income communities, PCV is a leader in a new wave of double bottom-line investors. These investors seek financial and social returns, and are using the tools of business to positively impact low-income communities.

Throughout the United States, there are a growing number of CDVC funds that are daring to ask the question, "why can't we invest money in businesses that provide good jobs for low-income workers as well as financial returns for investors?" In the following paper, PCV highlights the challenges and opportunities it has discovered in its first five years of investing. We identify five issues that are critical to the success of CDVC investing, and propose practical ideas -- including new partnerships, policies, and tools -- for addressing those challenges.

INTRODUCTION

Pacific Community Ventures (PCV) is California's first community development venture capital organization. It is a non-profit organization founded in 1998 to provide targeted venture capital, business advice, and critical business resources to companies in low-income communities throughout California. PCV is founded on the belief that if California residents want to enjoy long-term and sustainable economic growth, these low-income communities must be included in future economic development and incorporated into mainstream business networks.

Simply put, the investments we make today directly impact the society and economy in which future generations live. As Jeff Faux, founding president and distinguished fellow of the Economic Policy Institute in Washington, D.C., aptly explained: "From an economic point of view, investment is the society-shaping act. What we do or do not invest in today will determine how we and those who come after us live tomorrow."[1] It is irrefutable that there is a growing gap between California's low-income communities and its higher-income communities. In 2002, California ranked an unimpressive 45th in the country when measuring the income variation between the wealthiest 20% and the poorest 20% of its population.[2] At PCV, we are concerned about the dramatic impact that gap will have on future generations if we do not work to begin closing it now.

> The investments we make today directly impact the society and economy in which future generations live.

Although California's average job growth rate exceeded that of the US as a whole during the late 1990s, many of the new jobs created were low-wage jobs that do not pay enough to support a family.[3] Thus, despite many families' constant efforts to succeed in the workplace, "many find it nearly impossible to build the savings and assets that are critical for all families to achieve genuine economic security. Even though low-income parents are working harder and longer, too many continue to find it exceedingly difficult to get by and get ahead."[4]

Over the past five years, PCV has worked to address these and other problems. We know there are many diverse perspectives on these issues; in this paper, we share our knowledge from our own experience. We propose some practical ideas to help improve the short- and long-term impact of community development investment organizations, and to help create a variety of new partnerships and tools aimed at improving California's social and economic future. We also want to recognize the importance of the work of our peer funds across the country and that of the Community Development Venture Capital Alliance.

There are five issues integral to the success of PCV and other organizations like it: 1) deal flow, 2) cost of capital, 3) fund size, 4) the need for leadership, and 5) the need for a holistic approach that provides capital alongside critical business services. Below, we will describe each of these issues in greater detail, and suggest some practical solutions.

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[1] Faux, Jeff, Economic Policy Institute, *Poverty and Community: A New Discussion for the New Millenium*, speech delivered at a meeting of the National Association of Community Action Agencies, Washington, D.C., May 1, 1998.

[2] Corporation for Enterprise Development, *2002 Development Report Card for the States*, http://drc2002.cfed.org/grades/california.html (September 2, 2003).

[3] California Budget Project, *Key Findings and a Summary of Data from an Upcoming California Budget Project Report: The State of Working California*, September 2002.

[4] Annie E. Casey Foundation essay, *The High Cost of Being Poor: Another Perspective on Helping Low-Income Families Get By and Get Ahead,* Kids Count 2003 website, www.aecf.org/publications/data/2003%20essay%20book.pdf (August 12, 2003).

1. CAPITAL, DEAL FLOW, AND EXIT STRATEGY

There is a difficult and circular set of issues facing the small, but growing field of community development venture capital (CDVC) firms. These issues primarily involve obstacles to the flow of capital – but also involve problems related to deal flow and exit strategies.

In this arena, the process of raising and deploying capital is expensive and inefficient. Individuals and companies who invest are eager to see their capital deployed; but a small fund (under $20M), like PCV's, is faced with serious challenges regarding the deployment of capital. Based on our experience, an effective CDVC investment typically requires well over $2M in capital (inclusive of initial and subsequent rounds). But that amount is too high for a small fund to commit to any single deal, thus restricting the size of the deal (and, therefore, the size of company for investment) unless the fund can find co-investment partners. And until a fund reaches a size of at least $30M, it generally lacks the profile to be considered a "player" in the equity investment community, so it is difficult to find co-investment partners. Therefore, small fund size also means relatively slow deployment of capital -- yet another factor that can dissuade potential new investors. While the average traditional venture capital fund size is $141 million, the average CDVC fund size is $7.19 million. This in turn impacts investment scale. The average investment size per company for traditional venture capital funds is $8.4 million; the average investment size for CDVC funds is $348,000.[5] (See Appendix A for an illustration of the number, size and average investment of CDVC funds relative to traditional venture capital funds.)

In short, we have a chicken-and-egg problem: To have the desired impact, a CDVC fund must be large enough to deploy significant funds toward individual deals. However, CDVC funds have trouble attracting adequate capital and, in turn, because of their size are often unable to perform the networking with other equity players that is necessary to source and fund good deals. (Although it would be nice, no single investor wants to place such a large "bet" on a single fund so as to solve the fund size problem single-handedly.)

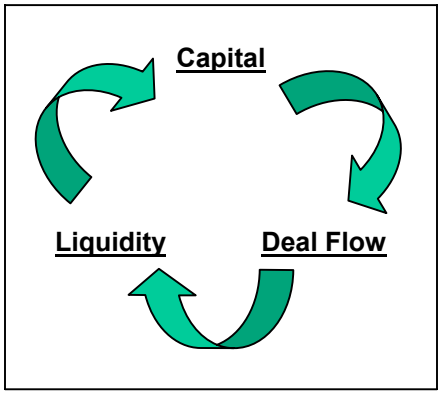


Exhibit 1: Investors want to see exit and returns (liquidity) before investing the capital that is critical to the deal flow that is necessary to produce exit and returns.

These challenges have affected PCV in a variety of ways. For example, we have sourced a number of interesting deals over the years which fell through for one of two reasons: Either we determined that we were unable to invest enough capital, or we were squeezed out of the deal by a larger fund that did not seek co-investors.

[5] Data provided by the Community Development Venture Capital Alliance. See Appendix A for additional detail.

The question of exit strategy further thwarts the effective flow of capital to intermediaries like PCV. The types of investments we make require a long-term focus and "patient capital" approach, since the standard time to liquidity events is 5-8 years. This is in contrast to the considerably shorter path to liquidity of 3-5 years in more traditional venture capital investments. This difference in time horizon is a result of investments in different industries and types of management teams, as well as the use of alternative exit vehicles. One is not necessarily better than the other – each just requires a different approach and a different set of expectations. These kinds of new approaches are being researched by Elyse Cherry and Boston Community Capital. They are working extensively in the arena of exit strategies for CDVC funds, and propose the creation of a publicly traded holding company that would purchase equity or debt interests in the portfolio companies of CDVC and other mission-driven funds.[6] As this and other exit ideas gain momentum, investors will be better able to see multiple avenues for realizing return. This will, in turn, increase the overall flow of capital to double bottom-line funds.

Finally, we face the issue of how deals are financed. The financing tools for effective community development investment include all three of the following: debt, near-debt, and equity. Community development investments typically require more flexibility and variety in the types of financing tools applied than more traditional VC investments. The problem is that fund investors often assign capital which, based on their portfolio objectives, is limited to a narrow range of instruments. As a result many argue for terms that drastically narrow a fund's choice of financing vehicles. Due to the nature of our investments, we have found that these limitations are frequently counter-productive to achieving a competitive rate of return over the full life of a fund.

Challenges notwithstanding, PCV has overcome some of these deployment and investment capital hurdles by developing strong relationships over time and by putting resources to work on deal flow generation. As a result, we now provide deal referrals to many of the newer funds operating in California's underserved markets. Additionally, we have received over $18M of investment capital, and we have invested $6M in twelve companies operating in or near -- and hiring from -- low-income communities. We have accomplished this in a time when California has experienced a serious economic downturn and when the market for venture capital took a dramatic turn downwards in most of the country. By the third quarter of 2002, total venture capital investment activity in both California and the US as a whole had fallen 85% from the peak levels attained in the first half of 2000.[7] It is clear, however, that ample opportunities exist for investments across a spectrum of business industries and sizes. In the second quarter of 2003, only 6% of venture funding went to businesses in the sectors in which PCV invests.[8]

> PCV invests in businesses in low-income communities that provide good jobs with wealth creation opportunities. The resulting business vitality positively impacts these low-income communities, thus narrowing the gap between rich and poor.

Additionally, continued investment in California's small businesses, which employ more than 50% of California's workforce and generate more than half of the state's gross domestic product, is essential to California's economic future.[9] PCV invests in businesses in low-income communities

[6] Elyse D. Cherry, with assistance from Andrew Chen, Sharon Shepard and Peter Sinclair, *Realizing Return: A Proposal for the Development of an Exit Vehicle for the Community Development Venture Capital Industry*, 68 pages, April 2002.

[7] Economic Strategy and Research Group, California Technology, Trade and Commerce Agency, *California Small Business Facts*, December 2002.

[8] Venture Economics, *MoneyTree Venture Capital Profile for California*, www.ventureeconomics.com/vec/stats/2003q2/state_CA.html (September 18, 2003).

[9] Governor's Office of the Advocate for Small Business, www.smallbusiness.ca.gov/content/businessstats.shtml (September 10, 2000).

that provide good jobs with wealth creation opportunities. The resulting business vitality positively impacts these low-income communities, thus narrowing the gap between rich and poor.

2. REDUCING THE COST OF CAPITAL

After holding many discussions with mutual fund managers, foundations, wealthy individuals, and corporations, we have discovered strong anecdotal evidence of a broad-based, genuine interest in portfolios of investments inclusive of those with a social return component.[10] But the process of attracting new capital is both inefficient and expensive – a problem that must be tackled with innovative and aggressive solutions. We can begin to alleviate this by reducing the cost of capital for all parties engaged in community development investment activities.

We have discovered strong anecdotal evidence of a broad-based, genuine interest in portfolios of investments inclusive of those with a social return component.

a. A good starting point is the development of better incentives (such as tax incentives) to motivate corporations, professional and financial services firms, insurance companies, and high-net-worth individuals to invest more capital in low-income communities and underserved markets. Although some such incentives exist for real estate investments, separate plans need to be written that apply to non-real estate investments. (The federal New Markets Tax Credit program, for example, is unwieldy for non-real estate investments.) Policy makers and legislators can also focus on incentives to support the development of a viable secondary market for the types of patient equity investments that are typical of CDVC firms and other organizations that deploy capital in underserved markets.

b. Using a combination of market research and technology, tools need to be created so that potential investors in double bottom-line intermediaries (those recognizing both financial and social returns on investment) can readily access relevant information and make investment decisions. Single bottom-line investors currently use these instruments in making investment decisions. The same types of tools must be accessible – and understandable – to parties who are interested in, but are not yet committed to, investing in double bottom-line funds.

For example, upon completion of high-quality market research about investor decision-making, it would be possible to create a tool that arrayed information about double-bottom-line funds based on the attributes of those funds. This would require transparency of information on the part of those funds, and would include details regarding governance, structure, management teams, financial track record, and more.

c. The development of an effective clearinghouse to encourage intermediaries involved in double bottom-line investing to be accountable for good reporting is critical. This clearinghouse should also compel those intermediaries to provide real transparency of information, allowing potential investors to make efficient choices across a spectrum of investment opportunities. There are a number of entities in the traditional venture capital arena, such as Venture Wire and Venture Economics, which enable investors to gather industry-wide data that helps inform their decisions. The creation of similar information aggregating organizations geared toward CDVC industry data would clarify the CDVC landscape and enhance the flow of capital to this field.

d. The creation of a network to encourage knowledge sharing between and amongst the various players in double bottom-line investing is an important additional step. At present,

[10] Different funds use different criteria to evaluate social returns. PCV measures the numbers of quality jobs at our portfolio businesses. As we will discuss, by "quality jobs", we mean those jobs in which employees gain valuable – and transferable – skills and training; jobs in which employees receive important benefits such as health insurance and paid vacation time; and jobs in which employees earn, at the very least, a living wage.

entrepreneurs, intermediaries, and other practitioners are isolated from one another. There is not enough real knowledge transfer among practitioners, as opposed to marketing-oriented activities. The CalPERS team is one good example of a group that is working hard to extend the networks of the participants in its California Initiative[11] – an effort that is beginning to bear fruit.

3. BIG ENOUGH – AND SMALL ENOUGH – TO HAVE AN IMPACT

Scale is extremely important if we hope to convert the CDVC niche market into a truly viable and effective industry. Right now, due in part to our niche status, there is an inherent tension between PCV's potential size and the attainment of our mission to bring economic benefits to low-income communities.

While we need more capital to be big enough to have our desired impact, we must only take capital that is aligned with our objectives. As our investor base diversifies, there will be more pressure to produce higher financial rates of return -- without high regard for the social values derived.

> The real question is how to successfully grow and scale, while maintaining focus on our combined financial and social mission.

Similarly, with a larger fund, PCV is more likely to participate in deals which work well for our mission alongside co-investors who want to do the same deals, but who have a single-minded focus on financial returns. How will those co-investors feel about PCV's negotiations with entrepreneurs for wealth-sharing vehicles for low-income employees, for example? This presents an interesting set of questions: on the one hand, it is essential to stay the "right size" in order to remain focused on our mission of deriving double bottom-line returns; on the other hand, increased scale is the key to PCV's long-term success. The real question is how to successfully grow and scale, while maintaining focus on our combined financial and social mission.

The business of community development investment capital must scale; but scaling requires walking a fine line – we must co-opt the mainstream while also remaining on a critical edge. At this critical edge is the question of how a sustainable society can create and derive measurable value from a system that blends financial and social return on investment.

At the heart of this issue is the development of tools and processes by which to measure social returns on investment. Here at PCV, we are methodical and disciplined about measurement of social returns, and we improve our measurement tools each year. One such measurement is the number of quality jobs in low-income areas. By "quality jobs", we mean those jobs in which employees gain valuable – and transferable – skills and training; jobs in which employees receive important benefits such as health insurance and paid vacation time; and jobs in which employees earn, at the very least, a living wage.

> In 2001, more than two-thirds of California workers earned less than the amount needed for a single parent to provide a family of three with the basic necessities.

While these may at first blush seem to be modest goals, the statistics suggest otherwise. Take wages, for example. Today, simply having a job is often not enough to get out of poverty. In 2001, 9.1% of California wage earners earned less than the

[11] In May 2001, the CalPERS Investment Committee approved an allocation of $475 million to the California Initiative Program. "The California Initiative will invest in traditionally underserved markets primarily, but not exclusively, located in California. The objective is to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital. These opportunities should offer attractive risk-adjusted returns commensurate with their asset class." www.calpers.ca.gov/invest/investment-business-opportunities/ca-initiative-info-packet.pdf (September 2, 2003).

full-time hourly wage needed in order to get a family of three out of poverty. That's up from 7.7% in 1989.[12] And in 2001, more than two-thirds of California workers earned less than the amount needed for a single parent to provide a family of three with the basic necessities ($20.89 per hour). Nearly 40% earn less than the amount needed by a family of four supported by two full-time workers ($12.51/hour).[13]

Or consider health insurance. According to the California Budget Project, "[i]n 2000, only three out of five Californians under the age of 65 had job-based health coverage. And only 16.8% of Californians with incomes below the poverty line ($18,022 for a family of four in 2001) had job-based coverage -- as compared to 85% of those with incomes in excess of three times the poverty standard."[14]

PCV's work is helping to change that. (*See Appendix B.*) Cumulatively, since 2000, our 11 financed portfolio companies have employed 633 individuals from low-income communities. At the end of 2002, the average wage in the PCV portfolio for residents of low-income communities was $12.19 per hour (almost $2.00 above San Francisco's living wage). Additionally, over 80% of PCV's portfolio businesses offer health benefits, paid vacation, and skill-based job training.

Over time, we will continue to develop more sophisticated tools to measure both social and financial return on investment. The development of these tools is essential to the longer-term goal of developing a viable market system that creates and receives value based on financial *and* social measurements of return. Still, until a sustainable market system exists that creates transactions based upon this new understanding of value, it is essential to remain attentive to the question of size.

4. THE NEED FOR LEADERSHIP

Now, more than ever before, business leadership is essential to social and economic change in the United States, and more specifically here in California. In particular, leadership interest in investing in *all* of California's communities is a critical need. Community development venture capital investing is one avenue for using the tools of business to affect change. Large corporations also have significant opportunities for leadership in this arena.

In the current business climate, there is a high level of attention to -- and scrutiny of -- corporate governance. In such an environment, there are ample opportunities to foster new leadership. Such opportunities are created in a number of ways. In some cases, a CEO may be interested in acting "above the fray," and thus may place an increased emphasis on social responsibility. In other cases, business leaders may be focused on mending a tarnished image, and hence may choose a path related to good corporate citizenship.

> Policymakers and financial intermediaries like PCV need to work consciously toward fostering new thinking among corporate leaders – and toward developing the next generation of strong business leaders.

There are many ways in which these leaders can influence boards and companies in a way that bolsters attention to social returns. One example is for the board of a public company to add corporate social responsibility (CSR) monitoring to its governance functions. Chiquita, for instance, has a vice president-level Corporate Responsibility Officer, as well as a

[12] California Budget Project, *Key Findings and a Summary of Data from an Upcoming California Budget Project Report: The State of Working California*, September 2002.

[13] California Budget Project, *Key Findings and a Summary of Data from an Upcoming California Budget Project Report: The State of Working California*, September 2002.

[14] Ibid.

steering committee of managers that meets monthly to coordinate and guide corporate responsibility efforts. Additionally, Chiquita publishes a CSR report that openly recognizes the improvements and shortcomings of those efforts.[15]

Another avenue for leadership is for fund managers and institutional investors to increasingly consider social return criteria in addition to existing financial return criteria when selecting their investment portfolios. CalPERS' California Initiative was an important first step in this direction.

Inasmuch as these are all highly desirable outcomes, the reality is that financial performance is still the primary measure by which company leaders stand or fall. Therefore, over the shorter term, policymakers and financial intermediaries like PCV need to work consciously toward fostering new thinking among corporate leaders – and toward developing the next generation of strong business leaders.

This kind of thinking can be fostered, in part, by the creation of new and better incentives for investment. In addition to tax incentives, we need to develop programs that match private sector investment dollars with public dollars to support sophisticated business assistance programs (such as PCV's business advising services). We also need to encourage the public sector, corporations, and investment fund managers to provide direct incentives to one another through their selection of vendor and contractor relationships, as well as through the choice of where they place deposits or funds for management.

Finally, we need to increase publicity for positive examples of new, systemic approaches to corporate change, and we must provide the highest-level of recognition for successful leaders and corporations who make a real and positive impact in the arena of double bottom-line (or "blended-value") investment.[16]

5. THE BENEFITS OF A HOLISTIC APPROACH

PCV is unique in that, from our earliest days, we have taken a holistic approach to our work. By "holistic", we mean that we have given equal weight to services and investing, and that we have utilized our network to create an organization of active, engaged stakeholders. The structure of our organization supports this approach, since we are both a non-profit services provider and a profit-making private equity fund manager. (For more information on the types of business services that PCV provides, see Appendix D.)

This is vastly different from the traditional approach to venture capital, in which an influx of capital is the primary foundation for every portfolio relationship. Our approach is also more tailored to the needs of each company. For example, many of our portfolio companies have not received capital from PCV's funds – instead, they benefit from advising relationships with local executives, and from our extensive business network.

> While business resources alone are a good start, and capital by itself is a helpful catalyst, combining both of these aspects is critical to bringing businesses in low-income areas into the economic mainstream.

The benefit of this holistic approach is demonstrated by one of our portfolio companies: Moving Solutions, a 27-year old firm in San Jose. At our annual forum this year, Rick Philpott, CEO of Moving Solutions, spoke to the audience about PCV's advisory services.

[15] Business for Social Responsibility website, Overview of Corporate Social Responsibility, www.bsr.org/BSRResources/IssueBriefDetail.cfm?DocumentID=48809#leader (September 10, 2003).

[16] The Community Development Venture Capital Alliance (www.cdvca.org) and Business for Social Responsibility (www.bsr.org) are two leading organizations in this field. Additionally, Jed Emerson has done extensive work in the area of blended value return. See "The Blended Value Proposition: Integrating Social and Financial Returns," California Management Review, Summer, 2003 and http://faculty-gsb.stanford.edu/emerson/ for additional information.

He explained that his relationship with Roger Katz, a member of PCV's network of business advisors, had given him the ability to step back from his business and develop key management systems and a new framework for managing expenses. These developments allowed Moving Solutions to remain profitable during a tough year, and were a key factor in the company's ability to go after a contract with Hewlett Packard. That contract will result in significant revenue growth for Moving Solutions over the next five years. PCV has just completed financing to provide convertible debt to the company so that it has the working capital it needs for this expansion. PCV's advising relationship with Moving Solutions was in place for a full 18 months prior to the financing. While business resources alone are a good start, and capital by itself is a helpful catalyst, combining both of these aspects is critical to bringing businesses in low-income areas into the economic mainstream.

A VISION FOR THE FUTURE

Our vision is one of a vital new business network, without traditional boundaries, that creates new stakeholders in communities formerly left out of the established flow of capital. We believe that by offering early- and mid-stage businesses in low-income communities better access to business tools, information, capital, and access to the region's existing business network, we can create a new, highly interactive and inclusive network that reaches across communities.

Achieving this vision will require a significant shift in attitude among individuals, investors, and businesses; but as this shift occurs, intellectual and financial capital will follow. We have witnessed the beginning stages of this shift, and it is arguably one of the most valuable outcomes of PCV's work. This is the kind of transformation that will alter California's future.

While a small group of progressive investors is beginning to broaden its spectrum of investment, there has not yet been a transformation in overall investor attitudes. And it is clear why: We have not yet proven that PCV is likely to be financially more successful because of our commitment to this vision. Ultimately, proven financial results are critical to the viability of double bottom-line funds. Within the next few years, we will have compiled a track record of results so as to be able to answer these data-driven questions regarding performance.

> We can create a new, highly interactive and inclusive network that reaches across communities.

Five years ago, PCV was viewed as a new, untested experiment in investment and community development. Today, community development venture capital organizations are evolving into a defined, recognized industry. The next step in the evolution will be to become an established asset class. In order to get there, we need to continue working on solutions to tough questions regarding how we, as a business community, value social returns on investment. How, for example, do we drive toward acceptance of social impact and returns alongside financial market results? What measurement tools can be broadly utilized and sustained to measure the social impact of investments? How can these measurement tools capture intangibles like "mainstream business people's mindset shifts", along with more concrete changes like the increase in high-quality jobs for low-income individuals?

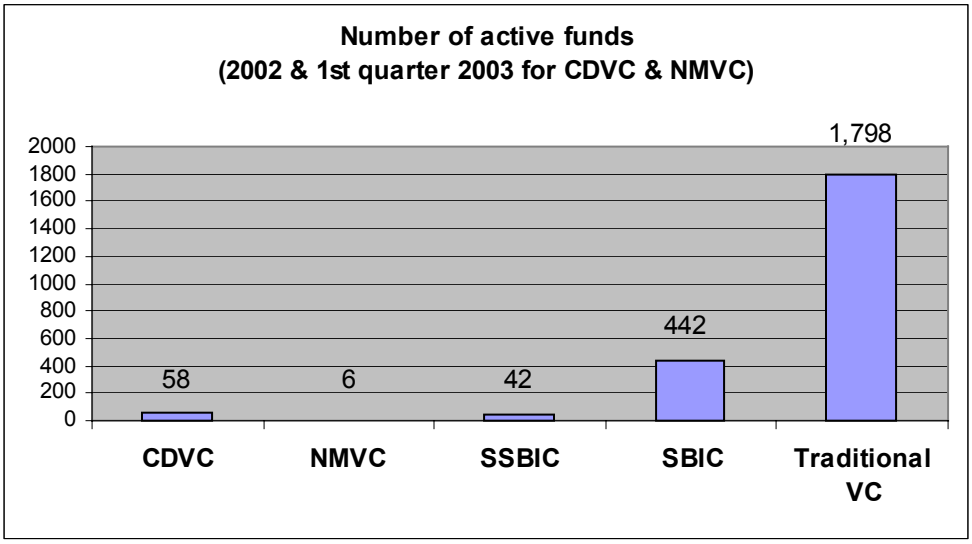
California's low-income communities represent enormous potential for investment and for impacting sustainable change. It is time to take advantage of this opportunity and address the historical and growing disparity between wealthy, vibrant business communities, and lower-income communities that lack a significant business community or network. As we strive to achieve this goal, it is imperative that we work on new policies and solutions that address the obstacles to successful investment in all of California's communities.

Appendix A

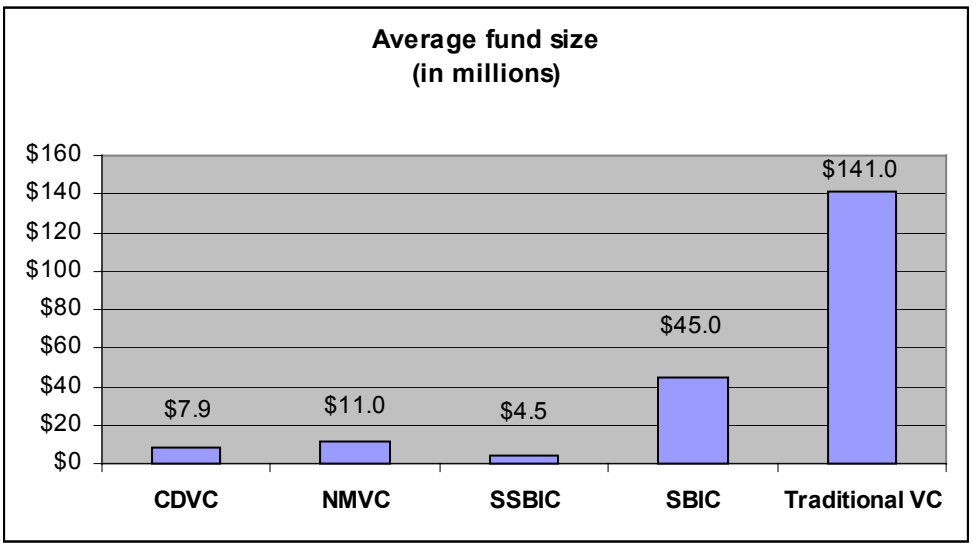
VC vs. CDVC

**Data provided by the Community Development Venture Capital Alliance (CDVCA)*[17]

While the number of CDVC funds continues to grow, they represent a comparatively small number in the total universe of venture capital investing.



Similarly, CDVC funds are significantly smaller than many of the other players in the VC arena.



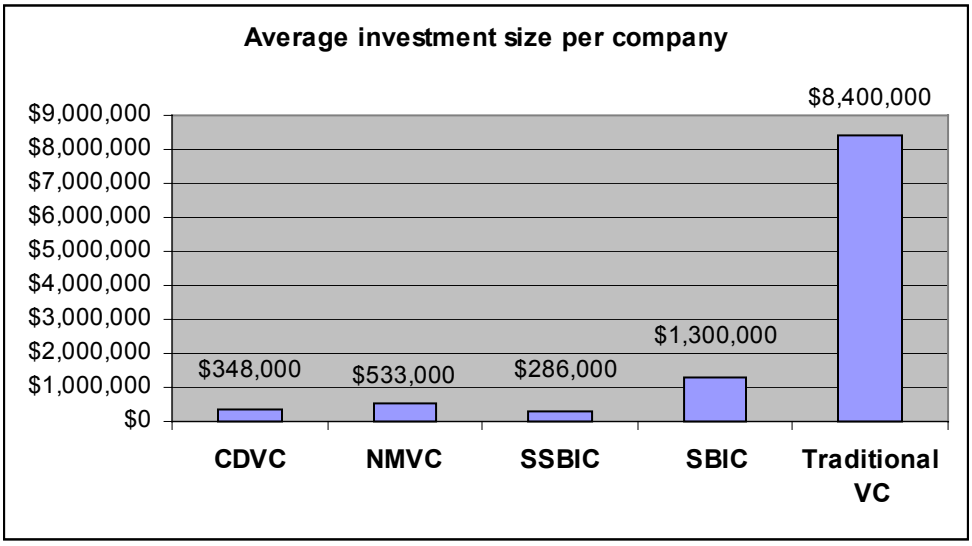
[17] CDVC stands for Community Development Venture Capital. NMVC stands for New Markets Venture Capital. SSBIC stands for Specialized Small Business Investment Company. SBIC stands for Small Business Investment Company.

Appendix A continued

VC vs. CDVC

**Data provided by the Community Development Venture Capital Alliance (CDVCA)*[18]

Smaller fund sizes result in smaller investments.

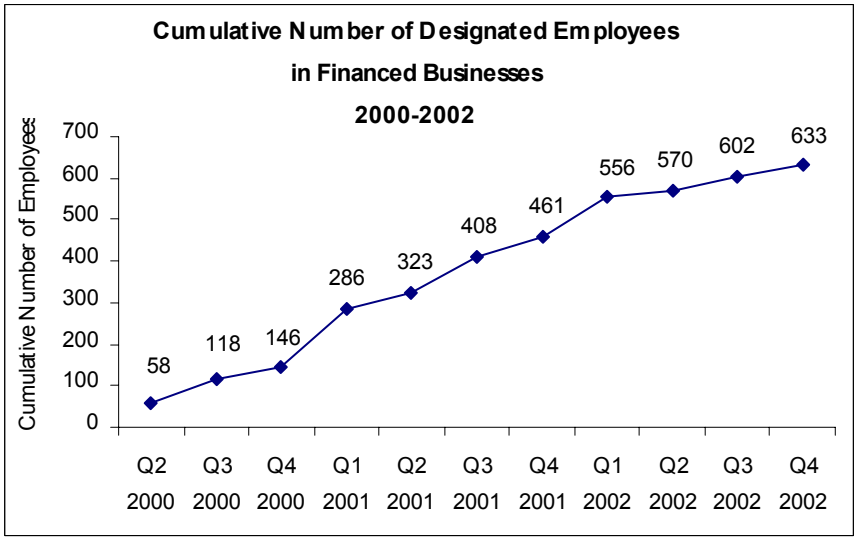


[18] CDVC stands for Community Development Venture Capital. NMVC stands for New Markets Venture Capital. SSBIC stands for Specialized Small Business Investment Company. SBIC stands for Small Business Investment Company.

Appendix B

EMPLOYMENT IN THE PCV PORTFOLIO[19]

DESIGNATED EMPLOYEES[20] WORKING IN PCV-FINANCED BUSINESSES



Cumulatively, in the past three years, a total of 633 designated employees have worked in PCV's financed companies.

WAGES AT FINANCED COMPANIES

PCV invests in and develops companies that invest in their employees. One of the primary ways companies can do this is by paying employees a living wage. Average hourly wages in PCV's financed portfolio have steadily increased over the past three years, from $10.54 in 2000 to $12.19 in 2002.

Comparison of Overall Weighted Average Hourly Wage at Financed Companies, 2000-2002

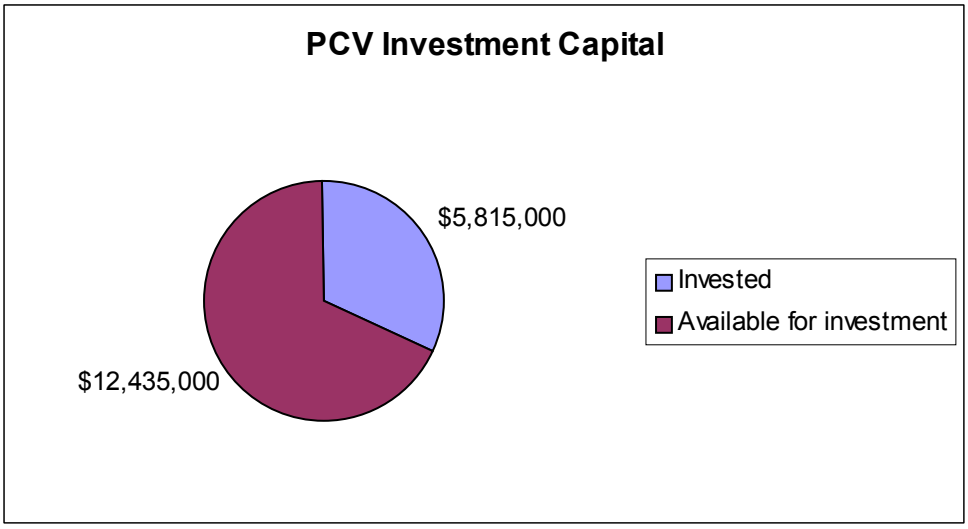
Year	Number of Companies	Number of Employees	Average Wage in 2002 Dollars[a]	SF Living Wage[b]
2000	7	98	$10.54	$9.00
2001	8	380	$10.72	$10.00
2002	7	375	$12.19	$10.25

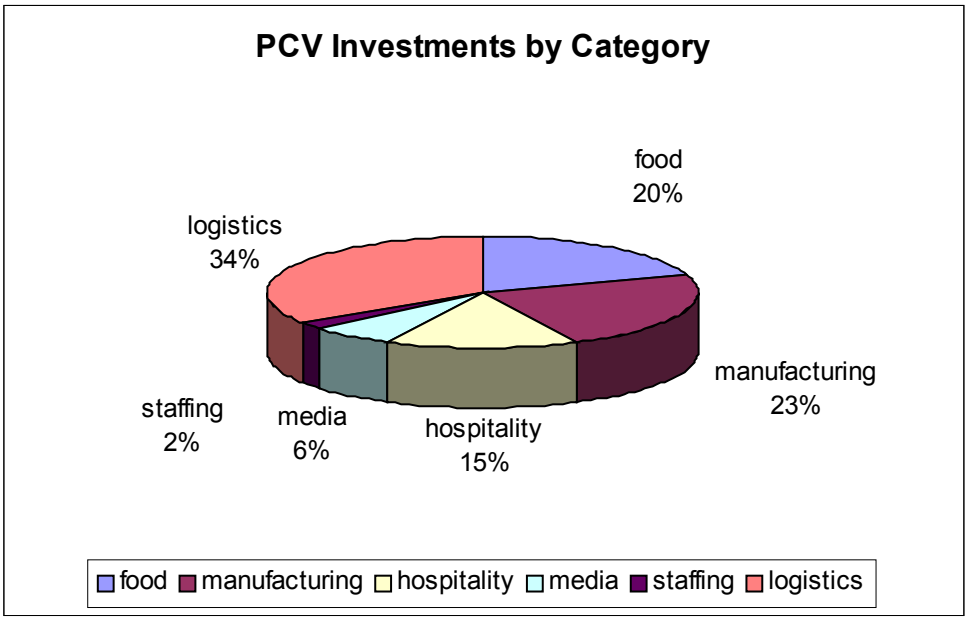
a. Calculated using the Bureau of Labor Statistics inflation calculator.
b. This is reflective of San Francisco's Minimum Compensation Ordinance. Hourly rate does not include benefits, although employers are required to participate in an additional health care accountability ordinance.

[19] This data was excerpted from PCV's 2002 Social Return Executive Summary.

[20] Two criteria were used to identify designated employees: 1) employee resides in a low- to moderate-income income zip code; or 2) employee was hired through a referral from a local non-profit organization, job training program, or welfare-to-work agency.

Appendix C





Over the past four years, PCV has made great strides for its investors, for California's communities, and for the field of community investing. To date, PCV has:

- Committed approximately $5.8 million to 12 companies (through LLC I and II).
- Deployed 75 volunteer advisors to 50 companies.
- Raised $18.25 million in investments to PCV's two funds (LLC I and II).
- Received $9 million in contributions for PCV's non-profit activities.

Additionally, at the end of 2002, PCV's financed portfolio companies had employed 633 individuals from low-income communities in the Bay Area.

Appendix D

Business Advisory Services

Pacific Community Ventures (PCV) provides companies with comprehensive development services to enable business growth. All services are delivered free of charge. These services include:

Business Advising
PCV links senior, experienced business professionals with portfolio company managers (also called "portfolio entrepreneurs") to help guide a company through the business development process. Business advisors provide ongoing advisement and guidance on key issues related to a company's growth and development. Advisors are senior level executives from Bay Area companies with expertise in marketing, finance, general management, and operations. Business advisors are matched with a company based on the advisor's skill set, and the particular needs of the company. They work one-on-one, or in teams of 2 or 3, with one company over a 6-12 month period. During that time, they focus on a set of specific strategic issues related to the company's growth. Projects typically focus on one or more of the following: business plan development, financing strategy, sales and marketing strategy, operations management, accessing bank financing, or organizational development issues such as staffing and compensation. Business advisors are all volunteers.

CEO Forum
Through its network of experienced consultants, PCV offers leadership workshops to the chief executives of its portfolio companies. These workshops focus on developing leadership and management capacity at the highest level, and help to provide a forum in which PCV portfolio CEO's can address real business challenges using new insights and frameworks. The PCV CEO Forum also serves as a setting in which CEO's of PCV portfolio businesses can receive support, feedback, and advice from their peers within the PCV network. PCV currently holds these workshops on a semi-annual basis.

Business Roundtable
The Business Roundtable is made up of a diverse group of business executives, lawyers and financiers who provide PCV entrepreneurs with practical input and problem-solving strategies. This group – distinct from PCV's pool of business advisors – meets quarterly to hear from one PCV portfolio company about a specific business problem or challenge which, when overcome, will enable the company to grow to a new stage of development. Presenting companies seek advice on such issues as: accessing a key customer, negotiating a merger/acquisition, or planning for growth in a particular area of the business (e.g. new product introduction, e-commerce strategy).

Job Placement Services
PCV partners with job-placement nonprofits to place qualified residents of low-income communities in jobs at PCV portfolio companies. PCV has formed a partnership with Working Solutions (a division of TMC Development) to help PCV portfolio companies source qualified low-income employees who meet the requirements necessary to perform their jobs consistently.

Resource Network
PCV leverages its web site and other on-line capabilities to connect entrepreneurs with the highest quality tools, resources and information they need to successfully grow their businesses. Products and services available to entrepreneurs through the web site include: free copies of Microsoft Office and QuickBooks, business planning books, on-line training, and information about job training and placement services, financing sources and more.