INVESTING IN CIVIC ASSETS

Concept Brief: Building a Roadmap for a Civic Assets Investment Fund

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RECOMMENDATIONS

1. Short Term: Pilot the Concept via 2-3 Pilot Sites before implementing a fund

2. Medium Term: Establish a Catalytic First-Loss Capital Fund for Civic Asset Development/ Rejuvenation

3. Long Term: Establish a National Civic Assets Development Corporation to house the CFLC Fund

CONCEPT BRIEF: Overview

Evergreen Canada ("Evergreen"), supported by the JW McConnell Family Foundation, is leading a research effort studying the feasibility of a nationwide strategy to strengthen Canada's civic commons. The study has been undertaken in the context of renewed interest among key stakeholders (including the federal government) to support the acquisition and developmentof built-form civic assets.

One aspect of this research involves developing recommendations for designing and implementing an investment fund focused on supporting the retention and enhancement of built form civic assets. Evergreen approached Purpose Capital ("PC") to support this aspect of the research effort.

A civic assets fund, by its nature, embodies the key principles of impact investing. Impact investments pro-actively direct private capital toward opportunities that generate positive social and/or environmental impact alongside some form of financial return. This includes debt and equity investments that range from producing a return of principal capital to offering market-rate or even above-market financial returns. The field of impact investing is growing.

This Concept Brief outlines a proposed model for a civic assets fund. The core elements proposed in the fund incorporate impact investment principles, and reflect key inputs Purpose Capital received during interviews with key stakeholders with expertise in both civic assets and infrastructure/real estate investment, and in its review of other fund models (both real estate and nonreal estate oriented) that offered inspiration for the fund design.

THE CONCEPT BRIEF HAS FIVE MAIN SECTIONS:

- **Informing a Nationwide Civic Assets Strategy** – the context underpinning this concept brief
- **Backgrounder on Impact Investment** – a high level overview of the growing field of impact investing
- **Framing the Opportunity** – a summary of the key inputs informing the conceptual model for a civic assets investment fund
- **Proposed Fund Design** – an outline of the key features/terms of the proposed fund, including a pro/con assessment of the model
- **Implementation Considerations** –an outline of some practical steps needed to implement the fund

Informing a Nationwide Civic Access Strategy

Evergreen Canada ("Evergreen"), supported by the JW McConnell Family Foundation, is leading a research effort studying the feasibility of a nationwide strategy to strengthen Canada's civic commons. The purpose of the study is to explore new forms of collaboration and resourcing to optimize the physical assets that comprise our civic commons – libraries, under-utilized or surplus government lands/properties, parks, community centres, faith-based properties and other buildings that act as places of civic gathering.

The development of a national civic assets strategy will be informed by 3 overlapping inputs. First, Evergreen has begun to profile issues that a national strategy would need to respond to. Evergreen conducted a consultation process with key stakeholders that steward existing civic assets, and created an initial set of key issues:

> **There is recognition that community members want to prioritize certain real property assets for their "community value".** Community value is understood in multiple ways – for instance, these assets may:
- Currently or historically have played a key role in building a community fabric
- Be held by charities or public organizations that do not have the resources to properly maintain them (due to lack of resources), and/or the asset is at risk of being sold to a private entity and therefore become "lost" as a community asset.

> **Certain barriers today (market and policy) limit the future potential use of these assets.** For instance:
- Governments have policies associated with asset disposal (such as maximizing the asset disposal value) or encumbrances on title associated that make things like changes of use more difficult if not impossible
- Non-profits, facing fiscal pressures, may be forced to dispose of a real asset they wouldn't otherwise sell
- Private entities (developers, etc.) are largely motivated by market gain, and may struggle to incorporate community benefit into the use of a civic asset if that benefit does not meet the fiscal requirements set by their investors and stakeholders

> **Transferring stewardship of civic assets can be difficult**. Many social sector organizations would be interested in owning and/or managing certain civic assets, however they often will face two critical limitations:
- They lack the equity needed to acquire the property in a timely fashion. The needed equity (often in the form of donations or government grants used to complete an acquisition) may take years to secure, whereas a private entity may be able to access capital quicker. Private investors will also have more flexibility to out-bid others for certain assets, thereby further limiting acquisition opportunities for social sector organizations
- They may be limited in the non-financial resources (people, skill sets, etc.) needed to effectively acquire, develop and manage new assets.

Second, and commensurate with this research, is a desire to build upon momentum that has formed around "re-thinking" the role and use of our civic assets. A US-based movement, Reimagining the Civic Commons, offers one possible articulation of this rethink:

> *"Our civic assets were once the pride of our communities. Our libraries, parks, community centers, and schoolyards served rich and poor alike as neutral ground where common purpose was nurtured. But as communities became segmented by income, technology advanced and needs changed, support for civic assets declined. Americans spend less time together in social settings, trust each other less and interact less with people whose life experiences are different.*
>
> *Social interaction among people of different backgrounds, ages, incomes and interests is central to expanding economic opportunity... Communities across the country are taking action to reimagine public assets as a robust civic commons—reviving public spaces to restore civic engagement, encourage economic integration, increase environmental sustainability and create value for cities and neighborhoods"*[1].

A 3rd input to the national strategy development is determining a potential role that social finance may play in supporting civic assets. This Concept Brief will focus on this third input, specifically focused on developing recommendations for the design and implementation of an investment fund focused on supporting the retention and enhancement of built form civic assets.

Backgrounder on Impact Investment

The term 'impact investing' has been used quite broadly to date, and the most widely-cited definition comes from the Global Impact Investing Network (GIIN), which described impact investments as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."[2] The core characteristics of impact investment are as follows:

Intentionality
An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.

Investment with Return Expectations
Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.

Range of Return Expectations and Asset Classes
Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across cash equivalents, fixed income, venture capital, and private equity.

Impact Measurement
Investors and investees are able to demonstrate how these stated intentions translate into measurable social impact.[3]

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[1] Re-Imagining the Civic Commons: http://civiccommons.us

[2] Global Impact Investing Network. Retrieved at www.thegiin.org/impact-investing/.

[3] "What you need to know about Impact Investing," Global Impact Investing Network. http://www.thegiin.org/impact-investing/need-to-know/#s1

In addition to these four core characteristics of impact investment, one other demands consideration: the 'investee intention' of an organization seeking impact investment. In this case, regardless of legal form or corporate structure, the investee also intentionally seeks to have - and to measure - social impact, while also generating a financial return.

IMPACT INVESTING & SOCIAL FINANCE

Impact investing is often placed within a broader continuum of approaches that are grouped under the umbrella of 'social finance', which broadly incorporate social and environmental considerations. The figure below compares impact investing across a continuum of approaches that constitutes social finance, which include responsible and impact investing.

Source: G8 Social Impact Investment Task Force (2014) Invisible Heart of Markets

Like traditional financial markets, the impact investing marketplace includes those who supply capital, those who demand capital, and intermediaries and enablers. Impact investors supply the capital that funds projects, programs and businesses that deliver solutions to social and environmental problems. Impact investors can include governments, individuals, foundations, banks and pension funds.

The demand side of the market includes companies in myriad sectors, non-profits and charities, cooperatives, and projects that need capital to launch, operate or expand activities. In parallel to the spectrum of investors (above), so too is there a spectrum of organizations seeking investment -- from charities, which are motivated nearly exclusively by social impact, to commercial enterprises, with are motivated nearly exclusively by financial success. See figure 1 below for more information:

Figure 1: Types of organizations seeking investment[4]

Meanwhile, intermediaries and enablers support the placement of investments and the development of financial products, and can also play a role in helping entrepreneurs and organizations become ready for investment.

Global impact investing is on the rise, with an estimated market of US$60 billion[5]. In Canada, it's estimated that there is between $2-4 billion in impact-investing assets[6]. Unsurprisingly, given the size of the country, impact investing in Canada spans a wide range of sectors, regions and forms. Regions such as Ontario, Quebec and British Columbia are the most vibrant, as are sectors such as affordable housing, renewable energy, and environmental ventures. At the same time, there is a growing diversity of impact investing opportunities available across asset classes and sectors, supported by an evolving set of tools and metrics to measure impact.

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[4] "Financing Civil Society," Pg.7. Mitchell, Kingston and Goodall, *Charities Aid Foundation*, June 2009. https://www.cafonline.org/docs/default-source/about-uspublications/

[5] Global Impact Investment Network (GIIN). (2014). Global Social Finance: Spotlight on the Market. Retrieved from: http://www.thegiin.org/assets/documents/pub/2014MarketSpotlight.PDF

[6] These estimates come from two main reports: Harji, Reynolds et al. (2014) and Responsible Investment Association (2015) Canadian Responsible Investment Trends Report.

Framing the Opportunity

UNDERSTANDING THE CHALLENGES FACING CIVIC ASSET OWNERS/OPERATORS

Though there is no universal definition of civic assets, the term is generally understood to include build-form assets that play a role in creating an urban fabric or that otherwise enable participation in civic society in some way. The Commons Inc., a collaborator in the Civic Assets project sponsored by the JW McConnell Foundation and others, describes civic assets in the following way:

They are the transit stations, the post offices, the schools, the libraries, the churches, the coffee houses, the sports halls, et al that through their location and primal function have served to cross-cut the multiple social strata of our urban centres, generating places that were open to all, that belonged to all, and that have served to connect all – through both time and place. The value of these assets are often manifold. Because these assets served primary civic functions, they are often historic properties, and because they emerged from and served central needs, they are often strategically positioned within urban centres[7].

Two civic asset case studies can be found in Appendix 3.

A critical observation in Purpose Capital's research – although the general principles underpinning civic assets is generally understood, the range of assets varies widely. Aspects of this variability include:

> **Ownership structure** – all manner of asset ownership exists for civic assets. Many are privately held, while others NFP held or publicly held. Each of these owner types vary dramatically in their asset management sophistication/interest, capital requirements, business models and vision/mission.

> **Built form** – As noted in the definition above, assets range from historic sites such as churches and heritage buildings, to park/community spaces to residential buildings, and everything in between. Each form therefore has its own unique mix of capital/operating expenditures.

> **Asset quality/type** – an offshoot of the built form, the physical attributes of each built form poses a wide range of maintenance/development challenges. Certain heritage/historic buildings, for instance, may require costly workarounds or may not be receptive to certain activities/tenants, while modern buildings have a different set of management challenges.

> **Financial Models** - Some civic assets, depending on their location, have varied revenue potential. For instance, in urban centres, many civic assets have the potential or actual sustainable revenue models, while in rural settings (e.g. churches), civic assets are often not revenue generating or revenue capable, and instead rely on philanthropy or government subsidy.

> **Capital requirements** – capital expenditures can range significantly (e.g. $50K low end to $20M high end), and the most appropriate capital type to service these expenditures similarly varies (e.g. some only need or want grants, while others seek and can absorb debt/equity). Capital stacking also ranges significantly (e.g. some need to fill a small funding gap, others need the entire capital/operating requirement covered).

> **Level of sophistication** – civic asset owners come in all types. Some are (YMCA, Artscape, etc.), while others have limited knowledge/energy/confidence in asset management (e.g. elderly congregations)

[7] Source: http://thecommonsinc.com/design/civic-assets/

This complexity and diversity makes it extremely hard to build a unified/core investment thesis for a fund. A "one size fits all" fund is therefore unlikely to work, as investors will need clarity regarding risk profile, capital requirements, capital type, and other factors. This implies, then that a civic assets fund may need to incorporate certain restrictions or sub-programs within one Fund umbrella (e.g. either restrict or separately classify investment options based on asset/built form, or applicant type, or the type of capital sought.

Many groups that own and/or operate civic assets include charities and not-for-profit (NFP) entities, a class of organization that relies heavily on grants and donations. Relying on these two forms of capital can pose challenges, as government grants decrease, and as organizations face significant volatility and increased competition when seeking donations. Increasingly, NFPs are looking to generate revenue in new ways, including the sales of mission-aligned goods and services, developing social enterprises, and the redevelopment, rejuvenation or preservation of civic asset infrastructure.

Despite a desire to increase revenue from new forms of capital, NFPs face a number of hurdles. Firstly, these organizations often struggle to access financing from traditional lending institutions. These lending institutions often are not used to financing NFPs or co-ops, and look for collateral or financial experience that many of these organizations lack. Even in cases where real assets could be offered as collateral, the socially purposeful business models of many civic asset projects (e.g. incorporating housing affordability, heritage preservation, etc.) may skew actual or perceived risk-return profiles and therefore create prohibitive investment terms.

A second challenge - Funders/financers that invest in real estate opportunities tend to gravitate to the relative simplicity of privatesector real estate transactions. The financial models/pro formas are known, as are the systems for analyzing and managing risk. Many of these investors also rely on their past experience financing similar projects.

Any investment type that does not fit into their analytical/decision making framework are considered "alternative" financing. Within alternative financing, either the capital costs are more expensive or terms more onerous relative to traditional financing, or financers/funders who offer competitive/cheaper capital place onerous and lengthy due diligence and stringent protections to compensate. Those civic asset owners that resemble the "known entity" (E.g. large players such as the YMCA) have a distinct advantage in securing capital than the vast majority of civic asset owners.

A third challenge – many civic asset owning NFPs are unaware of impact investors, and face significant challenges in identifying potential investors that suit their needs. Thirdly, NFP and charity staff and boards lack the financial knowledge needed to seek out new forms of financing. They might know that they need more money, but they don't know where to look, nor how to get investment ready. And finally, there is sometimes a mindset in the charitable sector of risk aversion and resistance to change Despite a significant increase in the discussion about impact investment amongst nonprofits and co-ops, to date, the majority of these organizations rely on donations, grants, and earned revenue from government contracts as their primary sources of revenue. Additionally, very few Canadian NFPs rely on credit (loans or lines of credit), and still fewer have engaged in venture philanthropy. Furthermore, many of these organizations still envision that their future growth will be financed by an increase in grants and donations, rather than an increase in the use of credit or debt.

CONVERTING CHALLENGES INTO OPPORTUNITIES

As part of Purpose Capital's research, interviewees were asked to offer strategies for overcoming the challenges noted above. These strategies offer guidance in the structure and implementation of a civic assets fund. Key strategies offered by interviewees included:

1. **Allow for diversity in both the sources and types of investment capital, and the civic asset projects that can access that capital** - The wide variety of civic asset types should be viewed by the fund as an opportunity rather than a detriment. The portfolio of projects that the fund invests in therefore should be attractive to a variety of investor types, from traditional real estate investors to the range of social-purpose driven investors (e.g. foundations, governments, private individuals that view themselves as impact investors).

2. **Fund management based on "Lived Experience"** – The variability and creativity in civic asset use is often anathema to the in-the- box mentality of fund managers, especially those that are staffed from the corporate finance industry. The reality of the NFP sector is simply not understood or misunderstood, and the tools in the NFP toolkit are often not valued or considered a detriment to financing (e.g. future cash flows that are reliant on grants or philanthropy is often not considered as a reliable source, especially compared to standard rental revenue). To overcome this, the fund management team (in particular those who are in a position to both structure and approve financing) should include those that have a lived experience within the NFP sector.

3. **Flexibility and alternative forms of assurance** – Since many civic asset investment opportunities may be perceived in investment parlance as alternative investments, the due diligence/security requirements of these investors may be prohibitive. A civic assets fund should therefore incorporate a due diligence methodology that factors in flexibility based on the realities of the NFP sector.

4. **Technical assistance layer** – with the wide variety in sophistication in financial transactions and/or asset management, interviewees suggested the need for a hands-on team to work alongside civic asset owners throughout the process of investment and post-investment execution. The Regeneration Works initiative out of the National Trust was offered as an example[8].

Proposed Civic Access Fund Design

CLARIFYING THE FUNDAMENTAL DESIGN PARAMETERS

At the most fundamental level, the design of a civic assets fund will need to answer 3 main questions:

1. **Return Expectation:** What type of financial return will the fund's investors require?
2. **Uses:** How (and in what) will the fund's capital be deployed?
3. **Sources:** What are the projected sources of capital for the fund?
4. **Form:** What legal structure and investment terms will best enable the intended uses and sources of capital?

[8] Regeneration Works: http://regenerationworks.ca

THE RETURN EXPECTATION

A crucial element in the design of a civic assets fund is clarifying the basic business model underpinning the fund. Core in the business model is determining whether the fund aims to generate a financial return to its investors.

The civic assets fund envisioned in this Concept Brief is one that has **a clear return expectation** – it cannot be a philanthropy-based fund. The rationale:

> The size of the need is too large for philanthropy alone. Though there is no comprehensive study on the market value of our civic assets, it is not unreasonable to envision the capital need in the billions. (A case in point – the United Church of Canada estimates that the capital need associated with "at risk" faith based properties owned by its congregations exceeds $5B CDN).
> Civic asset owners can benefit from forming healthy and mission-aligned partnerships with socially conscious but profitincorporated entities. Social enterprises, B Corp certified companies, impact-oriented investors and others have spent years building the business case that the profit incentive can act as a force for social good.

At this stage in the development of a civic assets fund, it is premature to mandate a certain return expectation. However, it is reasonable to set a goal for determining the type of returns the fund may be able to generate along the return spectrum. The fund will therefore need to segregate civic assets according to their underlying business model. At the most simplistic level, these two business models include:

> Civic assets with self-sustaining revenue potential
> Civic assets requiring ongoing subsidy

Business Model	Civic assets with self-sustaining revenue potential	Civic assets requiring ongoing subsidy
Revenue potential	Market-rate or near market-rate	Below-market rate or nominal
Expense requirements	Operations comfortably paid for via project revenues	Operations only partially paid for via project revenues
Profit potential	Sufficient to carry financing (e.g. mortgages, bonds, or other debt)	Reliant on funding + philanthropy to carry additional financing
Sample Scenario	A school property deemed surplus in an urban centre that has clear re-development potential (e.g. mixed-use unit sales, market-rate revenues)	A rural faith-based property where the space use is limited (e.g. minimal to no rental revenues, minimal to no re-sale potential)

POTENTIAL USES OF CAPITAL

At its core, a civic asset (as defined in this Concept Brief) is a real property asset – either a building, land, or a combination of land and building. Like owners/operators of any real property asset, owners/operators of civic assets (or those seeking to own/operate) will have 3 core capital needs: Capital to acquire a property, capital to renovate or re-develop a property, and/or capital to maintain a property.

A Civic Assets Fund that is looking to participate in acquisition financing could offer either equity or debt financing to support the current or future civic asset owner. Should a combination of debt and equity be used, a typical debt-to-equity ratio would likely range from 50-50 to 70-30 (depending on the state of the property and its current or future income generating potential. In either case, the Fund would need to expect the civic asset owner to secure the remaining capital. If debt is provided, equity would need to be secured, either via fundraising or by determining the residual land value of the asset, or a combination of the two. If equity is provided, debt would likely need to be secured from a private lender.

A Fund that participates in the renovation/re-development or ongoing operations stages may play a strategic role in **"bridging" the financing gap** that a civic assets owner may experience. Two approaches to this:

> **Subordinated Debt (Mezzanine Financing):** Also referred to as mezzanine financing, risk capital, or growth capital, subordinated debt is a type of debt that usually not supported by collateral. Subordinated debt is also distinct in that holders of this debt, in the case of default, are not paid out until after the conventional debt holders are paid in full. Ecotrust and Vancity Capital Corporation among others, offer this type of financing.[9]

> **Quasi-equity or "Patient" Capital:** Patient capital is a long-term debt or financial instrument with terms and conditions that do not require quick equity or debt repayment. This form of capital is highly desirable for organizations that struggle to access collateral (as this form of capital requires less collateral than other forms of capital) and those organizations needing a longer organizational development curve. La Fiducie du Chantier de L'Économie Sociale in Quebec developed a patient capital fund which offers a 15-year moratorium on repayment of the principal.[10]

POTENTIAL SOURCES OF CAPITAL

The Civic Assets Fund is underpinned by a clear social mandate. With this mandate, investors in the Fund would largely be those that also align to the Funds social goals. As such, the most likely investors to the Fund would be those generally captured under the umbrella of impact investors. The Section, Backgrounder on Impact Investment (above) provides an overview of the impact investment marketplace.

[9] Finance for Good. Social Impact Bond Tracker. http://financeforgood.ca/social-impact-bond-resources/sib-tracker/

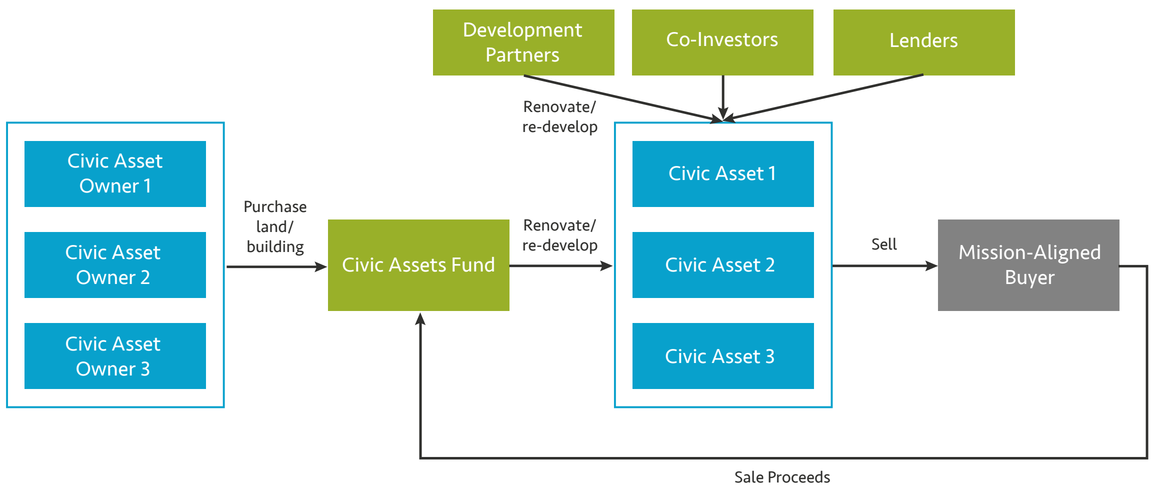
[10] Finance for Good. Social Impact Bond Tracker. http://financeforgood.ca/social-impact-bond-resources/sib-tracker/

POTENTIAL FORM

Given the return expectation noted above, a civic assets fund may take one of two forms.

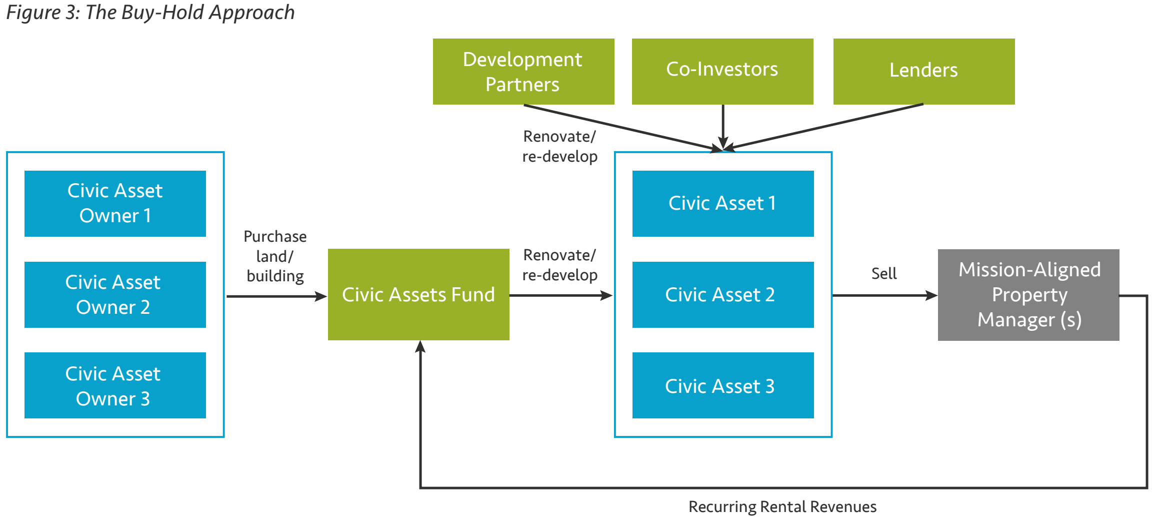
First, a fund may operate as a **"Buy-Sell"** fund. In a buy-sell approach, the fund would deploy capital to acquire all or part of a civic asset (either or both land and building). The fund would then provide the land/building to a partner, who would then oversee some form of enhancement to the asset (e.g. renovation or redevelopment). The fund would then sell the property to an "aligned" buyer (i.e. an organization governed by a clear social mandate), and the proceeds from the sale of the property would be recycled for investment in a future project. Figure 2 provide a visual representation of a possible buy-sell scenario.

Figure 2: The Buy-Sell Approach



Second, the fund may operate as a **"Buy-Hold"** fund. In a buy-hold scenario, the fund would invest its capital in a similar way as in buy-sell (i.e. acquire the asset and partner with a group that enhances that asset). However, in buy-hold, the asset is retained as part of its portfolio. Over time, a large and self-sustaining fund with multiple properties is build that holds properties in the long term, ensuring their ongoing use as civic assets. Figure 3 profiles a typical Buy-Hold scenario.

Figure 3: The Buy-Hold Approach



ADDITIONAL FORM CONSIDERATION – OVERVIEW OF CATALYTIC FIRST LOSS CAPITAL (CFLC)[11]

Investment in civic assets, as an investment opportunity, is often perceived as having higher financial risk. A civic assets fund must be creative in identifying and attracting a diverse range of investor types, and design a mechanism that can bring all of these investors together in a collaborative and mutually reinforcing manner.

A mechanism by which to bring these two investor groups together is what is known as Catalytic Capital. In the traditional investment world, an investment opportunity is typically targeted to only one specific category of investors that have one singular investment goal; Catalytic Capital, on the other hand, brings together multiple investor categories, each of whom has different investment goals. CFLCs encourage the flow of capital to these opportunities by improving their risk-return profiles, thus incenting others to invest.

CFLCs typically include 2 investor types:

- **Investors that are primarily seeking competitive financial returns:** These investors typically invest if there is a proper balance between risk and return
- **Investors that are primarily seeking social impact:** These investors are willing to accept below-market returns so long as a measurable social outcome is generated

Catalytic Capital works in the following way:

- One investor group (typically the "social impact seeking" investor) invests its capital and agrees to absorb a certain pre-set level of investment loss. In doing so, this investor group reduces the risk associated with the overall investment opportunity
- The second group of investors (typically the "financial return seeking" investor) invests its capital, typically a much larger amount than the first investor group. Due to the reduced

The first investor group therefore acts as a "catalyst" to stimulate the injection of new and significantly larger amounts of capital. An investment like affordable housing, which may otherwise be considered "too risky" to the more traditional investor, now becomes attractive and in line with other investments in the real estate market. The amount of Catalytic Capital needed varies, though typically represents anywhere from 10-20% of the total capital sought.

Catalytic Capital has three main features:

- **It identifies certain parties that bear first loss.** The amount of the loss covered is typically agreed upon up front
- **It is catalytic.** By improving risk-return, certain investors that otherwise would not invest become investors
- **It is driven by purpose.** The first-loss investors are motivated by social good and thus aim to channel commercial capital toward social/environmental projects that would otherwise not be attractive as an investment

For the first-loss investor, the value proposition includes:

- **Impact Acceleration:** The first-loss provider is typically a group that has as its mandate the advancement of a certain type of social or environmental impact. This group already allocates capital to this endeavour, though the ability to accelerate impact is typically limited. The ability to leverage new sources of capital can create a multiplier effect in the impact generated
- **Resource Optimization:** When commercial investors begin to engage in new markets that were previously out of scope (e.g. civic asset infrastructure), there is the potential that the market will begin to be seen as commercially viable in the long term. This can cause the potential for market growth and continued investment in the future without the need for first-loss capital.
- **Better Terms for Investees:** The reduction in risk for those investors that benefit from the first loss, and the increase in competition for capital in the new market, will also lead to better financing terms and conditions (e.g. lower costs of capital). This enhances the ability of the affordable housing projects undertaken by the investees to create both financial return and social/environmental impact.

[11] Content for this section sourced from the Global Impact Investment Network report, *"Catalytic First Loss Capital"* October 2013

For the market-rate seeking investor, the value proposition includes:

> **Satisfaction of Investment Parameters:** Many investor types are subject to specific risk-return parameters, some of which are imposed by fiduciary constraints. For instance, an investor of this type may be required to invest according to a specific level of risk for an expected rate of return. Without the enhancement that catalytic capital provides, investment opportunities like affordable housing may simply fall outside of these parameters, despite a desire or qualitative motivation to invest for social reasons.

> **Competitive Advantage:** Investors that understand catalytic capital and decide to invest may benefit from the "first mover advantage" that comes with wading into a new market. The investor may gain a new expertise and will be able to make stronger and more strategic investment decisions, further enhancing its portfolio.

CFLC EXAMPLE – NEW YORK ACQUISITION FUND

The concept of Catalytic Capital is not new – in fact, it has been used globally and in a range of sectors. One relevant example highlighting the use of Catalytic Capital in one possible civic asset use, affordable housing investment, is the New York Acquisition Fund in New York City.

The New York City Acquisition Fund (the "Fund") is a creative approach to addressing the need to finance affordable housing in New York City. The Fund is the result of collaboration among the City of New York, philanthropic foundations, the banking sector and financial intermediaries.

Since its launch in 2006, the Fund has raised $210MM across several housing types (see image below for a breakdown).

Figure 4: NY Acquisition Fund Commitments (as of 2014)

Project Category	Low-Income Rental	Mixed-Income Rental	Mixed-Income Homeownership	Preservation	Supportive Housing	Total
Units	1,500	71	29	2,600	1,000	**5,200**
Total Loan Commitments	$36 million	$2 million	$2 million	$140 million	$30 million	**$210 million**

The Fund provides flexible capital for land acquisition and pre-development to non-profit and for-profit developers that are building affordable housing across NYC's five boroughs. The financing takes the form of low recourse loans (typically 3 years at prime + 1.1%) with flexible underwriting criteria that bridge the period between site acquisition and construction closing.

The Fund is an example of Catalytic Capital at its best. The Fund is capitalized by 13 financial institutions as senior lenders, and 6 foundations as first loss capital providers. Of the $210MM pool, approximately $40MM is provided as a first loss guarantee pool from the foundation partners and the remainder is senior lender debt from the financial institution partners.

CFLC AS A MODEL FOR A CIVIC ASSETS FUND

CFLCs account for what is known as the "information asymmetry" challenge, whereby one side of an investment transaction has better or more information than the other. As noted in the "Framing the Opportunity" section, the wide ranges of knowledge and sophistication in real estate management and financing within civic assets owner/operators embody the information asymmetry problem.

CFLCs balance information asymmetry by intentionally incorporating different investor types into one investment structure. A civic assets fund based on a CFLC framework could, for instance, align local community foundations (via their investment committees) as capital providers alongside credit unions and other financial institutions.

A CFLC structure can also account for the "lived experience" challenge, as noted in the "Framing the Opportunity" section. A CFLC blends different investor types and different risk-return profiles, and thus the fund management team formed within a CFLC may be comprised of individuals who have spent their careers working within the NFP sector (perhaps as financial management staff within a community or philanthropic/family foundation), working alongside seasoned real estate investment professionals. With this investment team dynamic, financiers who may otherwise not understand how to properly assess nonprofit-led real estate projects can learn to build in more flexible due diligence methodologies.

Given info asymmetry, traditional financers may over-estimate riskiness of civic asset projects and therefore seek higher returns to compensate that are too costly. A CFLC allows for a re-balancing of risk perceptions. This is done both in the structure of the fund management team, and by "stacking" multiple forms of capital (e.g. grants for certain activities, cheaper financing for others) and the leveraging of other capital (i.e. reductions in risk profiles allows a group to secure additional forms of financing they otherwise wouldn't be able to secure).

HOW A CIVIC ASSETS CFLC MAY WORK

A Civic Assets CFLC may be modelled in the following way:

> **Catalytic Capital Provision** – Catalytic capital partners (governments, foundations, impact-oriented high net worth individuals, and other special-purpose vehicles) offer one or more forms of credit enhancement. Such forms may include:
  - Junior equity positions (e.g. common stock)
  - Grants (used to cover the costs of certain expenses or otherwise absorb loss with the goal of improving the return potential of an investment)
  - Loan Guarantees
  - Subordinated debt (most often the most junior debt position)

> **Traditional Capital Provision** – Traditional capital providers (private lenders, private equity groups, governments) perform due diligence on a civic assets investment opportunity. The credit enhancement is incorporated in their assessment of risk-return, thereby allowing risk-reduced investment options (either equity or debt)

> **Civic Asset Owners/Operators** – Owners/operators receive risk reduced capital from the fund and deploy it per a pre-set use. Given the involvement of the catalytic providers, the application process is streamlined and made simple (considering NFP and civic asset realities), and flexible repayment terms are offered.

Figure 5: Possible CFLC Model

CFLC PROS AND CONS

A Civic Assets CFLC is not a panacea though there are benefits to the model, there are also drawbacks. A sampling of these pros and cons:

Pros	Cons
> Accounts for info asymmetry between investors > Promotes investment partnerships > Reduces cost of capital	> Time consuming and complex to initially set up (requires lengthy negotiation and partnership formation) > Adds an additional party into the decision-making mix

Implementation Considerations

The potential for a civic assets fund is great. But it's implementation is complex. In Purpose Capital's experience, the best financing initiatives and fund designs have an element of learn/iterate-as-you-go. In this vein, we recommend a staged approach to building and implementing the fund.

> Stage 1 (short term) – Pilot via 1-2 civic assets investment opportunities
> Stage 2 (medium term) – Structure and capitalize the Fund based on pilot learnings
> Stage 3 (long term) – create added infrastructure (including the creation of a National Civic Assets Development Corporation)

Each stage is profiled in turn.In the Short Term...Pilot with 2-3

SPECIFIC INVESTMENT OPPORTUNITIES

As outlined through this Concept Brief, the tremendous variation in situation and financing need among civic assets owners/operators makes structuring a Fund today a significant challenge. In Purpose Capital's experience, the best mechanism to inform fund design is actual lived experience in financing projects that would be prototypical of the types of investments to be made by a future Fund.

In that respect, a realistic first step is to test the concept of investment in civic assets by piloting an investment approach in 2-3 specific investment opportunities. The mechanism for doing this needs to be systematic, and one that would lead naturally to informing Fund structure and the capitalization strategy. In other words, the pilot phase should be undertaken with the aim of building the specific selection and evaluation processes, decision-making frameworks, investee oversight and other features that could be repurposed as the foundation for the Civic Assets Fund.

Should this approach be undertaken, Purpose Capital recommends the following set of steps:

1. **Build selection and evaluation criteria for selecting 2-3 civic asset pilot sites.** As noted in the section, The Return Expectation (above), these criteria could focus on selecting either or both a revenue-generating asset and non-revenue generating asset

2. **Profile the need and investment opportunity.** This would require the development of tangible business cases associated with the investment potential of the pilot sites. This business case should include at least 3 core items:

   a. Development of specific pro formas associated with the property asset and its current and future potential. From these pro formas, an assessment of capital need (type of financing and required use of capital) can be determined.
   b. A profile of the social outcome to be generated and the potential impact that an investment in the asset could generate from a social impact perspective

c. Explanation of how the pilot sites intend to inform the design and deployment of the larger Civic Assets Fund initiative

3. **Assemble experimentation capital to be deployed in the pilot sites.** With these business cases in place, focus would shift to raising the financing needed for the pilot projects. This will require the development of an investment term sheet, designed with an eye to the future financing structure for the fund (e.g. equity/debt/mezzanine capital, and acquisition/development/operating stage financing). The amount of capital required will be dependent on the business case, however the total amount of capital to be raised should be realistically achievable (e.g. less than $5M)

4. **Deploy funds and oversee pilot outcomes.** This process may take 1-3 years, depending on the specific situation of the pilot site. During this phase, the goal would be to monitor progress, gain lessons and determine if the capital deployed had its desired effect.

IN THE MEDIUM TERM...STRUCTURE AND CAPITALIZE A CIVIC ASSETS FUND

Should the pilot phase generate positive results, focus should shift to structuring and capitalizing the Fund. At this phase, the fund design team can combine the lessons learned from the pilot, along with the key concepts discussed in this concept brief, to designthe business case and capitalization strategy for the Fund. See Proposed Civic Assets Design section (above) for more details.

IN THE LONG TERM...ESTABLISH A NATIONAL CIVIC ASSETS DEVELOPMENT CORPORATION

As noted in previous sections, interviewees informing Purpose Capital's research offered several insights informing how a civic assets fund may be rolled out. In assessing these insights, Purpose Capital proposes the establishment of a "National Civic Assets Development Corporation" (CADC).

A CADC is a modification of the affordable housing development corporation (HDC). Municipalities across North America have incorporated HDCs as part of their strategy to streamline and better achieve their affordable housing mandates. As a legal entity independent of any particular government or stakeholder group, a CADC (much like an HDC) offers the ability to build a core team of experts outside of the complex bureaucracies and policy frameworks that may otherwise hinder civic asset investment. More specifically, a CADC can offer a home for the CFLC fund, and can offer many other benefits:

> Aligning/strengthening of stakeholder involvement in civic asset development, within a social and economic investment context
> Leveraging government and non-government investments in civic asset infrastructure, and maximize investments from other governments and funders to create stabilized funding
> Maximizing the impact of development at both a national and local level
> Creating a stabilized civic asset strategy that is based on local needs and contributes to the local economy
> Advancing a coordinated vision for civic asset development and rejuvenation

CADC KEY ACTIVITIES

The preliminary research identified three interconnected pillars that underpin the real estate industry (and by extension, the housing and affordable housing sectors). The first pillar, **Land**, refers to the quality and starting value of the physical land asset to be developed. **Financing**, the second pillar, represents the investment needed to turn the land into a productive/profitable asset (rental property, retail/commercial property, etc.). The third, **Tools and Incentives**, represent the initiatives offered by a government authority to the asset owner which allow or help the development of the land to proceed.

All civic asset developments are dependent on the interplay between the three pillars of land, financing and tools/incentives. The design consideration that emerged from this finding therefore centres on the degree to which the CADC's business model integrates one, two or all three of these pillars.

In addition to these three pillars, interviewees highlighted a strong desire to have a civic assets fund offer technical assistance, complementing and supporting the work of those already working in the development sector. Activities could include:

- **Community convenor:** Convene community stakeholders to advance collaboration on civic asset development/rejuvenation challenges, new mixed use or focused projects, or policy matters;
- **Technical advisor:** Directly advising mainstream developers on projects, or developers on financing/development;
- **Knowledge broker:** acting as a knowledge portal for market data, and available grants, loans and development supports for housing projects.

There are a number of ways a CADC can offer technical assistance to civic asset owners to develop their assets. A CADC could focus on the following:

- **Planning and Development**
    - Foster developments outside of market interests but within community needs
    - Generate sufficient and sustained development
- **Financial**
    - A CADC can take on debt separate from the books of a government entity, based solely on conventional lending measures
    - Whether directly or through a related vehicle, create an investment conduit for investors seeking social and financial returns
    - Have greater ease in developing mechanisms for revenue generation and value/benefit capture, enabling some of the fruits of civic assets development to be reinvested in the goals of the corporation
- **Land**
    - Work with prospective developers earlier in land acquisition process
    - Begin strategic investigation of potential acquisition of surplus "bluefield" lands (former government and institutional lands), such as schools, hospitals, churches, etc. prior to notice of disposition

- **Organizational**
  - Build a clearer image and identity, so it is more likely to be a centre of expertise that can more easily establish a track record of delivery
  - Attract professionals willing to sit on its board and committees who have the focused experience necessary to govern a development company
  - Can change direction or increase the scale of implementation quickly and engage in quick decision-making.

These elements imply that a CADC may engage in a range of development activities.

KEY CADC STAKEHOLDERS

Like any corporation, a CADC will need clearly define its stakeholder base – including customers, collaborators and partners. A key focus of the CADC will therefore be to offer a clearly defined set of value propositions to each of its stakeholders and receive value (in the form of both revenue and social outcomes) in return.

Potential stakeholder groups for the CADC are:

- **Municipal Governments:** Municipalities could direct land, funding and financing instruments, and tools and incentives to the CADC. The CADC would leverage these mechanisms to help meet its municipalities local development targets (including affordable housing targets, revitalize and strengthen diverse and inclusive communities and stimulate economic growth). These arrangements could be established within the context of the CADC's governance model and within its service agreement with the municipality partners.
- **Property Owners:** A two-way exchange could take place with private, public and NFP civic asset owners interested in doing business with the CADC, or entities interested in becoming property owners. It could also include owners of older buildings interested in rehabilitation or redevelopment of their site with a view to incorporate some social purpose aimed at revitalizing and strengthening its neighbourhood. Alternatively, it could be owners of older buildings or land that are interested in selling their property to the CADC for a profit and/or public good.
- **Private Developers:** This could include private developers and builders interested in participating in the development initiatives undertaken by the CADC.
- **Non-Profit Community Organizations:** This could include civic asset operators interested in re-imagining space use, or simply to maintain current social purpose use. Faith groups, First Nations, social services, community health sector, and other community based organizations may be included. These organizations will be attracted to a number of the key activities the CADC undertakes, including technical advice.
- **Investors:** These customers could include businesses and individuals interested in investing in property owned by the CADC or innovative financial products/services. They include both mainstream financial institutions and social finance intermediaries and funders (e.g. local foundations), as well as private individuals interested in generating both financial and social (i.e. "blended") returns. The CADC offers these customers a mechanism that increases the attractiveness of affordable housing as a viable investment opportunity.
- **Citizens:** This includes individuals and families in need of rejuvenated civic asset spaces, especially those facing barriers (e.g. low and moderate income earners whereby the CADC provides or facilitates the development of affordable and market housing via creative new use of a civic asset). Citizens may also be directly involved in employment opportunities generated by the CADC through its development activities.

Glossary

Note: All glossary items are from either the State of the Nation Report[12]

- **Blended-financing model:** Transactions that combine both public and private capital investment.
- **Capital matching platforms:** Connect impact ventures, funds, investors and service providers by providing due diligence as well as matching services.
- **Community Bond:** The community bond is an interest bearing loan that is accessible to unaccredited investors and can only be issued by non-profit organizations.
- **Crowdfunding platforms:** Platforms allow social ventures and entrepreneurs to raise funds through contributions from unaccredited investors. These take the form of donations and pre-sales; outside of Canada there are also some debt and equity offerings.
- **Financial-first investors:** Investors who prioritize a financial return over a desirable social or environmental objective(s), such as commercial investors seeking close-to-market-rate returns with an intended social or environmental good.
- **Impact-first investors:** Investors who target social or environmental good as their primary objective. May allow a lower-than-market rate return in order to reach tougher social or environmental objective.
- **Impact investing:** An impact investment is an investment in a project, business or financial vehicle with the explicit intention to create a positive impact and generate a financial return. Impact investors seek to move beyond "doing no harm," and toward intentionally deploying capital in businesses and projects that can provide solutions to social and environmental problems.
- **Mission-Related Investing:** Mission investments seek opportunities to align a foundation's financial investments with the mission of the organization, while maintaining targeted financial returns.
- **Patient capital:** Allows for a long-term investment that may include flexible terms.
- **Program-related Investments (PRI):** Investments, rather than grants, made to a qualified investee. They are funded with money from a foundation's endowment funds, and for the primary purpose, not of income generation, but of furthering the foundation's charitable purposes. This type of investment can apply toward meeting the foundation's disbursement quota.
- **Social enterprise:** Organizations that employ market-based strategies to accomplish a social or environmental mission. Like conventional enterprises, social enterprises can provide goods or services (or both), and can operate in any number of sectors. They also take a variety of forms: they can be structured as a for-profit or non-profit organization, a co-operative, a mutual organization or a social business.
- **Social finance:** A broad approach to finance that includes investment strategies such as responsible investing, socially responsible investing, community investing, microfinance, social enterprise lending, venture philanthropy and impact investing.

[12] Ibid 3

Appendices

APPENDIX 1: FORMS OF IMPACT INVESTMENT CAPITAL

FORMS OF CAPITAL

NFPs and co-ops can access a wide variety of types of capital at different stages in their development. These forms of capital are briefly described below.

Equity financing: Equity financing can take two forms, internal and external sources of equity:

- **Internal sources of equity (Past Surpluses):** Past surpluses are the best source of internal equity. If the NFP has built up a surplus from the previous years, they may use that money to finance new expansion activities. This can be challenging, as many government funders will not release new funds until all have been used up. Another way NFPs can leverage internal equity is to create a trust fund, usually through the withholding of some percentage of funds generated through a fee-forservice offering. The trust can then be used to secure loans to fund expansion or growth activities.
- **External sources of equity (Grants):** Grant contributions are another form of equity that can provide much needed capital for organizational growth. Increasingly, granters are providing grants for organizational capacity building, and encouraging their grant recipients to think about social outcomes.[13]

Venture Philanthropy: This type of financing provides organizations with access to a combination of grants, technical expertise and entrepreneurial insights, usually by way of a long-term partnership with one or a small group of seasoned entrepreneurs or social entrepreneurs. Venture Philanthropy draws it's inspiration from the world of "venture capital", but is firmly rooted in the desire for social outcomes present in the world of philanthropy. Social Capital Partners is a local example of a venture philanthropist.[14]

Debt Financing: Traditionally, many organizations have struggled to access mortgages, equipment loans, or lines of credit due to an absence of collateral. In more recent times, innovative financiers have stepped in to fill this gap. Carrot Cache, a local community economic development fund in Canada provides loans to many NFPs by accepting multiple guarantors who agree to support the loans, should they go into arrears.[15]

Community Bonds (Debt financing): See Innovations in Social Finance Section (below) for complete description.

Social Impact Bonds (Debt financing): See Innovations in Social Finance Section (below) for complete description.

Subordinated Debt (Mezzanine Financing): Also referred to as mezzanine financing, risk capital, or growth capital, subordinated debt is a type of debt that usually not supported by collateral. Subordinated debt is also distinct in that holders of this debt, in the case of default, are not paid out until after the conventional debt holders are paid in full. Ecotrust and Vancity Capital Corporation among others, offer this type of financing.[16]

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[13] Carleton Centre for Community Innovation. The Utilization of Social Finance Instruments by the Not-For-Profit Sector. Hebb, Tessa. http://carleton.ca/3ci/wpcontent/uploads/3ci-Utilizing-Social-Finance-Report-August-16-Final.pdf

[14] Ibid 15

[15] Ibid 15

[16] Ibid 15

Quasi-equity or "Patient" Capital: Patient capital is a long-term debt or financial instrument with terms and conditions that do not require quick equity or debt repayment. This form of capital is highly desirable for organizations that struggle to access collateral (as this form of capital requires less collateral than other forms of capital) and those organizations needing a longer organizational development curve. La Fiducie du Chantier de L'Économie Sociale in Quebec developed a patient capital fund which offers a 15-year moratorium on repayment of the principal.[17]

In the table below, these forms of capital are compared according to their terms and implications for the investors and investees.

Financing	Instrument	Implications for Organization
Grants	Duration: Short-term Annual Payments: None Repayment: None	> High fundraising costs > Low entrepreneurial flexibility > Usually restricted use for predefined projects
Debt Capital	Duration: Long-term (3-7 years) Annual Payment: Interest payments (variable) Repayment: Yes	> Annual interest payments require predictable cash flows > Timelines vary and can match business model
Revenue-based Financing	Duration: Unlimited Annual Payment: Dividend (annual) Repayment: No	> Repayment according to organizational revenues > Can lead to very quick (or very long) repayment timeline
Social Impact Bond	Duration: Long-term (5 years) Annual Payment: Payment at predetermined repayment dates Repayment: No	> Very challenging to secure this form of financing (limited to a small > proportion of financing needs) > Provides risk capital at little cost to the organization
Community Bond	Duration: Medium-term (5-15 years) Annual Payment: Yes Repayment: Yes	> Can provide organization with a way to raise money from both > institutional and retail investors > Annual interest payments require predictable cash flows
Bridge Financing	Duration: Short-term Annual Repayment: Repayment: Yes	> Mandatory repayment > Used to bridge different financing timelines > Provides flexibility and predictability
Mezzanine Capital	Duration: Long-term (3-7 years) Annual Payment: Interest payments (variable) Repayment: Yes	> Mandatory repayment > Profit participation for social investor > Annual interest payments require predictable cash flows
Hybrid Capital	Duration: Long-term (3-7 years) Annual Payment: None Repayment: Depends upon structure	> Inexpensive financing instrument > Risk sharing with the social investor > Great structuring flexibility

[17] Ibid 15

INNOVATIONS IN SOCIAL FINANCE

As social finance gathers traction in Canada, new approaches and tools are being developed. In the section below, we describe four innovative forms and specific examples.

1

Community Bond: Community Bonds are securities issued by NFP organizations to raise debt financing. Organizations agree to pay investors a specific interest rate over the life of the bond, and return their capital at the end of the term. Often, community bonds are most effective for NFP organizations who have deep relationships with their communities and constituencies. The Centre for Social Innovation, a franchised social sector hub and co-working space, raised $6.5 million to purchase real estate by issuing a 5-year, 4% mortgage backed community bond; this bond was financed by several institutional investors, as well 56 individual investors - many of whom are their members/tenants.[18]

Sector of Greatest Use: Asset purchase

Most Common Use of Capital: Location-specific projects, such as to fund a solar farm, a new co-working space or otherwise[19]

2

Social Impact Bond: A Social Impact Bond (SIB) is based on a pay-for-performance contract in which the government agrees to pay for improved social outcomes. A partnership between investors, service delivery organizations, government and, potentially, an intermediary is established to tackle a specific social issue. If the solution achieves the agreed-upon social outcomes, the government pays the investors against a pre-agreed scale. As such, the risk of nonperformance is transferred away from the government to the investors, whose financial return is based on the achievement of outcomes.[20] In 2015, the Government of Saskatchewan engaged in a SIB designed to provide a supportive living home for at-risk single mothers and their children.[21]

Sector of Greatest Use: Youth employment & education, recidivism and early childhood development[22].

Most Common Use of Capital: Scaling of existing programming, or experimenting with new programming

3

Start-up Loans: Recognizing a gap in the early-stage investment pipeline, organizations and programs like the Youth Social Innovation Capital Fund[23] and the Ontario Catapult Microloan Fund for Social Ventures[24] have emerged. These funders provide low-interest loans of between $5,000 - $100,000 for early-stage social ventures. In addition to the loan, investees also receive strategic and financial support from their funders or strategic partners.

Sector of Greatest Use: Most sectors

Most Common Use of Capital: Hiring new staff, bridging funding gaps, purchase new inventory, or to invest in new technology or machinery[25]

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[18] Ibid 15

[19] Ibid 3

[20] Deloitte & MaRS Centre for Impact Investing. Social Impact Bonds in Canada: Investor Insights. Ciufo, Gianni and Jagelewski, Adam. (2014) Retrieved from: http://impactinvesting.marsdd.com/wp-content/uploads/2014/04/SIBs-in-Canada-Investor-Insights.pdf

[21] Government of Saskatchewan, "New Home for Single Mothers Opens in Saskatoon; Funding First of its Kind in Canada." (2014) https://www.saskatchewan.ca/government/news-and-media/2014/may/12/social-impact-bond

[22] Finance for Good. Social Impact Bond Tracker. http://financeforgood.ca/social-impact-bond-resources/sib-tracker/

[23] Youth Social Innovation Capital Fund. http://www.youthsocialinnovation.org/

[24] Centre for Social Innovation. The Ontario Catapult Microloan for Social Ventures. http://socialinnovation.ca/catapult

4

Blended / Hybrid Programs: Despite the emergence of many new social ventures to seed the impact investment pipeline, underdeveloped business opportunities remain in many sectors. To fill this gap, organizations like the McConnell Foundation have invested in laying the groundwork for future investments. The McConnell Foundation's RECODE program has provided grants to Canadian universities and colleges to develop ecosystems of social innovation on campuses[26]. Over time, the foundation expects to see an increase in the number of social businesses that launch (started by, or that employ, students) as well as greater access to social finance capital.

Sector of Greatest Use: Most sectors

Most Common Use of Capital: Talent development, investing in new technology or new machinery, hiring new staff etc.

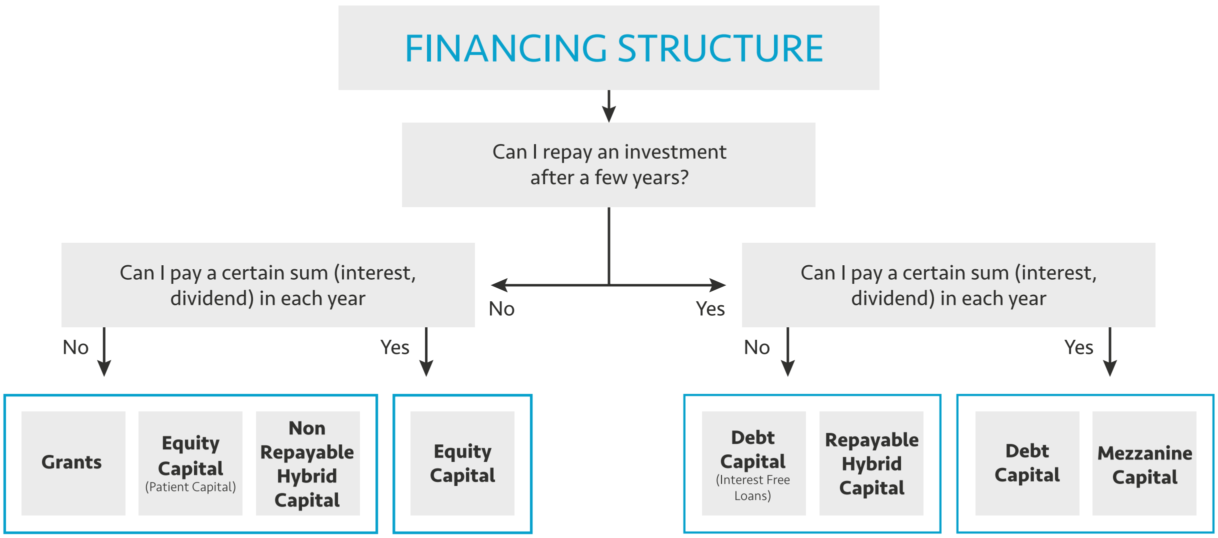
[25] Ibid 20

[26] McConnell Foundation. RECODE. http://re-code.ca/

APPENDIX 2: GENERAL CONSIDERATIONS IN NFP FINANCIAL STRUCTURING

To assist decision makers in selecting and structuring the type of financial tools best suited for their contexts, the figure below illustrates the major decision points for the investee.

Financing Options for NFPs, Co-Ops and Social Businesses. Adapted from the Schwab Foundation's Social Investment Manual[27.]



[27] Schwab Foundation. Social Investment Manual. (2011). Retrieved from: http://www.weforum.org/pdf/schwabfound/SocialInvestmentManual.pdf

APPENDIX 3: CASE STUDIES

CASE STUDY 1: THE CENTRE FOR SOCIAL INNOVATION

Centre for Social Innovation: At A Glance	
Organizational Form	Nonprofit (Est. 2004)
Sector	Co-working
Organizational Stage	Growth (asset purchase)
Financial Tool Leveraged	Community bond
Status	Repayment

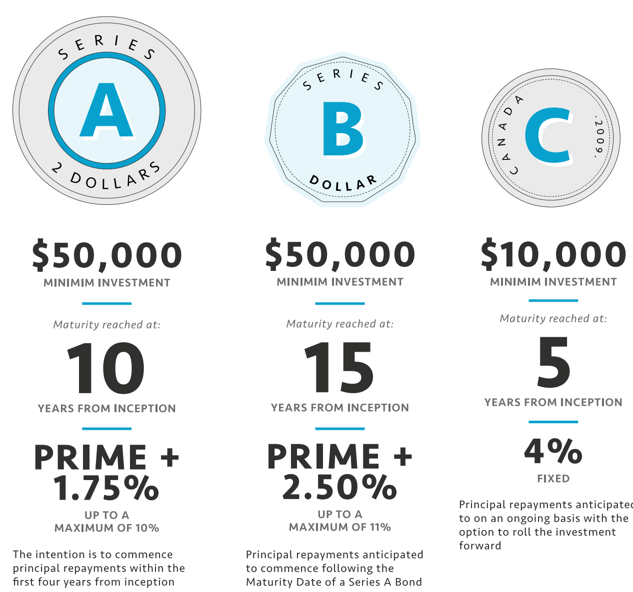
The Motivation – why did the organization pursue financing, and for what needs?

The Centre for Social Innovation, a Toronto-based co-working space, sought to raise $6.8 million to finance the purchase and renovation of a new building. Initially, CSI went to a bank, seeking a loan for the project, but was rejected given their limited collateral. Given that CSI was looking for financing for their fourth building, had a network of hundreds of members, and was wellknown by their community, this rejection was a significant shock, and required the organization to consider new, creative financing opportunities in order to fund the building's renovation and purchase.

Fortunately, after much negotiation, CSI was able to access a $4.8 million mortgage from a credit union and a loan guarantee from the City of Toronto. In addition, CSI recognized that one of their greatest assets was their "network capital" -- their dedicated membership who had been provided with great working space and a vibrant community because of CSI's efforts. Knowing this, CSI sought to leverage the power of their networks to raise the final $2 million through a community bond.

The Source – who provided the funding, and on what terms?
For the asset purchase, the Centre for Social Innovation was able to access a $4.6 million mortgage from Alterna Credit Union, supported by a loan guarantee from the City of Toronto. In the event of default on the loan, the City agreed to repay Alterna. While initially, the City didn't realize that it was capable of providing such a guarantee, after much research and considerable discussion, officials realized that they could in fact, guarantee the loan, and indicated that they were pleased to do so in order to support the community-led initiative.

The following $2 million needed for the loan, CSI sought to raise through the sale of a community bond. In total, the bond was sold to three medium-sized financial institutions (CAIC, and two others) and to 56 individual investors. CAIC and 10 individual investors purchased Series A bonds. These bonds, which had a minimum investment size of $50,000 had a 10-year maturity date and provided the investor with a return of prime + 1.75%. Two foundations and 7 investors purchased the Series B bond. These bonds, also with a minimum investment size of $50,000, will mature after 15 years, and provided investors with a return of prime + 2.5%. Additionally, Series C Bonds were purchased by 36 individual investors. These bonds, with a required minimum investment of $10,000, had a 5-year maturity date, and provided the investor with a 4% fixed rate of return.



Of note, in a subsequent community bond raising in 2015, the number of foundations invested in the CSI bond increased. Foundations who purchased the bond included The McConnell Foundation and The Harbinger Foundation.

The Design – how was the transaction designed, and executed?

CSI leveraged the digital tools and the expertise of TREC Renewable Energy Co-Operative to support the execution of the community bond. TREC has previously successfully raised a community bond, and thus was able to provide CSI with practical advice about the raise. Additionally, TREC had also developed a platform that could support CSI in receiving loans online, with very little friction for the investor. TREC was also called in to complete the bookkeeping associated with the investments. This decision was made, recognizing that TREC had already invested in developing these capacities in-house, and that CSI would be better served in focusing on its core functions -- providing community-powered coworking space -- rather than on developing more robust in-house bookkeeping practices.

The Results – to what extent did the organization meet its objectives?

CSI met many of its objectives in raising the community bond. First, they met their financial objectives, by successfully raising the full amount desired, and financing the purchase of a new building. Additionally, CSI met their community objectives. Many of the investors in the bond were also CSI members, a win for CSI -- an organization with a strong community focus.

The Lessons – what was learned by CSI and what are the implications for foundations?

Much was learned in the raising of this first community bond, including the following relevant lessons:

> **Foundations can be the toughest when it comes to due diligence:** CSI staff indicated that foundations were often the toughest investors to get signed on to the community bond, and were those organizations with the most lengthy and arduous due-diligence processes. For instance, one foundation required CSI to produce a 20-year plan -- a document with little basis in reality, recognizing the speed at which CSI has grown, changed and evolved.

> **Foundations can be the slowest:** Staff indicated that Foundations had the longest time horizons when exploring whether to invest. In some cases, this was due to the timing of Foundation board meetings -- which happened only quarterly in some cases -- dramatically slowing down their responsiveness. In CSI's second bond raising, one Foundation finally got the go-ahead from their board to invest after months of due diligence, only to find out that the bond had already sold out.

> **Foundations can provide significant capital:** Despite more challenging due diligence processes and longer investment cycles, foundations have the size of capital needed by organizations seeking to fund an asset purchase or substantial organization growth -- capital that is challenging to raise from individual investors alone.

> **Community Bonds are a better choice for NFPs than charities:** Through the process of establishing the community bond, CSI staff learned that the regulation to issue a community bond is significantly lower for a nonprofit than it would be if they were a charity.