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Community Investment in San Jose



Peter DaSilva for The New York Times

Matt Pitchon, president of Bentek, a San Jose company that serves the electronics industry.

By JAMES FLANIGAN

SAN JOSE, the largest city in Northern California, recently invested \$350,000 in a local company, Bentek Manufacturing, to help it grow and provide good pay and benefits for its 120 employees.

San Jose's investment was part of a \$3 million financing that includes participation by Pacific Community Ventures, an organization that invests pension and other institutional funds in companies that employ minority workers or provide work in low-income neighborhoods.

San Jose's four-month-old Economic Development Catalyst Fund also joined Pacific Community Ventures in an investment in Mercados Suvianda, a new company that employs 200 workers at two supermarkets in San Jose and plans expansion.

Is the old adage that "you can't fight City Hall" changing to "tap into City Hall for investment"? In a sense, yes, said Jeff Ruster, deputy director for economic development for San Jose. Four months ago, Mr. Ruster said, the city shifted from loans and grants to local companies "to investments that bring the disciplines and rigors of venture capital to a business and require a financial return as well as a social return in terms of expanded employment and good wages and benefits."

Such community investment is a national and international trend. San Jose was adopting the model of Pacific Community Ventures, which has just raised more than \$40 million for a new investment fund. The group was founded in 1998 by Penelope Douglas, a former business

executive who is its president, and Bud Colligan of Accel Partners, a venture capital firm. In the last nine years, the group has invested \$14 million in 10 companies. “We back established small companies typically in low income or rural areas,” Ms. Douglas said.

Though a nonprofit organization, Pacific Community Ventures demands a profit in its investments. “We differ from the big venture capital companies that earn a high return from technological wonders like Google,” she said. “But we must earn a return on investment in the high teens to be able to return a profit for our investors.”

Its backers include the California Public Employees’ Retirement System, the nation’s largest public pension fund, which in the 1990s pioneered the concept of investments meant to produce a “double bottom line” of social and financial gains.

Pacific Community Ventures considers a return on investment of 18 percent acceptable. It has pursued such profits in Niman Ranch, an organic food company in Oakland; RadioVisa, a producer of Spanish-language radio in Los Angeles; and Timbuk2 Designs, a San Francisco marketer of sports bags, for which the group negotiated a payout for low-income employees when the company was sold in 2005. The organization also has a service that helps 94 companies throughout California with advice on marketing, finance and other business functions.

Bentek is typical of the companies the group backs with investments. It is an engineering and manufacturing firm that makes and upgrades subassemblies for machinery that produces semiconductors for computers, wireless devices and radio frequency identification systems, or RFID.

Binh Nguyen, a Vietnamese immigrant, founded Bentek in 1985 and built it with the help of a largely Vietnamese American work force to about \$40 million in annual revenue. He sold the company two years ago to Fundamental Capital, a San Francisco investment firm, which brought a fresh outlook and capital to help Bentek take advantage of rapid changes in the electronics industry.

The company’s business is in a sweet spot right now, said Matt Pitchon, Bentek’s president. “The investment from San Jose will help us finance the growth we’re seeing as our customers have to adapt to all this changing technology for advanced wireless devices and phones, hand-held computers and RFID.”

Rapid change pays an added dividend as well, Mr. Pitchon said. “You hear a lot about outsourcing of manufacturing to Asia, but the work we do is so complex and changing so rapidly that outsourcing is practically impossible.”

Bentek meets the social requirements for community investment, Mr. Pitchon said. “We have a full medical plan and 401(k) investment plan with company match. And we do a lot of employee training.” Work force development and paying a “living wage” are prime objectives of community investment, said Mr. Ruster of San Jose. He defines a living wage as \$12 to \$13 an hour, double the federal minimum — minimum wage in California is \$7.50.

The venture idea has caught on nationwide and overseas. The Community Development Venture Capital Alliance is an organization that has grown to 100 member funds in all parts of the country and abroad since its founding in 1995. “Collectively we have \$1 billion to invest,” said Kerwin Tesdell, president of the alliance, which invests with its member through a \$6 million Central Fund.

Examples of its investments include SpringBoard Technologies, a computer repair and contract manufacturing company in Springfield, Mass., which was founded in 1993 by Tony Dolphin, who went out on his own after Digital Equipment closed a division that he worked for. He was backed by a \$500,000 investment by the Boston Community Ventures Fund. An African-American entrepreneur, Mr. Dolphin works with a local community college to “train inner city employees in basic skills and give them the knowledge necessary for career advancement.”

Kelly Upchurch, a psychologist, started American Health Management in rural Kentucky a decade ago to bring daytime care and rehabilitation centers to the elderly. He was helped by a \$90,000 investment from the Kentucky Highlands Investment Corporation, which was formed 39 years ago to promote development in poor, rural counties in southeastern Kentucky.

Today, Mr. Upchurch, who also received assistance in accounting and business planning from Kentucky Highlands, has seven care centers and has created more than 100 jobs in rural areas.

With all their emphasis on America’s inner cities, rural areas and minority populations — “underserved” communities, in development parlance — these funds give an impression more of philanthropy than business. But that would be an out-of-date impression, according to a new study by the Milken Institute and the Ford Foundation.

Amid America’s changing demographics, minority-owned companies grew at twice the rate of all companies over the last 10 years, and the number of concerns owned by women grew even faster, the study found.

The economic potential is huge. If the purchasing power of ethnic communities were taken together, it would constitute the world’s seventh-largest economy, the Milken Institute reported.

Realizing that potential is where community venture funds play a helpful role, said Mr. Tesdell of the alliance. “Low-income communities tend not to have wealthy family members who provide financing for entrepreneurs. And small-business expansion and product development can’t be done prudently with debt alone,” Mr. Tesdell said. “So community venture funds provide equity — long-term investment. Community economic development is fundamentally about making things happen in the economy that would not otherwise happen.”