

# Community Investment Funds How-to Guide

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## ABOUT US

The Community Social Planning Council of Greater Victoria is one of the oldest charitable organizations in the Capital Region, founded by citizens concerned with the impacts of the Great Depression in 1936. We are now working to create the next generation of vehicles for community development to respond to the new socio-economic challenges that our region and province faces. We believe that harnessing our own investment financing as a source of capital for affordable housing, local job creation, and environmental sustainability is just the type of community development innovation our region can achieve.

## ACKNOWLEDGEMENTS

The Community Social Planning Council would like to thank the Real Estate Foundation of British Columbia, Vancity Credit Union, and the BC Cooperative Association for their generous support for this project. The Council would also like to thank the many volunteer steering committee members, supporters, co-op and community investment advocates and allies who have contributed their time to this project.



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micro-lending  
investment  
debt  
funds  
control equity  
groans local  
housing impact loans jobs  
community bonds  
social enterprise  
finance  
co-operatives venture

**WELCOME** If you're reading this guide, you're one of a new generation of intrepid community entrepreneurs that are exploring how your community can keep hard-earned local dollars operating in your community for social benefit. Communities are increasingly looking for new sources of capital and ways to unlock existing ones so that they can be put toward community needs, like affordable housing, renewable energy, food system development, job creation and local business development and more. Community-sourced capital projects are an important part of a new movement for social finance that is taking off in Canada and across the world. Social finance is an approach to raising capital and investing that focuses on creating a strong social return to our communities, as well as a financial one.

This guide has been developed based on research and our experience creating a Community Investment Fund on Vancouver Island. This is a new area of work for many communities, organizations and volunteers and the process of starting up your own community-sourced financing vehicle is challenging and complex. This guide is meant to help ease the process and provide a starting

point for other communities throughout BC and elsewhere that are interested in developing their own community-sourced financing tools.

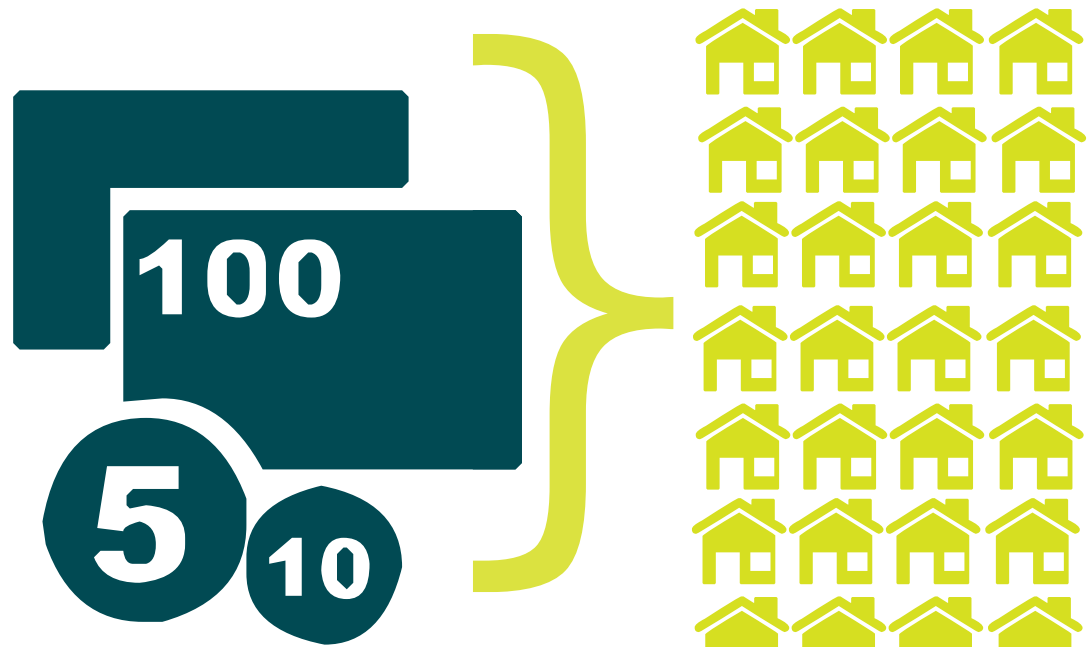
Please remember that for all of us these are new frontiers and this is still a work in progress. The information contained in this guide should not be construed as legal or professional advice. When you undertake your own journey, you'll need to be sure to consult your own legal, financial, securities and other professionals for advice.

We are particularly grateful to colleagues in Nova Scotia and Alberta for sharing their experiences with developing Community Investment Funds, and to members of the Canadian Community Economic Development Network and the Social Economy Research Program that was funded by the Social Science and Humanities Research Council of Canada. Information and evidence from those sources showed us the huge potential of social finance for community development and the need for us to start mobilizing the knowledge and experience of this growing movement, applying it to community and regional settings. In this way we can use social financing to build a more people, community and Earth-centred economy.



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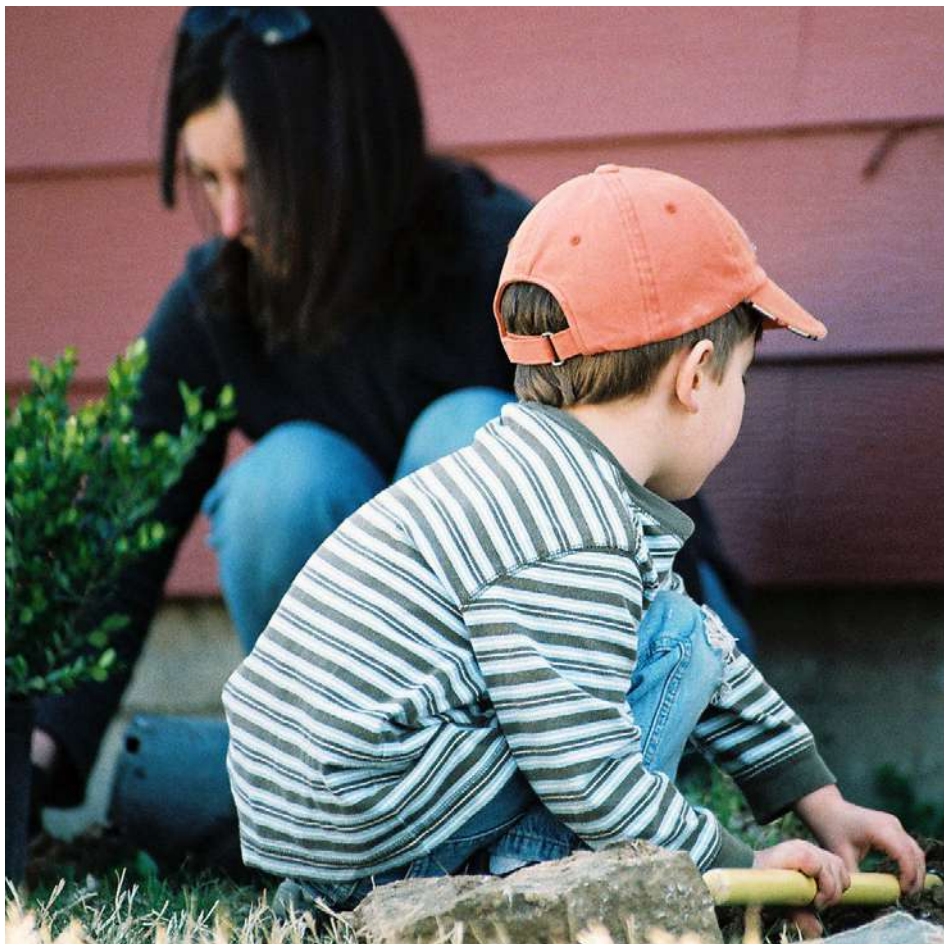
# introduction

The Vancouver Island Community Investment Co-operative is addressing two pressing needs on Vancouver Island: a need among affordable housing and social enterprise developers to access diversified sources of capital, and growing demand among local investors to see their investment dollars at work in their own community.

## AFFORDABLE HOUSING

Affordable housing developers are increasingly facing a financing crunch to develop new affordable housing, convert existing housing stock into affordable units and renovate or retro-fit existing units<sup>1</sup>. Conventional financing and existing vehicles address the need for ‘senior’ debt (first mortgages, up to normal loan to equity ratios, traditional financing), but research conducted by the Community Social Planning Council in 2011 identified that most affordable housing developers continue to face an equity gap. This gap is generally between the amount raised through grants and fundraising and through

a conventional mortgage. For many developers this gap can be the difference between a project going ahead or not. Affordable housing developers in this region have also identified a number of additional niche financing needs including bridge financing, financing for green upgrades, and financing towards ongoing building operations and important needs. Research conducted by the BC Non-Profit Housing Association has further demonstrated that while low interest rates are desirable, they are not absolutely necessary, rather flexible terms and debt coverage ratios may be more important<sup>2</sup> (BCNPHA, 2011).



**Ethical investment advisors, credit unions and local investors cannot meet the demand among their clients for opportunities to invest locally.**

## **EQUITY, DEBT AND SUBORDINATED DEBT**

Many affordable housing developers have identified access to equity capital as a key issue, as many are able to generate earnings over time but do not have access to up front capital (BCNPHA, 2011). Equity investments in affordable housing projects help improve the debt coverage ratio that many funders consider when making financing decisions. Subordinated debt can also help affordable housing developers advance projects by improving this ratio, as this type of lending is subordinated to first lender.

## **SOCIAL, GREEN AND COMMUNITY ENTERPRISE**

There is a well-documented need among social ventures for access to patient capital, both for social purpose businesses and social enterprises. The Task Force on Social Finance has identified that

social ventures generally require greater access to both debt and equity financing, with the biggest gap being in the area of 'equity-like' financing mechanisms (often in the form of subordinated debt). The capital gap for social ventures is most pronounced in phase between start up and expansion, when grants become less available but access to traditional financing is not easily accessible.

## **DEMAND FOR LOCAL INVESTING OPPORTUNITIES**

We hear time and again from ethical investment advisors, credit unions and local investment networks that they cannot meet the demand among their clients for opportunities to invest locally. In 2010, residents of Vancouver Island contributed over \$571 million to Registered Retirement Savings Plans alone; and yet very little of this invest-

ment makes its way into the type of community-based projects and small scale community enterprise growth that community investment funds are designed to resource. A relatively young Community Investment Fund in Nova Scotia has already captured 2% of their region's RRSPs and directed it into local projects. In Greater Victoria alone this would result in the creation of 36 units of affordable housing each year, enable small and medium size businesses to create roughly 13 new jobs, or help grow the revenues of several small businesses.

Currently, local investing remains largely out of reach for non-accredited investors. Securities regulations that have been established to protect investors from fraud have inadvertently cut off an important source of capital from our communities and forced most local investors to send their money out of the community.

<sup>1</sup>These retrofits have potential to yield significant savings to the units through energy updates, reduce maintenance costs, etc.

<sup>2</sup>BC Non-Profit Housing Association. (August 2011). Concept for a Revolving Loan Fund for the Non-Profit Housing Sector of BC. BC: BC Non-Profit Housing Association.

<sup>3</sup>Canadian Task Force on Social Finance. (2010). *Mobilizing Private Capital for the Public Good*. Canadian Task Force of Social Finance.

<sup>4</sup>Calculation based on Hellman and Volker's 2010 evaluation of the Venture Capital Program in British Columbia, which found that, on average, companies in the program raise \$1.3 M/year and add an average of 2.43 new jobs per year in the program.



### Edmonton Social Enterprise Fund ALBERTA

The Edmonton Social Enterprise Fund (SEF) was created in 2007, to address the need for non-profit organizations to access patient capital to develop and expand revenue generating activities and to be able to access interim (bridge) financing for social housing and real estate asset development. Loans are near prime and repayable over a term of up to ten years. Term length, interest rates and repayment structure varies based on the needs of the borrower.

To date, SEF has invested up to \$13 million in a little over two-dozen projects in sectors ranging from food security, social housing, culture, and the environment. More than \$2.5 million has already been paid back, and is ready to do more good in the community as new loans. The fund has 100% repayment record and does not maintain a loan loss reserve.




### Community Investment Funds in Action: New Dawn Enterprises NOVA SCOTIA

The Nova Scotia Community Economic Development Investment Fund program was the first of its kind in Canada and is the program after which most current efforts are modeled. The origins of the program began with the creation of the Nova Scotia Equity Tax Credit in 1993. The success of the Equity Tax Credit led the Province to develop an enhancement to the program, the Community Economic Development Investment Fund (CEDIF) program. There are currently 47 different CEDIFs in Nova Scotia.

CEDIFs are structured as share issuing co-operatives or companies that sell shares to the public and use the capital raised to re-invest in eligible local business. Investments in CEDIFs are pre-approved holdings for inclusion in a self-directed RRSP. Investors are eligible for an initial 35% tax credit for investing for five years; if they keep their investment in the CEDIF for an additional five-year period they receive an additional 20% tax credit, and another 10% if renewed for a third five-year period. In the last 15 years, the CEDIF program in Nova Scotia has captured more than \$43M in investment in local projects from more than 4000 individuals throughout the province.

New Dawn started with housing and real estate development, and now has an annualized budget of \$8 million, serving a region with a population of 100,000 people with a relatively low average income. The profit creating real estate company has 193 rental units, 4 commercial buildings, and 28 supported housing units.



# examples

## Examples of Financing Innovations for Affordable Housing and Community Real Estate Assets from Across Canada

The following pages provide some examples of community investment innovations from five different jurisdictions in Canada.

For more detailed case studies, please see the Appendices on our website: [www.communitycouncil.ca](http://www.communitycouncil.ca).



### **Ethical Investment: The Jubilee Fund MANITOBA**

The Jubilee Fund in Manitoba offers bridge financing and loan guarantees to community-based businesses (with a focus on co-ops, social enterprises, and small businesses), affordable housing, and community or social services (e.g. non-profit childcare centres, and training centres). The Fund was launched in 2000 by a coalition of Winnipeg-based faith groups, and is delivered in partnership with Assiniboine Credit Union.

The Fund is legally structured as a registered charity organization, and partners with Assiniboine Credit Union to maximize the impact of their financing. This is accomplished by combining conventional lending from the credit union with the higher-risk funding secured by the Fund. Investors purchase Jubilee Investment Certificates for a three or five year term and receive a return on investment at 2% below GIC. These are not guaranteed investments. The Certificates are processed by the credit union which acts as an agent for the Fund and in order to purchase an Investment Certificate, investors must also become members of the credit union.

The Fund has provided bridge and other types of financing for 11 affordable housing projects and 14 community projects, including community real estate assets.



### **Innovative Financing: Muttart Foundation & Toronto YWCA ALBERTA & ONTARIO**

In January 2012, the Muttart Foundation provided the YWCA of Toronto a \$1 million, below-market interest loan to support the capital costs of the YWCA's Elm Centre. The loan was issued for a ten-year term and pays 4% interest annually. The Elm Centre is a 300-unit affordable housing complex for at-risk and low-income women and their families, and a community hub with meetings spaces, a restaurant, women's resource centre, a 200-seat auditorium, and is also the headquarters for the YWCA of Toronto. The Elm Centre is the largest affordable housing development that has occurred in Toronto over the past decade and is the only one of its kind for low-income, and at-risk women and their families.



### **Regional Housing Trust Fund BRITISH COLUMBIA**

The Capital Regional District created the Regional Housing Trust Fund (RHTF) in 2005, to address the growing need for affordable housing for low-to moderate-income households.

The fund provides capital grants for the acquisition, development and retention of affordable housing units for households with low-to moderate-income in the Capital Region. The 13 municipalities that make up the Capital Region voluntarily contribute to the fund. When the RHTF was launched in 2005, only six municipalities contributed to the fund. As of 2014, thirteen (13) of the region's participating municipalities contribute a total of \$925,300 to the fund annually. As of 2013, the fund granted close to \$6 million towards new construction, acquisitions, retention of units, and renovations for a total of 478 units of affordable and social housing for over 150 families, and over 300 singles.

# the process

This diagram provides a basic overview of the Community Investment Fund Development process from idea to closing date.



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## Get Started

When you're getting started you will want to: assess the needs and opportunities in your community, build your project team, and create excitement for your project. This is a critical time to define your niche and your target investors, supporters and partners. Community

capital projects are most successful when they are started and guided by people from that community. These are people who know the issues, histories and relationships, and where to turn for help when it's needed, so make sure to start in your own backyard.

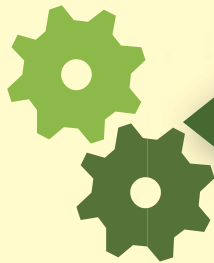
## Create Investment

In order to thrive a community investment fund needs a strong business model. This relies on good, financially viable projects that fit with the mission and goals of the fund and so in this stage you'll want

to begin assessing what projects are out there in your community that are both in need of community capital and ready to take it on. At same time, you'll need to assess what types of investments that people in your

community will be comfortable putting their money towards. Consider: what return, conditions and commitments you want to place on the investments you offer. Start with an idea and then seek feedback and refine.

2



3

## Develop Structure

A community investment fund relies on a legal and organizational structure to guide its activities – this guide deals with our experience in creating a

community investment fund co-operative. In this stage you'll want to familiarize yourself with business structures, review the relevant legislation and regulation,

ensure that your activities will be considered RRSP eligible investments, and engage supports to help you build your organization, its founding documents and policies.

## Sell the Opportunity

Selling investments in your community investment fund is as much about relationships and conversation as it is about having the right marketing plan and documentation available: both are critical. In this phase you'll need to provide investors the information they need to make an informed decision about investing with you – this means

documentation, documentation, documentation. You'll also want to develop an outreach and marketing plan that matches your resources and community, and leverages your networks and volunteers in support of your effort. Finally, you'll need to ensure you have the administrative processes in place to support and track investments in your fund.

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# getting started

This guide focuses on our experience developing a Community Investment Fund: a specific type of vehicle for raising and investing community capital. In the following sections we'll explain our model and how you can create one in your own community.

## ASSESSING COMMUNITY NEED

First it's important to think about whether this is the right vehicle for the **needs** and **opportunities** in your community. When we began to think about creating a community investment fund locally we already knew that there was a real shortage in the number of affordable housing units in the region. We also knew through our networks that access to capital was a significant barrier to developing units in the region. We tested this hypothesis by interviewing housing providers and policy makers, who affirmed our thinking. You can read our "pre-feasibility study" called *Social Finance Options for Affordable Housing in BC's Capital Region*, available at: [www.communitycouncil.ca](http://www.communitycouncil.ca).

From what we knew of projects like the Community Bond offerings created by the Centre for Social Innovation and the YWCA of Toronto, we were aware that non-profit housing developers *could* raise capital from the community themselves through a bond but in our region this wasn't happening. For many (often small) developers, community bonds (like most forms of non-traditional capital raising) seem complex and expensive. We asked ourselves, "*is there a way of reducing the cost of raising capital from the community by combining efforts in one investment vehicle that can be used for multiple projects?*"

As we began to research different community capital models, we quickly learned that some of the most successful models out there, like New Dawn Community Investment Fund and the Edmonton Social Enterprise Fund, tend to raise capital for a

**"Is there a way of reducing the cost of raising capital from the community by combining efforts in one investment vehicle that can be used for multiple projects?"**

mix of project types. Most of these examples are set up to raise money for affordable housing, social purpose real estate projects, and social and community enterprise development and expansion. We began thinking about how best to create a community investment vehicle that could help reduce the cost of raising community capital by allowing it to be used multiple times and for a range of different types of projects in the community.

It's worth considering also that affordable housing and social purpose real estate projects have a different risk and return profiles than social and community enterprise start up and expansion. You want to consider what it means to your potential investors to combine these in one investment vehicle, and may want to consider setting clear targets and proportions of your portfolio that will come from each of these project types.



## POINTS TO CONSIDER

ARE YOU hoping to raise capital for one project or many?

WHAT TYPES of projects do you want to raise capital for? Is it for housing only or a range of projects?

WHAT ARE the advantages and disadvantages of combining project types in one investment vehicle in your community?

## ASSESSING THE OPPORTUNITIES

The other side of creating a community investment vehicle is to think about the opportunities in your community that you can leverage for this project. Another way of thinking about this is to consider, *who are your target investors?*

We wanted to make sure that we weren't duplicating efforts or competing with other groups that were already meeting a need in the community. Right at the beginning of our process, we did a quick scan of other investment and philanthropic programs in the region. What we found was that:


- There are already ample ways for individuals to make philanthropic contributions to projects in their community.
- Accredited investors<sup>5</sup> (loosely those of high net worth, see below for definition) are able to easily invest in projects and businesses in their community today, and regionally there were programs specifically designed to attract investment for high social value projects from accredited investors.
- Non-accredited investors are virtually unable to invest in projects in their local community. This is because of a complex securities environment that has been designed to protect average investors from losing their shirts – and that's a good thing! However, in the process of protecting non-accredited investors, an important source of capital has been cut off from our communities.

## Residents of Vancouver Island invest over \$550 million in their RRSPs each year – most of this leaves our communities

Mutual funds and RRSPs provide a way for non-accredited investors to save for their retirement and invest in a range of activities, however, much of the money that we invest in these funds does not stay locally in our community. In fact most of it, even if invested in "ethical funds" leaves the region and is invested in large companies and projects far away.

In fact, we found that on Vancouver Island over \$550 million<sup>6</sup> was potentially leaving the community through RRSP savings each year. If we could capture just a small portion of that to reinvest locally, think of the impacts!

Focusing on non-accredited investors also fit well with our mandate as a community-based organization with a Vision of *"Sustainable and inclusive communities creating their own social, economic and environmental futures"* and focused on



community development and economic democracy. So with that, we focused our efforts on creating a vehicle that would be available to accredited and non-accredited investors alike.

As a means of tapping in to community-based sources of investment capital in your community, you may also look at the readiness of some key institutions and organizations to try out a new way of working with community to support local investment.

- **The City of Toronto** partnered with the Centre for Social Innovation to support their community bond project by underwriting their mortgage on the space.
- **The City of Edmonton**, the Edmonton Community Foundation, and the United Way of Edmonton partnered to capitalize a multi-million dollar Social Enterprise Fund.

Conduct an environmental scan or interviews with some groups like this in your community to see if they are thinking about innovative community financing projects. These groups are a wellspring of expertise, large networks, and access to capital that cannot be underestimated.

In our case, our initial conversations suggested to us that many of these institutions were intrigued and supportive of our efforts but that they were not likely to be the first adopters of such a new and innovative project.



### POINTS TO CONSIDER

**WHO IS your target investor?**

**WHO ELSE is doing something similar in your community and what needs are they meeting?**

**WHAT opportunity is there to engage other organizations and institutions?**

<sup>5</sup>Accredited investors include: individuals who have at least \$1 million in financial assets (cash and securities); individuals with net income which exceeds \$200,000 (or \$300,000 with spouse – most recent 2 years); individuals who have at least \$5 million in net assets; corporations, limited partnerships, trusts or estates having net assets of at least \$5 million; financial institutions; registered advisors or dealers; pension funds; certain mutual funds.

<sup>6</sup>Statistics Canada. Table 111-0039 Registered Retirement Savings Plan (RRSP) contributions, by contributor characteristics, annual.



## PAUSE & CHECK IN

Before you go any further than this you might want to pause and check in with your group make sure you're clear on some key points before proceeding, namely are you clear about who are your potential customers

and what is the unique product you are offering. We say this because we've seen many groups (including our own) get bogged down in technical, legal, and feasibility work early on in the process. Before you invest

significant time and energy in these activities its worth building excitement and making clear your business proposition. Our friends who have been running incubators for community-based businesses suggest

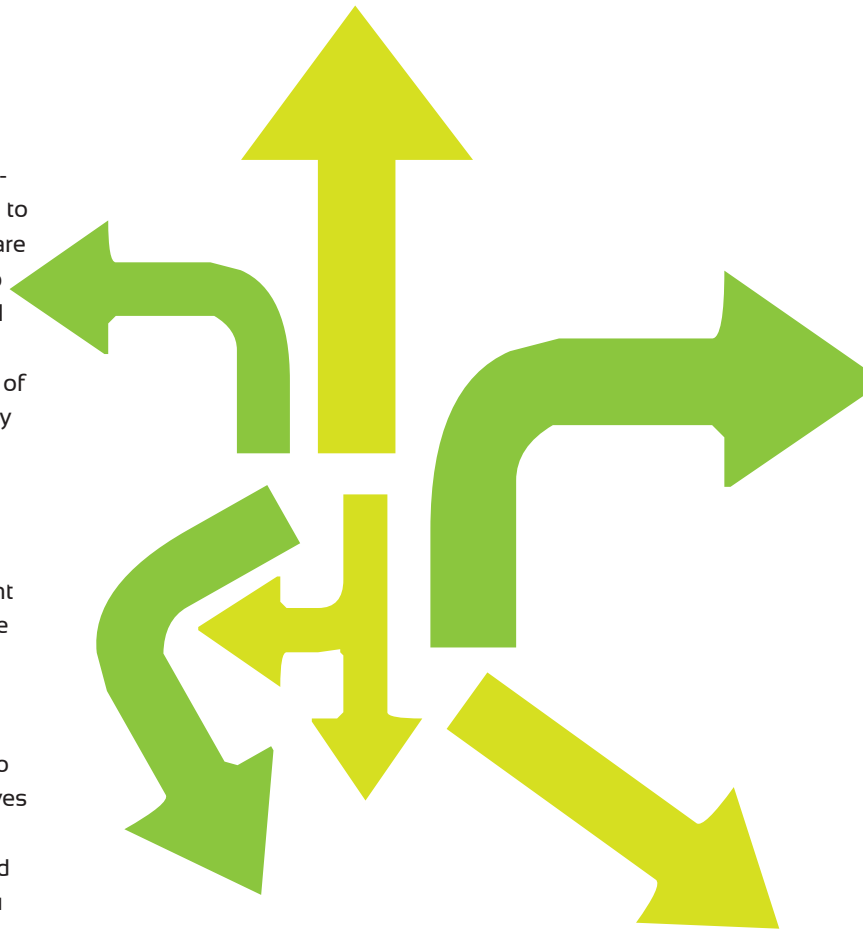
that this has helped them see more businesses launch better and faster. You might want to check out the **Lean Business Start Up** as one model and set of resources to help you do this: [theleanstartup.com](http://theleanstartup.com)

## TARGETING THE RIGHT SCALE AND MANAGING SCOPE CREEP

Since the beginning we've been amazed with the energy, excitement, and possibilities for our initiative. This is a happy problem to have but it is also important to be clear on the opportunity you are trying to create, for whom, and why. Don't try to be everything to everyone. There are lots of shortcomings in our current financial system and ways of creating and retaining investment in our communities. Community Investment Funds can address a few of these but they are not going to resolve all of them. A Community Investment Fund is a vehicle for non-accredited investors to invest locally in community projects. It is available to other key groups, like accredited investors, institutions and local governments, but these are not its primary audience.

When we originally looked at different community investment models and community loan funds in Canada and elsewhere we quickly realized that many of these have high transaction and operating costs. This is because many of the projects that they are working to invest in (or loan to) are themselves small and in need of assistance to grow and develop. There is a strong pull to invest in helping your community partners develop their initiatives (sometimes this is called providing "technical assistance") but be cautious, the experience of many funds is that this has pulled them away from their core mission of community investing. You might want to look around and see who you can partner with in the community to deliver this support to potential projects.

You'll often hear from traditional financial sector and even social finance representatives that a community fund needs somewhere between \$5-10 million to be financially viable. However, there are many ways to mitigate against this. We have set aggressive but achievable growth targets based on the demographics and needs in our community and based on the experience of other similar initiatives. We project that we will be able to achieve a scale that is within this range within seven to eight



years. We have also consciously designed our initiative to have as light as possible of an administrative footprint. Our Community Investment Fund will be designed to scale up activities and then scale back at key points throughout the year and will share resources with the parent organization (the Community Social Planning Council) to lessen operating expenses.

Community Investment Funds are true grassroots initiatives and are likely to be primarily volunteer-driven for many years – so don't underestimate the work you will put in.



## BUILDING YOUR TEAM

By now you already have, or should be close to identifying a group of individuals to see your community capital project through. Community capital projects are most successful when they are started and guided by people from that community: the people who know the issues, histories and relationships, and where to turn for help when it's needed.

Community capital projects like our Community Investment Fund initiative are embedded in what's often called the relationship-based economy. These build on, and contribute to, the social capital in a community. They are built on relationships of trust, local knowledge and mutual support. In fact, these factors are a key differentiator of community investing from more traditional investing and a critical success factor in helping to overcome some of the cost and management challenges that small projects like these often face.

We started out with a relatively large group of supporters and stakeholders who acted as an advisory group to help form our idea and initiative. Once we got to a state of readiness we consulted with our advisory group and then focused on working with a smaller number of individuals who became our founding board. Working with the larger advisory group was critical as we crowd-sourced ideas and resources and then working with a smaller more targeted group was important to allowing us to drill in to some of the finer details.

Our advisory group was made up of representatives from:

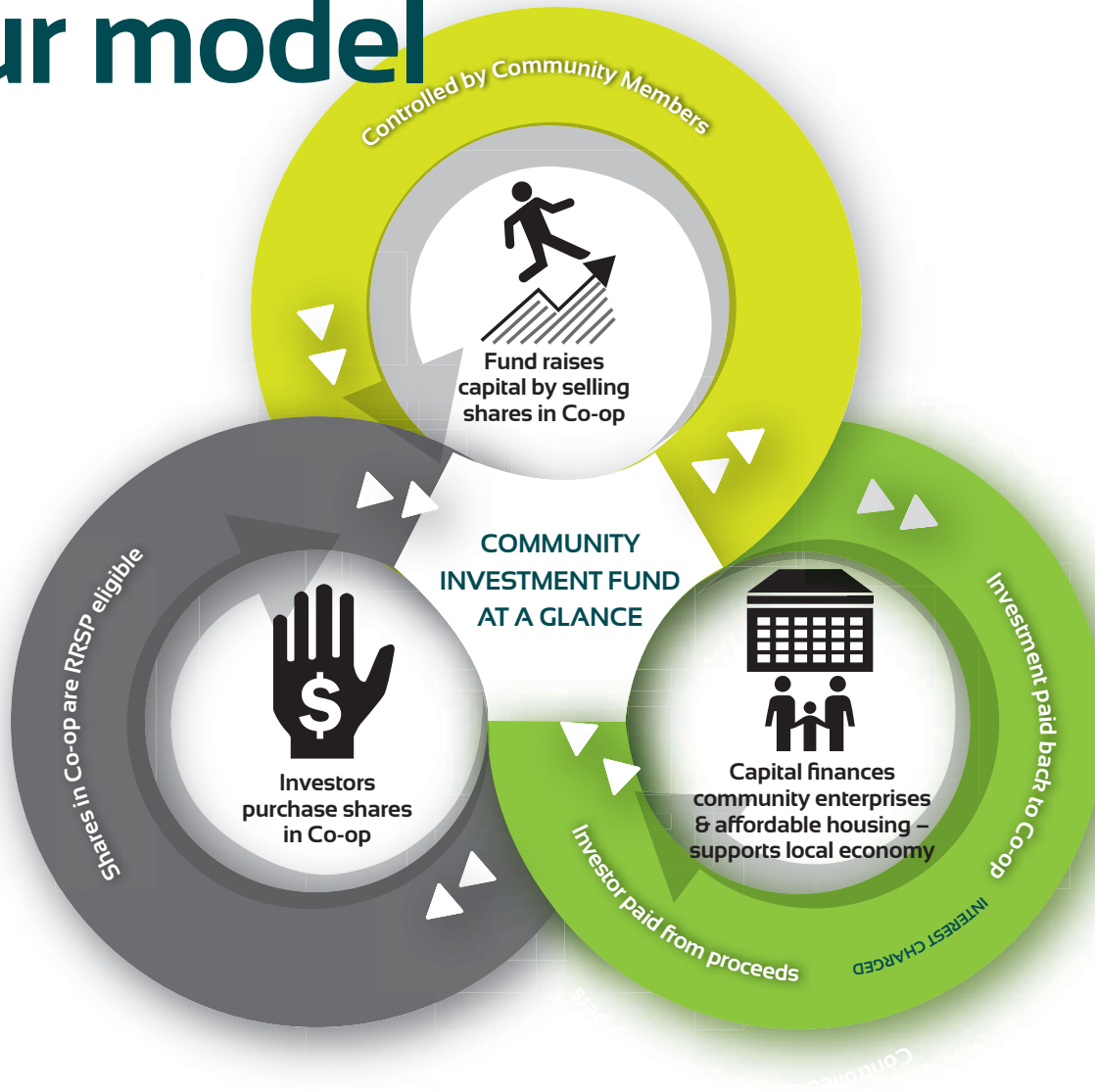
- Non-profit leaders
- Affordable housing developers
- Community activists and the faith community
- The business community and Chambers of Commerce
- Financial institutions
- Socially minded venture capitalists and angel investors
- Ethical Investment Advisors

Looking back, there were also a few groups that we didn't have on our advisory committee that we would recommend that other communities looking to start such an initiative consider having:

- A lawyer
- An accountant and/or someone with knowledge of business valuation
- A Foundation or local government representative
- A communications expert

You're going to be breaking new ground together, so regardless of who and how you choose to bring people together, the most important factor is to be sure you are all committed to the same goals and ready to see it through. We found that, because what we were doing was so new and needed a fair bit of new research, it was important to have an anchor organization to hold and steward the initiative along. We were able to access grant funding to research and develop our idea, you might consider where you might access support for your own development process.

# our model



## A COMMUNITY INVESTMENT CO-OP

Our Community Investment Fund is a legally incorporated for-profit co-operative under the BC Co-operative Act, officially called the Vancouver Island Community Investment Co-operative.

The goal of the Fund is to raise capital from local residents to invest in local projects, with a focus on affordable housing and business development and expansion with high social returns. Individual investors purchase investment shares in the co-operative and the proceeds of these are used to invest in projects in the community that meet the goals and mandate of the Fund. Investment is open to members of the co-operative.

As with any complex project, you'll want to be clear on the key roles and responsibilities of everyone involved, both from a governance and day-to-day management perspective. At a minimum, you will likely have a Board of Directors that is

responsible for setting the overall direction and governance of your initiative, and an Investment Committee with financial and business expertise that will review all potential investments to ensure they are sound projects. We also identified the following key roles that we needed for our project (you may be able to fill some of these internally and others you may need to seek additional support for):

- Community engagement and partnership development
- Overall project management and completion of all documentation
- Communications and campaign support
- Financial services
- Administrative services
- You can find a full description of the Key Roles and Responsibilities for our initiative in the Appendices.

# the investment

In order to thrive a community investment fund needs a strong business model. This relies on good, financially viable projects that fit with the mission and goals of the fund.

## IDENTIFYING THE PROJECT(S)

The co-operative looks for potential projects in the community that would be a good fit for the Fund. The co-operative might look for one or more projects to invest in at one time. It is critically important that these projects ('the investees') must be financially viable projects that fit with the mission and goals of the Fund.

Once the co-op has identified potential projects and done due diligence on them, the co-op begins the process of raising capital from the community for the projects. In thinking about how to set a target dollar amount to raise from the community, the co-op considers both financial *needs* and the *potential* to raise capital for this project from the community. An important consideration is what networks and resources the investee project brings to the effort.

The co-op will need to consider *how much capital* it will seek to raise for the project, and at what rate and under what terms it will lend or invest in the project. The co-op must figure out what *return* it will need to achieve on its investment in order to enable it to cover operating expenses and pay investors a financial return.

## CREATING THE INVESTMENT OPPORTUNITY

The co-op will also need to look at what conditions and commitments it wants to place on the investment shares it is selling to raise the capital.

What is the minimum investment that someone can make in the project? Most of the community finance projects we looked at suggest that a minimum investment of \$5,000-\$10,000 is needed to keep administrative and operating costs manageable. However, there are non-profit community loan funds that raise loans from individuals in the community and accept smaller amounts.

You'll also need to look at what financial return you're aiming to provide to investors. There is no magic bullet to figure out what to offer. We looked at what other community-based investment funds and opportunities were offering, what traditional mutual funds and investment vehicles offered, what the co-op could afford, and we talked to people in the community about what return rate they would need to consider investing.

Another key consideration at this point is how long does someone need to keep their money invested with the co-op before they can redeem it. This is an important consideration as community investment funds that have a smaller overall base of capital are not usually in a position to fund investor redemptions against other sources of capital. This is also important because the projects you will invest in through your Fund may require access to the capital for longer periods of time as well; a key need among many housing providers and social enterprises is access to what is called *patient capital*. The longer investors commit to their investments, the more patient you can be with your investee projects.



### POINTS TO CONSIDER

HOW MUCH capital do you need to raise to make a difference to the project?

HOW MUCH capital is there the potential to raise for this project?

HOW MUCH capital does the co-operative need to retain to cover its own expenses?

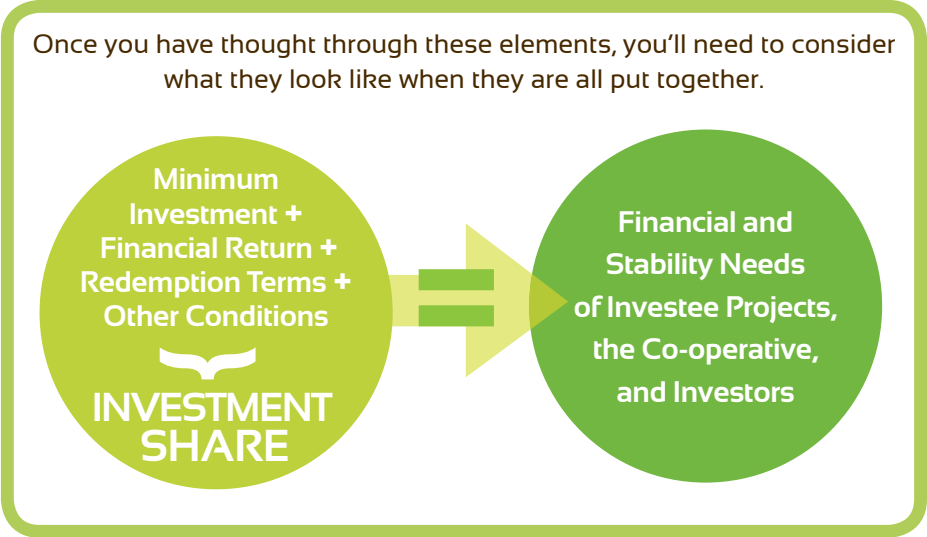
WHAT IS the financial return you are targeting for the investor?

WHAT IS the minimum amount someone can invest?

WHAT IS the minimum time that someone can invest for?



Designing your investment offering is an iterative process. You'll want to start by looking at your and your investee/borrowers' financial needs, as well as what you think you can provide in terms of a return to your investors, but then you'll want to go out and test this with some key people in your community before finalizing your offering. You may do this several times. There's an important lesson and caution here too, and that is that there is a big difference between what people say they will support and what they will actually do when it comes time to invest (sometimes called the "conversion rate" and so its important to approach these conversations with some caution.



## PROJECT-BY-PROJECT OR BLIND POOL?

You can design your investment offering in many different ways and a key consideration you'll want to make is: are you asking people in your community to invest in one or two specific

projects for which you are raising capital, or are you asking them to invest in a "blind pool" in which their investment is pooled with others and used to invest in a range of projects that meet social, environmental

and economic targets as you define them. There are important pros and cons for each approach. Project-by-project investing makes it easier for investors to 'see' exactly where their investment is going whereas blind

pools allow your co-op more flexibility and require less updating of your securities filings (see sections below for more information). You'll need to assess in your community what local investors have an appetite for.



# develop structure

**A community investment fund relies on a legal and organizational structure to guide its activities – you will need to choose a legal incorporation structure to map your activities.**

## WHY A CO-OPERATIVE?

If you're interested in developing a community investing vehicle in your community, you'll need to choose a legal incorporation structure to organize your activities. Of course, there are lots of options to choose from: ranging from traditional charities to for-profit partnerships, to the new Community Contribution Company form in BC and co-operatives. There are pros and cons to each of these that you'll want to consider with your local stakeholders.

For us, from the outset we've positioned our work to create a Community Investment Fund in a larger set of goals around bringing the economy back to the people. This is about economic development at a human scale. We wanted a legal structure and governance model that reflected these principles of democracy and participation. On a practical level we also knew that RRSP eligibility is a critical factor for

many average investors and so wanted a structure that easily allowed investors to include investments in their self-directed RRSPs while still being as straightforward as possible to set up and administer. Luckily we found that the co-operative structure accomplished both goals.

## WHAT IS A CO-OPERATIVE?

A co-operative is a legal business structure, just like non-profit or for-profit companies, but a key difference is that a co-operative is owned by its members (who could be people who use the services of the co-op or its workers). The laws for forming co-operatives differ from province to province so be sure to check your local legislation.

All co-ops globally follow the **International Co-operative Principles**.

### The International Co-operative Principles are:

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training, and information
- Co-operation among co-operatives
- Concern for community



## POINTS TO CONSIDER

**WHO** are our members?

**WHAT IS** the service we provide to members?

**WHAT DOES** it cost to be a member?

**WHAT IS** the membership share structure going to look like?





## POINTS TO CONSIDER

**CAN** non-members invest with the co-op?

**HOW WILL** we ensure member and investor confidence and needs are met?

**WHAT IS** the Board and governance structure?

### DID YOU KNOW?

**Co-ops are more stable than traditional businesses. A 2008 Canadian study found that after five years of operation co-ops were almost twice as likely to still be operating, compared to traditional businesses.<sup>7b</sup>**

Developing the structure for your co-op is sort of like a project within a project. It takes time, resources, and a work plan to do this properly. Fortunately there are lots of resources to support you in doing this.

- The **Canadian Co-operative Association** has a list of resource guides and tools to help you start your co-op: [www.coopscanada.coop/en/coopdev/StartCoop](http://www.coopscanada.coop/en/coopdev/StartCoop)
- The **BC Co-operative Association's Momentum Centre** offers advisory and support services, education, financial support and toolkits: <http://bcca.coop/momentum>

- The **BC government** has template documents and instructions available online: <http://www.bcregistryservices.gov.bc.ca/bcreg/corppg/reg59.page>
- **DevCo Development Co-op** supports the development of Canadian Co-ops through technical assistance, business planning, strategic coaching, and more.

[www.bcca.coop/member/devco](http://www.bcca.coop/member/devco)  
With all of these resources out there, we won't spend too much time here discussing how to develop your co-op. The key points we considered initially are listed below.

### CO-OPERATIVE FOUNDING DOCUMENTS

At a minimum, in order to formally register your co-operative you will need to draft four sets of documents<sup>7</sup>:

1. The **Memorandum of Association** includes basic information about the co-op, its purpose and its share structure. The Memorandum needs to be signed by the "subscribers" (the founding members of the co-op).

You need a minimum of three subscribers and provide their name, address (location address, not postal boxes) and occupation.

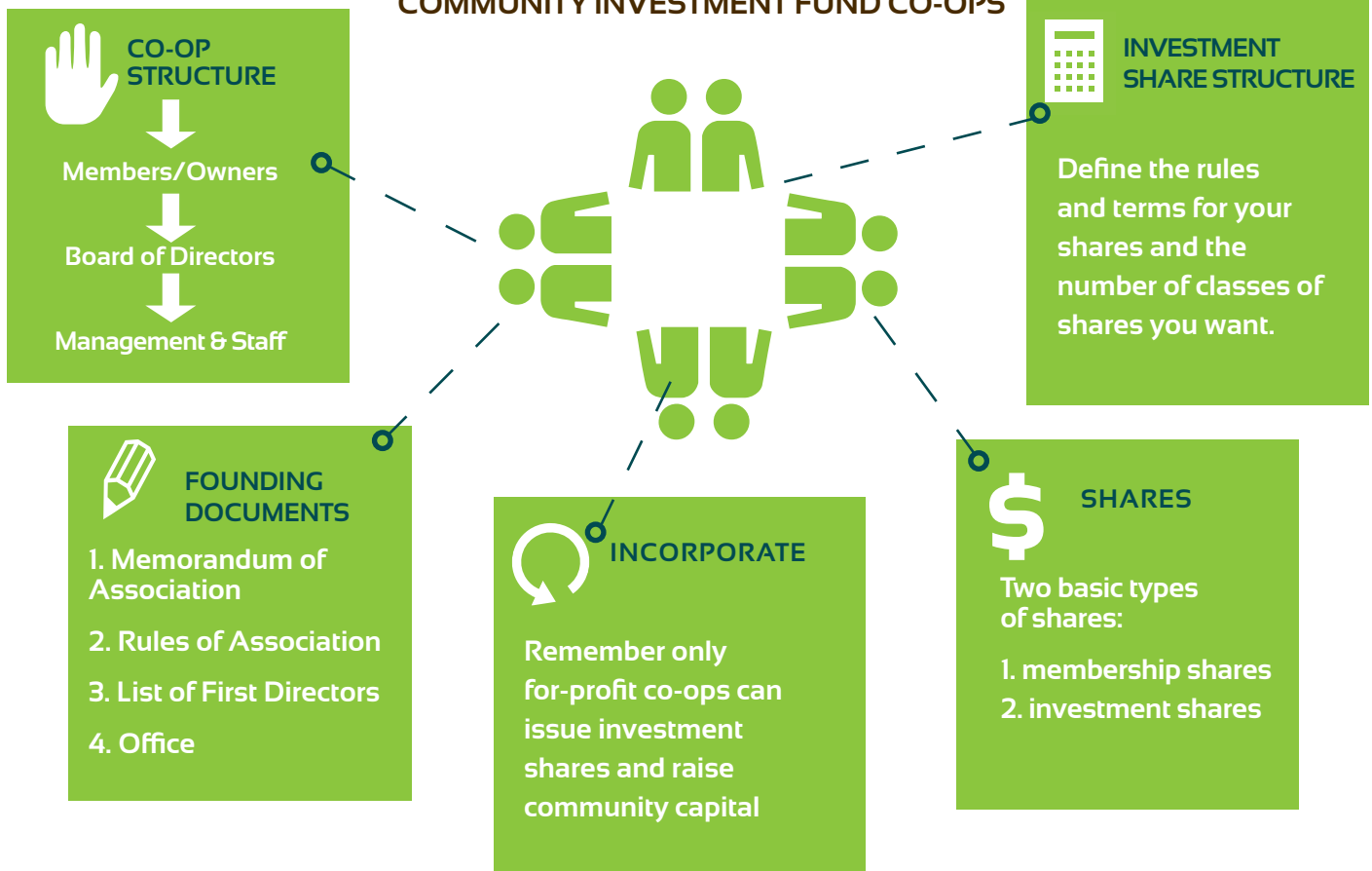
2. The **Rules of Association** outline all the details of the co-op's governance and share structure.
3. The **List of First Directors**. These are the "interim" directors until the first general meeting which must be held within three months from the date of incorporation. The co-op must have at least three founding directors.
4. The **Office** gives the official address of the co-op. This must be a location address and may be the home or workplace of one of the members. This is where responses from the Registrar's office will be sent, as well as any future "official" documents for the co-op, until or unless it's changed.

**RESOURCE:** You can download our co-op's founding documents including our Rules of Association at: [www.communitycouncil.ca/initiatives/cif.html](http://www.communitycouncil.ca/initiatives/cif.html)

<sup>7</sup>Devco

<sup>7b</sup>Powwow.coops abaca.coop

## KEY POINTS ON COMMUNITY INVESTMENT FUND CO-OPS



### CO-OPERATIVES AND CAPITAL

In British Columbia, you can choose to incorporate as either a for-profit or non-profit co-op (called a Community Service Co-op). It's important to note that only for-profit co-ops can issue Investment Shares, which is what you'll want to be doing to raise community capital. For-profit co-ops can have two basic types of shares: membership shares and investment shares. In this section, we deal with how to structure your investment shares as a means to raise capital. For more information on membership shares, consult the resources above.

It's important to know that developing your share structure can be a fairly technical exercise and is also the crux of many discussions that will ultimately make your community investment fund succeed or fail. We strongly encourage you to consult with an experienced co-op developer or someone familiar with raising community investment in developing your

<sup>8</sup>Devco

investment share structure. Please consult the resources above or contact us for suggestions.

When developing your co-op's Rules you'll have to set out the basic terms of your investment shares, which can be structured as "par value" shares or "non-par value" shares. Par value shares have a "face" or "nominal" value, (e.g. \$100). This is what the purchaser must pay to acquire a share, and when the share is redeemed by the co-op this is the amount at which it is redeemed. Non-par value shares are purchased from the co-op at an agreed-upon amount, and as the co-op is successful, part of the earnings of the co-op are allocated to increasing the redemption value of these shares<sup>8</sup>.

In addition to deciding whether your shares will be par or non-par value shares, you may include terms with respect to: the purchase of investment shares by non-members, joint ownership of shares, the method to calculate return on the shares, redemption terms and

any minimum holding length. Any terms that you specify in your Rules will need to be reflected in the documentation you provide to the investor.

You can have multiple classes of shares in your co-operative and you can add additional classes at a future members' meeting if the need arises. In our model, we chose to create four initial classes of shares: Class A membership shares, Class B and C Par Value Investment Share, and Class D non-par value Investment Shares. A sample of what are share classes look like is on the following page.

**RESOURCE:** There are lots of examples of different ways to structure your investment shares to best meet the needs of your co-op and project. Several excellent examples are provided in this report, *Accelerating Co-op Development in Alberta*:

<http://acca.coop/wp-content/uploads/2014/02/Coop-Development-White-Paper-May-5-2011.pdf>

## INVESTMENT SHARES: CLASS AND SPECIAL RIGHTS AND RESTRICTIONS

### NOTES ON THE SHARES

**Class B #1: Par Value** What is the minimum price you want to set for your shares? In deciding this you'll want to consider both what is there a market for and what is the minimum amount that you'll need to sell a share for to make your project viable and manage the administration required.

**Class B #3:** This section explains how the return on the shares is calculated and what shares get paid out first.

**Class B #4:** This clause allows investor to transfer shares to someone else or to a registered savings plan. Our Rules allow for the transfer of shares, but it is important to know that shares sold through an Offering Memorandum are not re-sellable and so shares sold under that regulation will not be transferable. If your Board of Directors will need to make this explicit to purchasers and will need to monitor this.

**Class B #5:** In our co-op we determined that we would need most investors to hold onto their shares for a minimum of 7 years in order to manage the financing needs of the projects we are investing in. We did this to ensure a consistent flow and availability of capital to the co-op and the projects it invested in. The other side of the equation though is communicating with your potential purchasers about if there is an appetite to lock in their investment for 7 years. You will need to balance the needs of all parties in deciding this. We also allowed for flexibility with this in our Class C Shares.

**Class B #6:** This explains what would happen if the co-op were to need to close down and the order in which the remaining proceeds would be paid to investors. In our model we decided we would pool the assets in Class B and C investment shares and pay these out together (so basically at dissolution the risk and return of these two class of shares is shared). We did this because both classes of shares are designed to invest in a similar type of project (in this case primarily social purpose real estate projects) so it was reasonable to consider them together.

You'll see below though that we have not included Class E shares in this pooling – that is because those non-par value shares are designed to invest in a different type of project (primarily community-business projects) and so we decided that it was more reasonable to treat these separately. Again, these are decisions that you need to make in conversation with your project committee, potential investors, and with a qualified co-operative developer.

**Class D #1:** We included a set of non-par value shares in our co-operative to be a bit more flexible in meeting the financing needs of certain types of community projects.

### Class B Investment Shares

- Par Value:** \$1000
- May be** held jointly;
- Each year**, a portion of the earnings of the Association shall be set aside as a return on the class B investment shares, and distributed on a pro rata basis to the holders of these shares. The amount and distribution shall be determined by the directors from time to time. Return on class B investment shares shall be declared and paid before any interest on membership shares, dividends or patronage rebates are paid to members;
- With the consent** of the directors, may be transferred to eligible members as defined in Rule 5, or to trusts governed by registered retirement savings plans, registered retirement income funds or registered education savings plans or TFSAs, the annuitants, holders or subscribers under which are eligible members.
- Are redeemable** after 7 years on approval of the Board.
- Upon dissolution**, will be redeemed prior to Class A Membership shares and on a pro rata basis with Class C Investment Shares.

### Class C Investment Shares

- Par Value:** \$1000
- May be** held jointly;
- Each year**, a portion of the earnings of the Association shall be set aside as a return on the class C investment shares, and distributed on a pro rata basis to the holders of these shares. The amount and distribution shall be determined by the directors from time to time. Return on class C investment shares shall be declared and paid before any interest on membership shares, dividends or patronage rebates are paid to members;
- With the consent** of the directors, may be transferred to eligible members as defined in Rule 5, or to trusts governed by registered retirement savings plans, registered retirement income funds or registered education savings plans or TFSAs, the annuitants, holders or subscribers under which are eligible members.
- Are redeemable** on approval of the Board.
- Upon dissolution**, will be redeemed prior to Class A Membership shares and on a pro rata basis with Class B Investment Shares and Class D Investment Shares.

### Class D Investment Shares

- Have no** par value
- May be** purchased at a price that shall be determined by the directors by ordinary resolution from time to time;
- May be** held jointly;
- Each year**, earnings of the Association that arise from projects in which Class E investment shares are invested shall be set aside in a reserve to provide for return on these shares. The amount and distribution of dividends from this reserve shall be determined by the directors from time to time.
- With the consent** of the directors, may be transferred to eligible members as defined in Rule 5, or to trusts governed by registered retirement savings plans, registered retirement income funds or registered education savings plans or TFSAs, the annuitants, holders or subscribers under which are eligible members.
- Subject to any** related shareholder agreements, Class E Investment shares shall be redeemed at their pro rata share of a) the net asset value, at the time of redemption, of projects in which they have been invested, plus b) any amounts remaining in the reserve set aside pursuant to this Rule.
- Upon dissolution**, will be redeemed prior to Class A Membership shares



## UNDERSTANDING THE REGULATORY ENVIRONMENT

There are three basic sets of regulations to get familiar with:

1. **Securities Rules and Regulations:** this governs to whom and how an organization can sell securities .
2. **The BC Co-operative Association Act:** This governs your co-op that will be using its investment shares to sell to securities<sup>9</sup>.
3. **The Income Tax Act:** This regulates a number of aspects related to what is an RRSP-eligible investment, including the conditions under which investment shares in the co-op are RRSP eligible.

You'll find that these three sets of Rules and Regulations overlap in a number of places and you'll need to navigate how your decisions are affected by each set of rules. In what follows we'll outline how we've come to understand this to the best of our ability. Here more than any other section, you should consult with a registered professional before making any decisions.

### BC Co-operative Association Act

As described in the section above, the BC Co-operative Association Act<sup>10</sup> governs many aspects of your co-op, the legal structure through which you will be raising community capital. The Act deals with many key questions including: whether your co-op can issue investment shares, membership, board structure, voting rights of members and investors, and limitations on investing.

### Co-operative Investment Shares and RRSP eligibility

Many types of shares in co-operatives are eligible investments in an RRSP, including common, membership, preferred or invest-

ment shares, provided they meet the definition of a Specified Co-operative Corporation under the Income Tax Act. The Income Tax Act Regulations state that a qualifying investment (i.e. one suitable for inclusion in a self-directed RRSP or similar) includes a qualifying share in a specified co-operative corporation. A Specified Cooperative Corporation is defined (in regulation 4901,s.136.2) as: "co-operative corporation" in s.136(2):

(2) In this section, "co-operative corporation" means a corporation that was incorporated or continued by or under the provisions of a law, of Canada or of a province, that provide for the establishment of the corporation as a co-operative corporation or that provide for the establishment of co-operative corporations, for the purpose of marketing (including processing incident to or connected to the marketing) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessities for or to be sold to its members or customers or of performing services for its members or customers, if

- (a) the statute by or under which it was incorporated, its charter, articles of association or by-laws or its contracts with its members or its members and customers held out the prospect that payments would be made to them in proportion to patronage;
- (b) none of its members (except other co-operative corporations) have more than one vote in the conduct of the affairs of the corporation;
- (c) at least 90% of its members are individuals, other co-operative corporations, or corporations or partnerships that carry on the business of farming; and
- (d) at least 90% of its shares<sup>11</sup>, if any, are held by members described in paragraph (c) or by trusts governed by registered retirement savings plans, registered retirement income funds, TFSAs or registered education savings plans, the annuitants, holders or subscribers under which are members described in that paragraph.

#### This definition imposes five distinct requirements:

1. **Incorporation under specific legislation;**
2. **A purpose test;**
3. **That there is the prospect that payments will be made to members in proportion to patronage;**
4. **That members are restricted to one vote per member; and**
5. **Restrictions on who may be a member or own shares of the co-operative.**

Meeting the requirements of this definition effectively limits the number of members and amount of capital that co-operatives are able to raise from institutional and organizational partners. This is an important reality and limitation of the co-operative model that you should carefully consider if thinking about setting up a Community Investment Co-operative.

<sup>10</sup>A security is any tradable asset and includes debt, equity and derivative securities. For a full definition see: the BC Securities Act [http://www.bclaws.ca/Recon/document/ID/freeside/00\\_99028\\_01](http://www.bclaws.ca/Recon/document/ID/freeside/00_99028_01)

<sup>11</sup>We have been advised that this refers to the total number rather than value of shares.



## POINTS TO CONSIDER

WILL YOUR co-operative benefit from RRSP eligible investments?

HAS YOUR co-operative met the requirements of RRSP eligibility set out in the Income Tax Act?

IS YOUR co-operative a participating member of the CWCF RRSP program?

WHO IS responsible for paying the annual fee for individual plan holders (is this a benefit of membership or something that members pay individually?)

At the advice of our lawyers, we chose to embed this definition and limitations on membership in the co-op right in our founding Rules of Association – you may wish to consider doing the same (you can review our co-operative’s Rules in the Appendices).

### ***Limits on Shares Held by an Individual or Related Party***

Another important aspect of RRSP eligibility relates to changes to federal tax rules introduced in December 2011. These changes make it such that no person or connected persons may hold more than 10% of a class of shares in a co-operative and have these be held in an RRSP. Should someone own more than 10% of a class of shares they may be subject to significant penalty taxes.

This change has added significantly to the administration and monitoring responsibilities of co-operatives, who must now police any redemptions to ensure the sale of shares by one party does not have the effect of making it such that another party ends up holding more than 10% of a class of shares.

Again, you may wish to embed a limitation directly in your Rules that limits any person or related parties from owning more than 10% of a class of shares.

### **Certifying Your Investment Shares**

Having drafted your co-op Rules and descriptions of the co-operative’s Investment Shares, you will now have to have these shares reviewed by an independent accountant (CA, CMA, CGA) to confirm their eligibility for inclusion in one’s RRSP. Because this is still a relatively new area and there are few accountants familiar with this process, we chose to have our lawyers provide an opinion that outlined how and why our investment shares met the conditions of RRSP eligible investments in the Income Tax Act before having an accountant certify the shares. If you are interested in pursuing this option, please contact us and we are happy to share the names of aligned professionals who can assist you through this process.

## **The Canadian Worker Co-operative Federation RRSP Program**

Co-operatives in Canada have often had difficulty accessing sufficient capital and yet members’ RRSPs are an often untapped source of capital. In addition to meeting the definitions outlined above, in order for a co-operative member to hold their co-operative shares in their RRSP plan they must start a Self-Directed RRSP with their financial institution. However, very few financial institutions allow their clients to hold co-operative shares within their institution’s Self-Directed RRSP Plans, requiring instead that the shares held in RRSPs must be traded on the public stock exchanges<sup>12</sup>.

To overcome this challenge the Canadian Worker Co-operative Federation (CWCF) has developed a Self-Directed RRSP Program (SD-RRSP) which enables co-operatives to capitalize their enterprises with shares held within a SD-RRSP. This program is registered with the Canada Revenue Agency (CRA) and works with Concentra Trust as its formal trustee. The CWCF SD-RRSP program is completely administered by the CWCF. There are currently over 20 co-ops using the CWCF plan with over \$5.6 million dollars under administration<sup>13</sup>.

Once a co-operative is enrolled in the CWCF SD-RRSP program, the CWCF carries out all required administration of the Plan including issuing receipts to the plan-holder for tax deduction purposes, keeping the accounting records for the plan, providing annual statements to the plan-holder and reporting to the CRA. There is a small annual fee for individual plan holders (i.e. co-op investors), a fee that is significantly less than is charged for most self-directed RRSP programs.

Members of participating co-operatives are able to invest in new co-operative shares, roll-over existing co-operative shares, transfer money held in other RRSPs into their SD-RRSP, and purchase additional co-operative shares. This means that the large pool of capital which members and non-members have already placed in RRSPs becomes a potential source of capital for the co-op.

Information about this program, including a detailed support manual, is available from the Canadian Worker Co-op Federation at: <http://www.canadianworker.coop/funding/rrsp-program>

<sup>12</sup> Hough, P. and Canadian Co-operative Association. (2013) Government Funded Capitalization Measures For Co-ops In Canada. Canadian Co-operative Association

<sup>13</sup> Ibid.



## Securities Compliance

A Security is any type of tradable financial asset. Both debt and equity are considered securities and are regulated in BC by the BC Securities Commission.

Securities regulations have been developed over the years to ensure that investors have all the information they need when assessing investment opportunities. They are there to help people significant and damaging financial losses. In the process though, the regulations have created a securities environment that makes it nearly impossible for average investors to keep their money in local projects, cutting off an important source of capital for local projects.

Our Vancouver Island Community Investment Fund raises capital through the periodic issuance of investment shares that are available to members and non-members alike. The sale of investment shares is considered the sale of a security and is subject to regulation by the BC Securities Commission. Most investments you see on the market, like mutual funds, must comply with very involved regulations and can only be sold by registered Securities dealers; however, communities across Canada and elsewhere are looking for and finding more accessible alternatives. In what follows you'll learn more about the different ways you can sell securities and in particular some of the key exemptions that are critical to community investment initiatives.

## Over 20 co-ops use the Self-Directed RRSP Program with \$5.6 million dollars under administration

### Exemptions to the Full Prospectus Requirement

If you are raising money from the public with some indication of financial return, then you are selling securities and will need to be informed about what is allowable and not under which circumstances. There are a number of situations where securities regulators have recognized that the risk to the public is likely lesser and therefore the reporting requirements have been amended to make the process less onerous. These are securities sold under one or more of the exemptions to the full prospectus requirement. If you are considering a community investing project you will want to look at what exemptions are available to your project.

Most of the relevant exemptions are listed in something called National Instrument 45-106-Prospectus and Registration Exemptions. These are:

- **a private issue** – a limit of 50 security holders and restriction of sales of the security to directors, officers, employees, family members, close personal friends and business associates
- **family, friends and business associates** – an issue which is limited in its distribution to investors which are members of the immediate families, close friends and close associates – the number of investors is only limited by a test of reasonableness on the number of close friends.
- **accredited investors** – investors who personally meet specific minimum annual income and net worth levels fall outside of regulated information delivery requirements
- **minimum investment of \$150,000** – an organization can sell securities to anyone without providing any disclosure to the purchaser, provided the purchaser buys at least \$150,000 worth of securities
- **offering memorandum** – allows an issuer to sell its securities to anyone, regardless of their relationship, wealth or the amount of securities purchased if a signed risk acknowledgement form is obtained from the purchaser and a copy of the Offering Memorandum document is delivered to the purchaser<sup>14</sup>.

<sup>14</sup>National Instrument 45-106-Prospectus and Registration Exemptions. If you are a non-profit considering a community bond project, consult the excellent and detailed Community Bonds: A Non-Profit Financing Tool, Review of Structure, Requirements and Process for NPO's Issuing Community Bonds in BC by Scott Hughes of Capacity Build Consulting.

In addition to these exemptions, there are two others you may want to consider.

### Exemption for Not-for-Profit Organizations<sup>15</sup>:

National Instrument 45-106 Prospectus and Registration Exemptions contains a further exemption (Section 2.38) for non-for profit entities.

**2.38** The prospectus requirement does not apply to a distribution by an issuer that is organized exclusively for educational, benevolent, fraternal, charitable, religious or recreational purposes and not-for-profit in a security of its own issue if:

- **(a) no part of the net earnings** benefit any security holder of the issuer, and
- **(b) no commission** or other remuneration is paid in connection with the sale of the security
- **Companion Policy 45-106CP** further elaborates this section, and includes the following clarification "However, if the securities are debt securities and the issuer agrees to repay the principal amount with or without interest, the security holders are not considered to be receiving part of the net earnings of the issuer. The debt securities may be secured or unsecured". This exemption is the same that the Centre for Social Innovation used to draft their community bond offering.

**Exemption for Co-ops:** British Columbia Securities Commission, has also issued BC Instrument 45-530

Exemption for securities issued by a cooperative association (September 28, 2009) that exempts co-ops from the Offering Memorandum requirements if the maximum individual investment is \$5000, the amount is contributed toward the purchase of membership shares and the total number of shareholders is not greater than 150. However, to utilize this exemption, the co-op will effectively need to cap the amount of money raised at \$750,000.

So, what does all of this mean for your project?

- **These exemptions** are all there as legitimate means to facilitate the raising of capital and a wide range of groups and organizations are using these exemptions all the time. For example, many private schools issue non-profit bonds to raise working capital, co-ops have been raising investment through the sale of investment shares for many years and many small business raise capital through one of these exemptions. As a community (economic) development sector, we have not traditionally used the same tools for our work, but this is beginning to change. These tools are there for you to use them, so don't be shy.
- **A second really important** thing to note is that you can layer or stack these exemptions and only need to prepare to grow into the Offering Memorandum option as your project grows. You can

raise significant investment from 50 people in your network today without problem. After that you can extend your reach to include Accredited Investors (which includes Foundations and many other organizations), or you can raise capital through a non-profit bond and be exempt all together, all before you have to dig into something more involved. The important thing to consider is "what are we trying to accomplish and what is the easiest, most ethical, and achievable way to do this?" (You may want to look back at our decision making process in Section 1 to understand how we decided to pursue our model.)

**EXAMPLE<sup>16</sup>** You might decide to first raise capital through a private issue of \$5,000.00 from 50 people = \$250,000.00; then raise \$100,000 from 3 accredited investors for an additional \$300,000 for a total of \$550,000 – all before incurring the costs of raising capital through an Offering Memorandum.

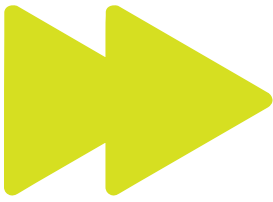
- **Third**, there are people who can help you sort through these regulations. As the community investing sector grows, so too does the expertise of the professional experts you'll need to help you. We were lucky enough to access hours of pro-bono legal support and coaching from a law firm and the University of Victoria's Business Law Clinic, before we needed to start paying a lawyer for additional support. Your local credit union or local Ethical Investment Advisors can also be key sources of support and information. You can also access resources on the web or talk to someone on the phone at the BC Securities Commission who can support you too. So, take a look around and see who's available in your community to help you get started.

### ABOUT THE EXEMPT MARKET

The exempt market [those Securities sold through one of the exemptions to the full prospectus requirement] is a substantial part of British Columbia's capital market. Based on 2010 filings of exempt distribution reports, issuers from within and external to BC raised \$8.5 billion from BC investors. Additionally, BC-based issuers raised another \$7.7 billion outside of BC, resulting in an exempt market worth over \$16 billion.<sup>15</sup>

<sup>15</sup> British Columbia Securities Commission [http://www.bsc.bc.ca/For\\_Registrants/Compliance\\_Toolkit/Prospectus\\_Exemptions\\_for\\_Registrants/](http://www.bsc.bc.ca/For_Registrants/Compliance_Toolkit/Prospectus_Exemptions_for_Registrants/)

<sup>16</sup>Please note this is an example only, not reflective of actual limits or advice. Please consult your provincial securities commission for limits and procedures.



## The Offering Memorandum Exemption

Thinking back to our key considerations in developing our model, we knew that we wanted investments to be RRSP eligible, available to non-accredited investors, that we did not want to be limited to raising capital one project at a time for only real estate projects, and that we had ambitions to raise more than \$500,000. For us this ruled out many of the above exemptions, with the exception of the possibility of issuing an Offering Memorandum.

### What is an Offering Memorandum?

Entities wishing to sell securities to the public will need to issue an Offering Memorandum (OM) that sets out the key details of the investment. An OM is “a prescribed form which is very detailed and full and frank disclosure of business risks is required. The OM must be constantly updated as the information cannot be more than 60-90 days out of date. An OM is typically a “sales” document as well as a compliance document and the balance between the two must be finely crafted. The directors who sign the OM are personally responsible for any misrepresentations.

An Offering Memorandum includes:<sup>18</sup>

- **Term sheet** – a one-page description of the offering.
- **Use of proceeds** – a table showing how the money will be used.
- **A description of the issuer and its business** – including the issuer’s structure, business objectives, management, share capital, and reporting obligations.
- **A description of any special features** of the securities being offered, including whether someone is being paid to sell the securities and what resale restrictions apply to the securities.
- **Risk factors** – a description of the risks associated with the issuer and its business that may negatively impact the ability of the issuer to accomplish its objectives and the risks associated with the securities that may prevent the purchaser from selling or realizing any profits.
- **A description of the rights** available to purchasers specified under securities laws (including the purchaser’s right to cancel the purchase agreement and the right of action if the offering memorandum contains a misrepresentation.)
- **Financial statements** prepared in accordance with Canadian Generally Accepted Accounting Principles. Interim financial statements can be prepared by management; an independent review by a qualified accountant is not required. Annual financial statements must be audited.

You must make your Offering Memorandum available to potential purchasers throughout the sales period, and must file your Offering Memorandum with the BC Securities Commission within 10 days of distribution.

## IS A SIMPLER PROCESS A POSSIBILITY?

Community and social financing is a rapidly evolving field in Canada and elsewhere and at the time of writing a number of new and additional changes are being contemplated in several jurisdictions across Canada that will further ease the process for groups wishing to raise relatively small amounts of community-sourced capital. This includes a proposal to exempt small offerings of under \$500,000 (where no investor invests more than

\$2000) from the above audit and financial reporting requirements, and secondly a proposal to allow “crowdfunding” initiatives up to \$150,000. To date neither of these have been adopted. Nova Scotia already exempts recognized Community Economic Development Investment Funds from the costly audit and reporting requirements and has created a “simplified offering document” for use by these types of projects.

The Community Social Planning Council of Greater Victoria has also researched and produced a number of policy recommendations to enable Community Investment Funds in BC. You can find these in our policy paper *Enabling Community Investment: Policy Brief*, available at: [www.communitycouncil.ca](http://www.communitycouncil.ca)



<sup>17</sup>Personal Communication, Bull, Hauser, and Tupper

<sup>18</sup>British Columbia Securities Commission <http://www.bccsc.bc.ca/privateplacements.asp?id=2004#OM>





## The Offering Memorandum is a full and frank disclosure of the investment opportunity

**RESOURCE** The BC Securities Commission includes all current Offering Memorandums on it – these are great resources to review to see what your own OM could look like. This way you can also review a number of different types of offerings, from very small offerings for one specific project to larger, pooled funds. These are called the Exempt Distributions and they are searchable at:

<http://eservices.bcsc.bc.ca/eder/search/FormSearch.asp>.

### Offering Memorandum Limitations

The Offering Memorandum is a full and frank disclosure of the investment opportunity, its risks, financial model and the expertise of those involved. While producing an Offering Memorandum is not inherently difficult, it is detailed and requires the involvement of a number of professionals, and as such is costly. The cost of producing an Offering Memorandum will vary widely depending on the nature of the activities, but at a minimum will generally cost around




\$15,000-\$20,000 to produce, with further costs to keep it updated. Since 2011 those utilizing this exemption have been required to comply with the Canadian GAAP for public entities applicable to publicly accountable enterprises accounting standard (the cost of which is estimated at \$20,000 to complete) than was previously required.

The combination of these factors, coupled with limited experience in navigating 'the world of securities' among the community (economic) development sector, makes the Offering Memorandum a significant undertaking and one from which you should be sure you can re-coup your costs before pursuing. You can always start with one of the simpler, less onerous exemptions before finally choosing to pursue the Offering Memorandum option.

# sell the opportunity

So, you've gone through all the work to set up your Community Investment Fund, you've identified and partnered with great projects in your community that you'll be raising capital for, and now you're actually ready to see rubber hit the road: it's time to begin raising community capital!

## Sample Typical Year for a CIF

April- July	Aug.-Sept	Oct.-Dec.	Jan. - Mar.	March
Moderate Activity	Moderate Activity	Ramp Up	Fully Operational	Lower Activity
				
Co-op Board and Investment Committee work to identify coming year's investment targets, set fundraising goals and work with them to develop Investment Offering and Offering Memorandum	Co-op Board and volunteers develop and/or refine key messages, outreach and marketing plan	Offering Memorandum is complete and available to prospective investors, outreach and marketing effort begins	Co-op Board, Volunteers, community champions and investee partners intensively focus on outreach and marketing, promotion, and administration of investment shares. Complete Securities filings	Offering Memorandum filed with Securities Commission within ten days of close. Administration of shares and follow up with investors

## The Process

Selling investments in your Community Investment Fund is as much about relationships and conversation as it is about having the right marketing plan and documentation available: both are critical. According to Rankin MacSween of New Dawn Enterprises in Cape Breton, Nova Scotia, one of Canada's oldest Community Investment Funds, community investing is a critically important tool to "engage in a conversation about community... and the possibilities for the future."<sup>19</sup> Community Investment Funds are a central part of a growing relationship economy.

The networks and approach that you, your founding board and community champions bring to the project are of critical importance to its success.

Another key ingredient in building support for your initiative is the networks and supporters of the projects that you are seeking to raise capital for. Because many of these are projects that are already deeply rooted in community, they will likely have strong networks to draw from.

You may also determine that you have the resources and desire to pay someone a commission to sell your investments for you<sup>20</sup>.



## POINTS TO CONSIDER

**WHAT NETWORKS** can you leverage in support of your investment opportunity?

**WHAT ARE** the key messages about the opportunity that you want the public to hear?

**HOW MANY** investors do you need to reach your financial target and how will you reach them?

**DO YOU** plan on paying someone to assist you in marketing and selling the opportunity?

<sup>19</sup>Author's Interview with Rankin McSween, previously published as part of the Canadian Social Economy Hub Public Policy Paper Series, available at: <http://socialeconomyhub.ca>

<sup>20</sup> Unlike with a Prospectus, this does not need to be a registered broker.

In our planning, we've focused heavily on cultivating community champions: people and organizations who are well respected and trusted in the community with strong relationships. These champions will help bring people together in support of your initiative through one-on-one conversations, kitchen parties and by declaring their public support of your bold and brave new idea.

Creating a sense of urgency for the investment offering is also critically important to encourage investors to commit and avoid community fatigue about your project. Think through your timeline for selling your investments and be ready to set a clear closing date. If you are utilizing an Offering Memorandum you will be required to have a clear closing date, after which you have ten days to file your report with the Securities Commission. (Don't worry: you can line up your investors and have them commit to purchase in advance and then close the transaction on a specific date so long as your Offering Memorandum is still current at this time).

As with any new initiative, be prepared to demonstrate your own commitment first and set achievable growth targets over time.

More than anything, be prepared to be fully committed and out there talking about your project whenever and wherever you're needed. If you're targeting RRSP season you should expect that your team will be working at full tilt to build support and secure investments throughout this period.

## Key Documents

In addition to being clear on your approach and strategy to recruiting investors, you'll also need a core set of well-produced documents that provide investors the information they need to make an informed decision about investing in your project. These include:

- **The Offering Memorandum:** described in previous sections, this document is a full and frank disclosure of everything to do with your investment offering.



- **A Term Sheet:** this is a shorter document that outlines the key facts of your project in one to two pages.
- **A subscription or shareholder agreement:** outlines the terms and conditions of the investment opportunity and the rights and responsibilities of investors.
- **Share Certificates:** these are the proof and official record of the purchase of investment shares.
- You will likely also want to have available to investors the information and forms necessary to join the **Canadian Worker Co-operative Federation Self-Directed RRSP program**.

## Administering the Shares

Once you've successfully closed your sales and filed your reporting with the Securities Commission you will need to continue to administer the investment shares on an on-going basis by keeping an accurate record of investors and calculating their on-going return on investment and payment schedules. This work can be time consuming so it is important to keep it as streamlined as possible.

## BUILDING A MOVEMENT FOR COMMUNITY CAPITAL

Community investing and community sourced capital is an increasingly important component of growing prosperous and vibrant communities in Canada. In deciding to pursue your own community investing project you are joining a growing movement of engaged citizens and organizations that are working to democratize and re-vitalize the economy and who are leading the movement for a more people and community-centered economy and planet. Welcome!

This is an exciting time to be involved in this growing movement and we can learn a lot from each other as we each develop our initiatives so please be sure to share your successes and the lessons you've learning with other people in your community, with us, and across Canada. We'll continue to share our lessons learned, add resources, and our project's documents and templates as we proceed. Please check out: <http://www.communitycouncil.ca/initiatives/cif.html> for these.

# Community Investment Funds in Action: New Dawn Enterprises – Nova Scotia

**The Nova Scotia Community Economic Development Investment Fund program was the first of its kind in Canada and is the program after which most current efforts are modeled.**

The origins of the program began with the creation of the Nova Scotia Equity Tax Credit in 1993. The success of the Equity Tax Credit led the Province to develop an enhancement to the program, the Community Economic Development Investment Fund (CEDIF) program. There are currently 47 different CEDIFs in Nova Scotia. Some have been directly created by local companies or co-operatives to drive investment to their enterprise (e.g. Just Us! Coffee Roasters has formed a CEDIF called Just Us! Fair Trade Investment Co-operative). Others, like the Black Business Community Investment Fund, invest in a range of businesses toward a certain aim.

CEDIFs are structured as share issuing co-operatives or companies that sell shares to the public and use the capital raised to re-invest in eligible local business. Investments in CEDIFs are pre-approved holdings for inclusion in a self-directed RRSP.

Investors are eligible for an initial 35% tax credit for investing for 5 years; if they keep their investment in the CEDIF for an additional 5-year period they receive an additional 20% tax credit, and another 10% if renewed for a third 5-year period. This helps encourage not only initial investment in CEDIFs but encourages investors to keep their money in the CEDIF for longer periods of time, essentially making it more patient and more friendly for local projects. An analysis undertaken by the provincial government of Nova Scotia demonstrated that this tax credit was revenue neutral in two years from implementation. In the last 15 years, the CEDIF program in Nova Scotia has captured more than \$43M in investment in local projects from more than 4000 individuals throughout the province.

Most significantly, the CEDIF regulations that have been adopted set out a “special relationship” for the CEDIFs and securities regulations. CEDIFs are required to complete a simplified form of an Offering Memorandum, rather than a complete Offering Document. The form of this is spelled out in the regulations. This is meant to reduce the legal, financial and



knowledge barriers that many community initiatives currently face in seeking to raise community capital.

The second critical support provided to CEDIFs through this ‘special relationship’ is that CEDIFs are exempted from most of the Continuous Disclosure requirements under NI 51-102. This includes an exemption from the 2011 regulatory change requiring OM filers to comply with Canadian Generally Accepted Accounting Principles for Public Enterprises<sup>21</sup>.

Thirdly, it is impossible to underestimate the important role that the Nova Scotia Department of Rural and Economic Development has played in supporting the growth of the CEDIF program, including through its network of Business Service Centres.

## Key features of Nova Scotia CEDIF’s:

- Created by groups of local citizens who first must develop a CED strategy for their community.
- Are structured as a Community Economic Development Corporation, legally a corporation or cooperative (with a minimum of 6 directors).
- Must register under the Equity Tax Credit Program.
- Can raise capital to directly invest in one business or allot among several local businesses.
- Provide an equity (or subordinated debt) investment.
- Once incorporated, the CEDIF completes a Public Offering and sells shares.

<sup>21</sup>See: NSSC Blanket Order No. 51-504 and [http://www.novascotia.ca/just/regulations/regs/secced.htm#TOC1\\_3](http://www.novascotia.ca/just/regulations/regs/secced.htm#TOC1_3)

- Among other items, the offering document must set out a minimum and maximum amount to be raised through the offering and a plan for use of the funds at the minimum and maximum amounts. This must also include a breakdown of the costs associated with issuing the offering.
- If desired, can be marketed and/or administered in partnership with a bank, credit union, etc.
- The Government of Nova Scotia estimates that \$100,000 is the minimum effective size of the fund.

### CEDIF's in action: New Dawn Enterprises

New Dawn Enterprises is a community development corporation that was founded in 1976 to revitalize Cape Breton's regional economy that collapsed with the closure of coal mines and a steel plant. It is an incorporated business corporation limited by guarantee with a mission "to engage the community to create and support the development of a culture of self-reliance".

- New Dawn started with housing and real estate development, now has an annualized budget of \$8M, serving a region with a population of 100,000 people with a relatively low average income. It operates the following divisions:
- A profit creating real estate company that has 193 rental units, 4 commercial buildings, and 28 supported housing units.
- A profit creating College running diploma and certificate programs, including a welding school.
- A health care service inclusive of Meals-on-Wheels, home care, a care home and seniors assisted living.
- A renewable energy company that operates revenue generating wind power and a cold climate green house.
- A non-profit foundation that runs a leadership roundtable and an "ideas" program to foster leadership for change.
- A community economic development investment fund that has raised \$6.8M for reinvestment in community assets and enterprises since 2004.

New Dawn has created a total of 17 companies and societies to meet different needs.

### New Dawn Community Investment Fund

New Dawn's staff manage all aspects of their Fund without a full return on their staff time. The investment raised however creates the necessary financing to generate the programs and assets that sustain the organization and achieve its mission.

**Shareholders:** The fund raises equity investment from individuals that is eligible for provincial CEDIF tax credits and RRSP tax credits. Each investor is a common shareholder. The shareholders meet annually and elect a board of directors. There is some overlap of board members between New Dawn Enterprises and the holding company of the investment fund, but that cannot be required due to securities regulations.

**RRSP:** Investments are held by a trustee (the Canadian Worker Coop Federation) that issues RRSP receipts and transfers the funds only on notice of compliance from the NSSC. A standard

self-directed RRSP account application form is completed by each investor and sent to the trustee for processing. (A provincial tax credit related receipt is issued by New Dawn to each investor.) The Trustee charges \$60 per investment per year. New Dawn currently pays this fee on behalf of the investor.

**Return and Business Plan:** There is no guarantee of return on investment, it is equity. However New Dawn promotes its record of dividend returns (4%) and issues a dividend cheque to each investor twice a year. In previous years, New Dawn Holdings has managed the Fund and charged 6% on loans to New Dawn Enterprises, returning 4% to shareholders and retaining 2%. For example in 2011 the \$2.4M raised was invested in New Dawn College to loan them the funds to expand programs and facilities, with tuition fees representing the revenue to pay back the loan. In 2012, the \$1.5M raised was held by a new company (New Dawn Community Investment Ltd) with a board made up of the investors in that fund, that then loaned those funds to a non New Dawn enterprise (Protocase Inc.) with a 5.5% interest rate, a 3.5% target return to investors, and a 2% target return to New Dawn CI.

Overhead costs stated up front in the Statement of Offering that are deducted from the proceeds were between \$15K and \$35K in 2012 and included promotion, legal, accounting.

**Retirees:** Retirees are using the fund to transfer existing RRSP savings that would be taxable if drawn down into the community investment fund to then use the provincial tax credit to meet financial needs.

### Lessons Learned:

The three key components of success have been (according to their CEO):

1. Creating a sense of shared identity;
2. Focus on knowledge development and education;
3. New Dawn has a visionary CEO, a Board with a willingness to take risks, and a staff team carefully constructed to provide the necessary competencies. It marshals a family of divisions that are constructed as corporations, non-profit societies or charities according to the specific opportunities and needs associated with that activity or asset.

There are two ongoing challenges:

1. Big national investment firms won't include these types of investment in their offerings as their national offices don't want anything that is not traded on the stock market. Some brokers not tied to national contracts are involved.
2. Provincial CEDIF regulation prevents investors from re-investing in CEDIFs once they have withdrawn one allocation of investment on its maturity (i.e. they can't draw down and then decide to reinvest).

### More Information:

For more information on New Dawn Enterprises, please visit the website at: <http://newdawn.ca/>

# Partnership in Action: Edmonton Social Enterprise Fund – Alberta

<b>Need &amp; Goals</b>	Access to capital for non-profit organizations to develop/expand revenue generating activities and housing
<b>Response</b>	Patient capital loan fund
<b>Who Contributes</b>	Philanthropic foundations and local government
<b>Risk</b>	Borne by Fund
<b>Size &amp; Scope</b>	<ul style="list-style-type: none"> <li>Initial fund value of \$5M</li> <li>Average loan \$431, 891</li> </ul>

## The Edmonton Social Enterprise Fund was developed to address the need for non-profit organizations to access patient capital to develop and expand revenue generating activities and to be able to access interim (bridge) financing for social housing development.

The goal of the fund is to “help not-for-profit organizations or co-operatives develop their social enterprises, or social or affordable housing projects” through a focus on patient capital loans, valued between \$50,000 to \$500,000 for the former, and interim financing up to \$1M for affordable housing development. Loans are near prime and repayable over a term of up to ten-years. Term length, interest rates and repayment structure varies based on the needs of the borrower.

Plans for the Fund were first discussed in 2002/2003 but not presented for approval by City Council until April 2007. The Edmonton SEF was initially capitalized by a number of partners, including: City of Edmonton (\$3M), the Edmonton Community Foundation (\$3M) and the United Way (\$500,000). To date, SEF has invested up to \$13M in a little over two-dozen projects in sectors ranging from food security, social housing, culture, and the environment. More than \$2.5M has already been paid back, and is ready to do more good in the community as new loans. The fund has 100% repayment record and does not maintain a loan loss reserve.

The Fund is governed as a corporation, jointly owned by the City of Edmonton and the Edmonton Community Foundation (two directors from the City, and one from the Community Foundation). The decision to structure the Fund as a third party corporation has allowed funding to flow to a wider range of organizations than either party independently would have been able to fund.

Since 2012, the fund has experienced a growth in loan activity. The key to the success of the fund is actually having money out to earn interest. Even over the course of the last year, the fund has a lot more money than it did previously because of the increase in the number of performing loans<sup>22</sup>.

The City paid the operating costs for the Fund for its first two years; since that time the Fund has covered its own operating costs. While it is still relatively labour intensive to operate the fund, with more money going out, the Executive Director of the Edmonton Community Foundation is confident the fund will break even in terms of operating costs in 2014. On average, the operating cost is \$200K/annum (\$.15 to \$.35 on every dollar lent).

## Community Real Estate Outcomes

When the fund was in development, it was expected to provide interim funding for social housing development. Based on research, the fund partners had projected that affordable housing investment would be approximately two-thirds of the loan activity. After a few years, however, it became clear that the SEF was actually filling a need for loans to support community real estate projects. As it turned out, affordable housing investment has only amounted to about two percent (2%) of the loans.<sup>23</sup>

<sup>22</sup>Informal interview with CEO of the Edmonton Community Foundation, May 2014. <sup>23</sup>Ibid. <sup>24</sup>Ibid. <sup>25</sup>Ibid.  
<sup>26</sup>Edmonton Social Enterprise Fund, 2014. <sup>27</sup>Edmonton Social Enterprise Fund, 2014. <sup>28</sup>Edmonton Social Enterprise Fund, 2014.

Instead of funding for social housing, what did arise was the need for non-profits to have access to loans to assist in real estate acquisition, renovations, and building improvements. According to the Martin Garber-Conrad, Chief Executive Officer of the Edmonton Community Foundation, they are now also starting to get a hint of some growth social enterprises that could use equity instead of just debt. While the SEF does not currently provide this type of financing, they are not closed to the idea but how to structure this type of financing still needs consideration and to be developed. Garber-Conrad is optimistic that something concrete will be developed over the next couple of years.<sup>24</sup>

Since its inception, the fund, in general, has addressed the community needs it was expected to. The fund is not hugely bureaucratic, and is able to be more flexible, which is an advantage with real estate backed projects. This flexibility allows the SEF to respond to what is actually happening in the market<sup>25</sup>.

**The fund is not hugely bureaucratic, and is able to be more flexible which is an advantage with real estate backed projects. This flexibility allows the SEF to respond to what is actually happening in the market.**

### Examples of Community Real Estate Assets

**CKUA Radio Network** – CKUA started over 75 years ago in a small room on the University of Alberta station. In 2012, CKUA purchased, and moved its operations, into a building wrapped by the reconstructed exterior of the historic Alberta Hotel. The space provides opportunities for public performance, as well as rental capacity. The SEF provided a loan for tenant improvements such as studio, office and other facility construction. This loan filled in a 10% gap to enable the organization to access conventional financing<sup>26</sup>.



**Arts Habitat of Edmonton** – Arts Habitat of Edmonton with assistance from the City of Edmonton and the Edmonton Arts Council, purchased the childhood home of Marshall McLuhan, a 20th century Canadian intellectual who focused on culture and mass media. The purchase was an opportunity to honour McLuhan’s legacy in Edmonton by repurposing the property from a private residence into a contemplative centre for arts and ideas.

Arts Habitat has located its offices in the home, and space will become available to artists, non-profit arts professionals and cultural industry professionals involved in the literary arts and creative thought. SEF provided the mortgage for the purchase<sup>27</sup>.

**Expressionz Café** - Expressionz Café is a multi-use facility that accommodates a wide range of community activities from folk concerts to tango classes to meetings of Al-Anon.

In addition to large meeting rooms, a performance space and several small meeting rooms for long-term tenants, Expressionz offers a café and catering service. In its first two years of operation, Expressionz hosted events for more than two hundred non-profit groups, for-profit companies and individuals, and has become home to groups as diverse as the Multicultural Family Resource Society, the Uptown Folk Club, the ELOPE Musical Theatre and the Greater Edmonton Alliance. The organization also presents speakers’ series, open mic variety evenings and a concert series<sup>28</sup>. SEF provided tenant improvement and operating capital to Expressionz.

### More Information:

See the Edmonton Social Investment Fund web site for more details, and examples. <http://socialenterprisefund.ca>

# Ethical Investment in Action: The Jubilee Fund – Manitoba

**The Jubilee Fund in Manitoba offers bridge financing and loan guarantees to community based businesses (with a focus on co-ops, social enterprises, and small businesses), affordable housing, and community or social services (e.g. non-profit childcare centres, training centres).**

The Fund was launched in 2000 by a coalition of Winnipeg-based faith groups, and is delivered in partnership with Assiniboine Credit Union.

The Fund seeks to provide “community development projects with access to financing that they otherwise would be unlikely to obtain.” Some of the common financing barriers the Fund helps project overcome are:

- A shortage of collateral, income or guarantors to secure financing
- Absence of cash or other assets to invest as owner equity
- High interest rates and short payback period
- Lack of operating experience of an unconventional project idea, and;
- Location in a low-income neighbourhood<sup>29</sup>.

The Fund is legally structured as a registered charity organization, and partners with Assiniboine Credit Union to maximize the impact of their financing. This is accomplished by combining conventional lending from the credit union with the higher-risk funding secured by the Fund. The credit union reviews potential projects and then assuming their criteria are substantially met, will partner with the Fund to secure the rest of the deal against the Jubilee Fund funds. Projects are reviewed by the credit union and the Fund for project viability and against the following community economic development criteria that the Fund uses to help determine impact: local, community, democratic and/or co-operative ownership; economic participation of women and newcomers; organic, equitable, and sustainable business practices. They also have a focus on supporting projects that impact marginalized populations.



Investors purchase Jubilee Investment Certificates for a three- or five-year term and receive a return on investment at 2% below GIC. These are not guaranteed investments. The Certificates are processed by the credit union which acts as an agent for the Fund and in order to purchase an Investment Certificate, investors must also become members of the credit union.

Operating costs are supported by a variety of philanthropic, public and as well as individual charitable donations, including a significant contribution originally gifted to the Fund.

## **Affordable Housing and Community Real Estate Outcomes**

The Fund provides loans or bridge financing for renovations, new buildings and unit construction, and in-fill housing projects that enhance, or benefit, communities. The financing for affordable housing projects is provided to projects that target low-income families and individuals, students, housing co-ops

<sup>29</sup>Jubilee Fund. (2012). Descriptive Circular for the Jubilee Fund Inc. 2012-2013.



and special needs groups.<sup>30</sup> The Fund also provides community-based organizations access to financing to initiate community-based projects, create employment or build facilities to improve services in the community.<sup>31</sup> The Jubilee Fund has provided bridge and other types of financing to eleven (11) affordable housing projects and fourteen (14) community projects.

## Examples of Affordable Housing and Community Real Estate Projects

### Greenheart Housing Inc. – West Broadway

The twenty one - three bedroom garden apartments targeted for low and modest income tenants was built by Kikinaw Housing Inc. in the West Broadway area of Winnipeg. The units opened in Fall 2009. They are energy efficient, with green design choices, universal access and a community cornerstone location. The Jubilee Fund provided a line of credit for the \$2.4M dollar investment.<sup>32</sup>

### Student Apartments in Spence Neighbourhood (457 Young St.)

In 2002, the Jubilee Fund provided financing for the purchase and renovation of 457 Young Street, a 2½-storey abandoned apartment building. The apartment was converted into low cost student housing (23 suites) for students of the University of Winnipeg. The project contributed to neighborhood revitalization because it focused on utilizing a vacant abandoned building. In addition, it generated employment for local residents who worked on the renovations. Kinkora Development Ltd. undertook the project in consultation with the University of Winnipeg. The Jubilee Fund provided the bridge financing.

### Financial Foundations Resource Centre (Alternative Financial Services)

The Jubilee Fund provided the North End Community Renewal Corporation with a down payment to purchase 607 Selkirk, an abandoned bank building. Since 2003, programs of SEED Winnipeg (a local community group) operate from the building to provide complementary financial and support services to North End residents. The programs include:

- the Saving Circle Program (helps individuals save money for future goals),
- the Individual Development Account Program (IDA helps you save for an education, start or expand a small business or buy or renovate your own home); and
- the Money Management Training Program (helps to learn more about budgeting, banking and credit).

In 2008, the North End Housing Project moved into the building.

### More Information:

More Information: For more information, please visit the Jubilee Fund website at: <http://www.jubileefund.ca/index.php>

<sup>30</sup>Jubilee Fund, 2014, <sup>31</sup>Jubilee Fund, 2014 <sup>32</sup>Ibid. <sup>33</sup>Ibid.

# Innovative Financing in Action: YWCA Toronto & the Muttart Foundation – The Elm Centre – Ontario

**In May 2012, the YWCA of Toronto opened the doors of a 300-unit affordable housing and community hub complex; the largest of its kind built in Toronto in the past decade and the only one for at-risk and low-income women and their families.<sup>34</sup>**

The Elm Centre provides affordable housing for single low-income women, women with children, Aboriginal women and their families, and provides supportive housing for women living with mental health and addictions issues. The complex is also home to the Toronto YWCA headquarters, a 200-seat auditorium, meeting spaces, a women's resource centre and a restaurant.

In January 2012, the Muttart Foundation provided the YWCA of Toronto a \$1M, below-market interest loan to support the capital costs of the YWCA's Elm Centre. The bond is issued for a ten-year term and pays 4% interest annually. The YWCA will have the right to redeem the bond in three years.<sup>35</sup>

The late Gladys and Merrill Muttart created the Muttart Foundation in 1953, and has since which has awarded more than \$65M in grants. The Foundation sees private philanthropic foundations playing an important, strategic role in addressing community need by taking leadership on issues outside of the scope of governments and the private sector. This is because private foundations are able to strategically invest their limited resources to leverage larger public and private sector investments because of their access to relatively unconstrained capital. Private, philanthropic foundations can take risks, be patient and invest in ideas and opportunities with great potential, and that private philanthropy works best by working in collaboration to mobilize community resources.<sup>36</sup>

For the past twenty years, the Muttart Foundation's investment side has provided lines of credit, no or low interest loans to charities, and has also held mortgages on properties for charities. So far there have been no defaults and, just recently, the Foundation released a couple of mortgages. The Foundation



sees significant advantage in providing charities with loans at a low rate, because they are low-risk investments with a high level of community benefit. For example, the Foundation holds the mortgage on the Boys and Girls Club building in Saskatoon, SK.

## The YWCA of Toronto Elm Centre Story

How the Muttart Foundation came to provide the Toronto YWCA with a low-interest loan was happenstance, says Bob Wyatt, Muttart Foundation Executive Director, being in the right place at the right time proved beneficial for both the YWCA and the Foundation. Wyatt had met the YWCA's Director of Finance at a meeting where it came up that the YWCA had secured financing from a bank at 5.5%; however the YWCA was planning on pitching the idea of a lower-interest loan at 4% over ten years to MaRS which focuses some of its activity on impact investing. Wyatt brought the low-interest loan idea back to the board of the Foundation and presented a strong case in support of providing the YWCA with a low-interest loan. The organization is stable, has been operating for 100 years, and had secured other sources of funding from a variety of different providers including senior levels of government and private donors. The risk associated with this kind of investment was low, and after Wyatt conducted a due diligence review, the Muttart Foundation board approved the loan of \$1M, at 4% over ten years.

<sup>34</sup>Caroline Alphonso, "300-Unit YWCA residence opening for low income women." *Globe and Mail*. May 20, 2012.

<sup>35</sup>Muttart Foundation, 2012. <sup>36</sup>Muttart Foundation, 2014.

Although the loan has been referred to as a community housing bond, Wyatt clarified that the \$1M investment was a low-interest loan, “it is essentially a loan agreement – an unsecured loan.” He explained that a traditional mortgage from a financial institution for example, would have been complicated because of the involvement of senior levels of government in funding the building.

### “Not a Silver Bullet”

When asked to reflect on some of the challenges with these kinds of investments, Wyatt warns that foundations need to be open to being creative with investments, but also need to understand that this is only one tool and is not going to replace government funding for affordable housing and community real estate asset development, “it’s not a silver bullet,” Wyatt stated. Other challenges with relying on this type of investment are:

- **Grants not loans:** not all charities are in a position to pay back a loan, in fact most charities prefer grants over loans
- **Due diligence:** Entering into a loan agreement, even with a charity still has risk which means that charities are expected to do their due diligence and provide evidence that they can pay back the loan. This process can be seen as an arduous task by some charities, and are reluctant to explore the option.
- **Supply:** not many private, philanthropic foundations are in a position to provide this type of financing, in addition to there being a lack of investment opportunities appropriate for this type of financing agreement.

The Muttart Foundation saw the YWCA Elm Centre as a low risk investment, with a reasonable rate of return. The interest being paid on the loan is approximately 1.5% less than the cost of borrowing money from banks or similar financial institutions, which means that more money goes directly into the operations of the Centre. When asked if the Foundation would continue to make similar kinds of investments in the future, Wyatt was positive, and said the Foundation would if and when appropriate opportunities present themselves.

### More Information:

For more information on the Muttart Foundation, please visit the website at: <http://www.muttart.org/>

For more information on the YWCA Elm Centre, please visit the website at: <https://www.ywcaontario.org/page.asp?pid=76>

<sup>33</sup>MaRS Discovery District is “dedicated to driving economic and social prosperity by harnessing the full potential of innovation. Since we first opened in 2005, we have built on a rich legacy to create one of world’s largest innovation hubs, a 1.5-million-square-foot complex located in the heart of Canada’s largest research cluster in downtown Toronto. MaRS works with an extensive network of private and public sector partners to help entrepreneurs launch and grow the innovative companies that are building our future — startup ventures with broad economic and societal impact.” For more information on MaRS, visit the website at <http://www.marsdd.com/>

<sup>34</sup>Informal interview with Bob Wyatt, Executive Director of the Muttart Foundation, May 2014.

<sup>35</sup>Ibid., <sup>40</sup>Ibid., <sup>41</sup>Informal interview with Bob Wyatt, Executive Director of the Muttart Foundation, May 2014.

# A Regional Approach in Action: Regional Housing Trust Fund – British Columbia

<b>Need &amp; Goals</b>	Access to equity capital for non-profit and private sector to develop affordable housing units
<b>Response</b>	Capital grants for the acquisition, development and retention of affordable housing units
<b>Who Contributes</b>	Local government
<b>Risk</b>	Non-repayable assistance
<b>Size &amp; Scope</b>	<ul style="list-style-type: none"> <li>• 13 municipalities contribute \$925,300 annually</li> <li>• Grants range from \$30,000 to \$1.2M</li> </ul>

## The Capital Regional District created the Regional Housing Trust Fund (RHTF) in 2005 to address the growing need for low- to moderate-income households.

The idea of the RHTF was first raised in 1997 at a meeting of the regional government board. Subsequently, it was raised often and by 2003, when the Capital Regional District (CRD) was developing the Regional Growth Strategy, the fund was deeply embedded as a recommendation to address the lack of the affordable housing options in the region<sup>42</sup>. On March 15, 2005, the CRD Board, one year ahead of the development of the Regional Housing Strategy, approved the fund. The Fund was initially established for a term of five years, but in March 2010, the CRD Board adopted Bylaw 3635 cancelling the five-year term preserving the fund as a permanent service.

The fund provides capital grants for the acquisition, development and retention of affordable housing units for households with low- to moderate-incomes in the Capital Region. The 13 municipalities that make up the Capital Region of British Columbia voluntarily contribute to the fund. When the RHTF was launched in 2005, only six municipalities contributed to the fund. As of 2014, thirteen (13) of the region’s municipalities contribute a total of \$925,300 to the fund annually.<sup>43</sup> The operating costs of the loan are relatively low. The fund operates under \$1M annually, and the operating costs are approximately 3.5% of the fund or \$35,000 towards staffing two positions.

Because the fund provides grants, not loans, there is little risk to manage although a mortgage on title is placed on projects worth more than \$500,000. This is to ensure that if the project fails, the value of the grant is covered by the mortgage. This allows for control over the sale of the property ensuring that the intended use of the property for social and affordable housing continues.<sup>44</sup>

The Housing Trust Fund has significantly increased the Capital Region’s ability to raise funds for affordable housing, by raising an ongoing equity stake that can be used to leverage additional funds, primarily from senior levels of government and the private sector (CRD, 2014). The capital grants are used to form an equity position – the RHTF money is the first in, which can then be used to leverage other sources of capital funding. The fund assists with leveraging private and government financing, and is able to leverage \$14 for every dollar granted; there is currently no better leveraging mechanism available from other levels of government<sup>45</sup>.

### Challenges

While the fund has proved quite successful, there are still challenges with expanding the fund. These challenges are mainly to do with local attitudes towards taxation and an unwillingness of local municipal governments to make small increases in taxes to expand the fund. A recent poll of Capital Region residents revealed that taxpayers are reluctant to contribute taxes towards affordable housing development as they do not see it as a priority.<sup>46</sup>

<sup>42</sup>Informal interview with Henry Kamphof, Senior Manager of the Regional Housing Secretariat, May 2014. <sup>43</sup>Capital Regional District, 2014. <sup>44</sup>Ibid. <sup>45</sup>Informal interview with Henry Kamphof, Senior Manager of the Regional Housing Secretariat, May 2014. <sup>46</sup>Ibid.

Municipalities also express concern that providing funding for affordable housing development relieves the responsibility of senior levels of government (provincial and federal) to provide the capital for housing, and leaves local governments on the hook without senior government support.<sup>47</sup>

## The 13 municipalities that make up the Capital Region of British Columbia voluntarily contribute to the fund.

### Housing Outcomes

As of 2013, the fund granted close to \$6M towards new construction, acquisitions, retention of units, and renovations for a total of 478 units of affordable and social housing for over 150 families, and over 300 singles.

### Examples of Affordable Housing Projects

**2013 – Hope Centre in Sooke, BC.** A grant of **\$375,000** went towards the construction of 25 studio and one-bedroom units, operated by M'akola Housing Society (non-profit housing provider) to support low-income Aboriginal occupants including youth at-risk of homelessness.

**2012 – Salt Spring Island, BC.** A grant of **\$165,000** was provided to two non-profit societies that partnered to purchase a large residence to provide affordable housing for women escaping violence, and older single women. The residence contains 11 units of supportive housing.

**2011 – 710 Queens Avenue, Victoria, BC.** This is one of two motels purchased by the City of Victoria for supportive, affordable housing purposes. A grant of **\$600,000** went towards providing 36 units for persons who are homeless and at-risk of homelessness, with addictions and mental health issues. The Victoria Cool Aid Society, a non-profit community social service agency, operates the units.

**2010 – 575 Pembroke Street, Victoria, BC.** A grant of **\$375,000** went towards the conversion of a downtown warehouse into a mixed-use commercial and residential property. There are two floors of 25 one-bedroom and bachelor units for low-income singles owned and operated by the Greater Victoria Housing Society with commercial space on the ground floor.



### More Information:

For more information, please visit the following websites:

#### Canadian Mortgage and Housing Corporation:

[http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce/prpr/upload/Project\\_profile\\_EN.pdf](http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce/prpr/upload/Project_profile_EN.pdf)

#### Caledon Institute, 2005.

[http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce/prpr/upload/Project\\_profile\\_EN.pdf](http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce/prpr/upload/Project_profile_EN.pdf)

#### Capital Regional District:

<https://www.crd.bc.ca/about/what-we-do/affordable-housing/regional-housing-trust-fund>

<sup>47</sup>Ibid.

# Community Investment Fund Co-operative Sample Roles and Responsibilities

## GOVERNANCE ROLE

### Board of Directors

A volunteer board drawn from the membership of the co-op and with potential representation by one non-member community/institutional partner. The Board is responsible for the overall governance and oversight of the activities of the Co-op, including investing functions.

### Investment Committee

A volunteer committee made up of qualified professionals with high degree of financial literacy (including representatives of the business community, professional lenders, developers and business valuation experts)

- Advise board on the development of investment strategies and targets
- Due diligence on proposed investment opportunities
- Assess and adjudicate each deal in line with strategies, policy and board direction

## MANAGEMENT ROLES

### Community Engagement and Partnership Development

- Is the lead champion, marketer, and public face of annual community investment fund offerings
- Oversees development of fundraising strategy and ensure annual fundraising targets are achieved
- Develop partnerships with high-net-worth investors and institutional partners and investors and conducts strategic investor relations
- Work with potential investment targets and Board to annually identify and cultivate network of well-placed community champions who will lead lay marketing efforts

### Project Management and Development

- Oversee components of annual undertaking
- Lead drafting of Offering Memorandum based on information provided by Investment Cttee and/or contracted staff and ensure all reporting is completed
- Supervise contract staff and development of communications activities

### Campaign Support and Volunteer Management

- Work with team of well-placed community champions to support community engagement with and support of the investment offerings.
- Promote the investment opportunity to the public and partners
- Hold information sessions
- Liaise with investors and sell shares
- Annually recruit a team of community champions
- Orient Community Champions and ensure they have access to all needed materials and supports
- Work with champions to schedule info sessions and sales opportunities

## Financial Services

The Fund does not envision taking on a significant technical assistance or business development role in the community. However, some investee and opportunity development will be needed.

### Investee Development:

- Identify investment opportunities in the community and assess investee readiness
- Work with potential investees to complete CIF required documentation
- Provide up to date financial information regarding overall health of investment offerings and lead financial forecasting
- Review proposed deals before they are forwarded to investment committee

### Ongoing Financial Functions:

- Manage ROI calculations and ensure payment is made to investors
- Manage organizational budgets and monitor and forecast cash flow
- Run risk scenarios
- Provide additional financial analysis as needed
- Work with Co-op Board and Investment Committee to structure the investment offering annually for the public
- Develop the investor package

## Administrative Services

- Process investment certificates and shares
- Handle paperwork regarding co-op membership
- Monitor purchases and process ROI payments and redemptions
- Support investors as needed to liaise with bank and CWCF regarding any issues with shares



COMMUNITY SOCIAL PLANNING COUNCIL  
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