Community Investment Funds:
Leveraging Local Capital for Affordable Housing

July 2014

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real estate foundation
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BC Housing

Table of Contents

Executive Summary

Community Investment Funds (CIFs) are valuable tools in raising capital to invest in community economic and social development. These vehicles have a long history of community economic development financing across the globe and an established track record of success. CIFs strengthen local economies, increase local engagement in economic activity, and revitalize local communities.

Community Investment Funds (CIFs) are locally sourced and controlled pools of capital that are capitalized by individual investors within a specific geography or community. The proceeds of CIFs are directed towards a range of businesses and organizations that help achieve policy objectives such as job creation, small and medium sized business development, and affordable housing.

Community Development Financial Institutions (CDFIs) in the United States (US) refer to a range of community development entities including community loan funds, community development credit unions, and community development venture capital funds with a mandate to serve low-income, under-served, and economically distressed communities[1]. Many CDFIs also provide direct financial services including business planning and advisory services.

Canadian examples of successful community investment vehicles have demonstrated outcomes in increasing investment in locally owned businesses, contributing to job creation, and generating new sources of capital for housing and other community services. There is a solid evidence base to build on to expand this dynamic approach to retaining local investment capital in local communities, particularly investments in tax deferred retirement savings (RRSPs). Currently, four Canadian provinces (Nova Scotia, Prince Edward Island, New Brunswick, Manitoba) have established Community Economic Development Investment Fund (CEDIF) programs or enabling legislation. Collectively these programs have raised hundreds of millions of dollars from local investors and in some cases have had a profound impact on redirecting outward-bound investment and RRSP flows toward local projects.

[1] Community-wealth.org Retrieved online: http://community-wealth.org/strategies/panel/cdfis/index.html and Chaney, 2011.

1.

Introduction

Community Investment Funds (CIFs) and other locally-based forms of social finance are valuable tools in raising capital to invest in community economic and social development. These vehicles have a long history of community economic development financing across the globe and an established track record of success. CIFs strengthen local economies, increase local engagement in economic activity, and revitalize local communities. They are an essential component of building a more people- and community-centered economy that provides the opportunity to build sustainable livelihoods for residents and communities.

Community Investment Funds (CIFs) have demonstrated success in helping provincial governments achieve policy objectives in job creation, small and medium sized business development, and affordable housing development. This is achieved by enabling local residents to form locally-controlled capital pools that provide a vehicle through which accredited and non-accredited investors can easily invest in their own communities.

The findings of this research project could be broadly shared through organizations, such as, BC Housing, Housing Services Corporation, Real Estate Foundation of BC, Metro Vancouver, provincial/territorial and municipal governments across Canada, BC and Ontario Non-Profit Housing Associations, Co-operative Housing Federation of Canada, Chartered Institute of Housing Canada and other housing sector professionals. The findings could also be presented at a wide range of conferences to reach broader audiences, such as, International Housing and Home Warranty Conference, the BC and Ontario Non-Profit Housing Conferences, Canadian Housing and Renewal Association (CHRA) Congress and the International Housing Partnership Leadership Exchange.

1.1. What are Community Investment Funds?

Community Investment Funds (CIFs) are locally sourced and controlled pools of capital that are capitalized by individual investors within a specific geography or community. The proceeds of CIFs are directed towards a range of businesses and organizations that help achieve policy objectives such as job creation, small and medium sized business development, and affordable housing.

CIFs can exist with or without supporting policy. Where an enabling policy framework exists this usually includes investor tax credits and, in the strongest examples, the articulation of simplified regulatory environment that eases the process of registering and reporting for a community investment fund. In Canada, four Canadian provinces (Nova Scotia, Prince Edward Island, New Brunswick, Manitoba) have established Community Economic Development Investment Fund (CEDIF) programs or enabling legislation and programmatic goals that direct CIFs towards investments in community economic development priorities. In the United States, Community Development Financial Institutions are supported through a federal policy framework, specifically through the United States Department of Treasury, and through some state policy frameworks. These are discussed in the sections below.

In the absence of an enabling policy framework or program of support, CIFs may still exist. In these environments CIFs generally share the following characteristics, even in the absence of a distinct recognized legal form. Community Investment Funds:

- Are legally structured as a share issuing company or co-operative;
- Raise equity investment from local individual investors for local projects. Most CIFs target both high net worth as well as “average” investors[1];
- Investments in CIFs are not deposit insured- they are investments;
- Investments in CIFs are considered part of the ‘exempt market’ for securities, that is to say they are issued through one of more securities exemptions available to issuers. This means that investments in CIFs are not transferable and that there is no secondary market for investments in CIFs. Generally, purchasers must expect to hold their investments to maturity.
- Operate in a defined geographic area or to serve a specific population, and are established to meet identified needs and priorities for those communities;
- Investment in CIFs are limited to members of the above communities or localities;
- Investments made by CIFs are only in local projects within the community;
- Are governed by a board of local representatives and citizens;
- May make raise capital in a pooled (or blind) fund, or for a single investment;
- Most often have defined mandates regarding achieving local community economic development goals.

[1] In the Canadian context only equity investments in share issuing entities are referred to as Community Investment Funds whereas the term “community bond” is increasingly used in Canada to refer to non-equity securities exempt bond offerings issued by charities (which are non-share issuing entities) to invest in real estate projects. Our review of US examples includes examples of both types of activity.

1.1.1. Strengths, Weaknesses, Opportunities and Threats

The following table presents an overview of the strengths, weaknesses, opportunities and threats (SWOT) with this Community Investment Fund model.

Table 1: SWOT Analysis

Strengths
• Available to local individual investors who have not traditionally been able to self-direct investments into local projects like affordable housing. By focusing on non-accredited investors, and in most cases, seeking the ability to include investments in CIFs in self-directed RRSPs, CIFs open up a new source of capital previously unavailable to affordable housing providers; • Local democratic control helps ensure that funds are directed towards community needs; • CIFs have the potential to reduce the operating costs of social financing by focusing on the development of a structure that is able to scale up and scale down to meet demand. Most CIFs proactively seek opportunities to invest in specific projects in their communities.
Weaknesses
• Complex legal and regulatory environment with multiple overlapping pieces of legislation can make it difficult for local people to navigate the start-up process for CIFs; • Depending on the specific legal form, CIFs may have to limit institutional investments to 10% in order to maintain RRSP eligible status. • Investments in CIFs are not transferable investment and there is no market for resale. Investors must assume they will hold the investment to maturity, which is unappealing to some; • As an emerging vehicle, CIFs may be relatively unrecognised to local investors and may require additional efforts to overcome a 'trust' gap; • Returns on affordable housing are slim and to provide a return to investors CIFs need to be diligent and lean.
Opportunities
• Community and social financing is a rapidly evolving field in Canada and elsewhere. There is significant conversation about crowd-funding initiatives and other securities amendments to simplify the process for communities seeking to raise capital through these means.
Threats
• The regulatory and legal environment poses current challenges as well as potential future threats.

1.1.2. Community Investment Funds- Typical Roles

Government: Community Investment Funds can exist with or without an enabling policy environment, however, in most cases, community investment funds are enabled by policy tools that include investor tax credits and, in the strongest examples, the articulation of simplified regulatory environment that eases the process of registering and reporting for a community investment fund. In addition to enabling policy tools, investments sold through Community Investments Funds are securities and as such are regulated by securities' regulators.

Housing Providers: Housing providers are key borrowers or investees of Community Investment Funds. The CIF will require housing providers to provide detailed financial forecasts, budget information and business plans. Housing providers may or may not be asked to leverage their networks and existing in support of the investments.

Banks/Credit Unions/Investors: The key investors in Community Investment Funds are individual community members, generally as an RRSP eligible investment. Typically in Canada banks have not played a significant role in engaging with Community Investment Funds. In some cases a local bank or credit union may provide developmental funding in support of the Fund itself. In Canada there are some examples of CIF-like initiatives partnering with the local credit union/bank to finance housing projects.

2.

How CIFs Work: A Cross-Jurisdictional Review

2.1 CDFIs: Leveraging Local Capital for Affordable Housing in the U.S.

Community Development Financial Institutions (CDFIs) in the United States (US) refer to a range of community development entities including community loan funds, community development credit unions, and community development venture capital funds with a mandate to serve low-income, under-served, and economically distressed communities[2]. Many CDFIs also provide direct financial services including business planning and advisory services.

In general, CDFIs provide opportunities for direct investment in community development and related activities and are incorporated in states where they operate as a non-profit tax exempt financial institution. According to the Opportunity Resource Fund (2014), "*CDFIs are not federally regulated and investor loans are not insured.*"[3]

Community Development Entities are a sub-set of CDFIs that exist primarily to access the New Market Tax Program (NMTP). The NMTP was set up by the United States government to encourage individual investors to invest in economically depressed and marginalized communities by offering private, individual investors a modest tax incentive for investment.[4] The U.S. Department of Treasury's Community Development Financial Institutions Fund is responsible for allocating the tax credits. Community Development Entities (CDEs) then apply to the Department of Treasury who awards an allocation to qualified CDEs. The CDEs then use the tax credit allocation to incentivize investment in local projects. Investors receive a 39% tax credit on their investment.

As in Canada, CDFIs that raise capital from individual investors[5] to finance affordable housing development may exist in a number of different regulatory and policy environments. The examples below share the characteristics of CIFs as outlined in the sections above.

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[2] Community-wealth.org Retrieved online: http://community-wealth.org/strategies/panel/cdfis/index.html and Chaney, 2011.
[3] Opportunity Resource Fund, 2014. Retrieved online: http://fieldus.org/publications/CDFI02.pdf
[4] Abravanel, M.D, et al, 2010
[5] It is important to note that CDFIs in the US include community development credit unions that effectively pool member deposits and re-invest a portion in low income communities and projects. Despite the focus on pooling individual capital these are not included in our examples as a key differentiating characteristic of CIFs in Canada is that these are not deposit insured contributions.

2.2 US Examples

2.2.1 Forward Community Investments[6]

Since 1994, the Forward Community Investments (FCI) in Wisconsin has provided low-cost and accessible financing to organizations and programs that are focused on reducing economic and social disparities in communities across Wisconsin. FCI is 501(3) exempt entity (roughly the equivalent of a Canadian charity) and is certified by the U.S. Department of the Treasury as a community development financial institution (CDFI). FCI provides flexible, low-cost loans, financial advisory services and a loan fund to organizations that may not be able to access loans from traditional lenders. Since 1996, FCI has loaned over $29 Million to local projects.

CFI supports affordable housing development, economic development projects, and efforts to expand basic social services, through the ability to customized loans to meet the unique needs of community serving organizations. Below market interest rates, longer amortization periods, flexible repayment schedules, and the use of less-conventional or subordinated collateral are some of the options available to organizations that cannot access traditional loans but have a high social impact. Forward Community Investments "recycles" the paid off loan and interest to provide loans to other organizations.

FCI raises capital for its financing programs through investments made by local community members. These investments are raised through the sale of promissory notes to individuals and institutions. These promissory notes represent a loan made to FCI for the purposes of re-investing in their accessible financing mandate. The terms of these investments are outlined a Prospectus issued by FCI. However, investments made through the Prospectus are not securities' registered and, as in Canada, are not transferable (i.e. there is no re-sale option or secondary market available). Because of securities' exempt status of investments in FCI, investments are targeted at residents of Wisconsin or organizations incorporated in Wisconsin. Investments are available to "accredited investors[7]" only from outside the state.

FCI Investment terms include:

- A minimum investment of $1,000.
- A minimum investment term of one year.
- A 2.0% simple, annual interest rate (investors may choose a lower interest rate to increase the pool of funds available for community projects)
- Notes are viewed as an investment to be held to maturity but the Foundation does allow for early redemption and partial withdrawals with a penalty
- Interest payments made either annually or at the time the investment matures.[8]

CFI has a strong affordable housing mandate. The 401 Vine Street property is just one example of the many affordable housing projects that have been financed in part by the FCI.

[6] Information on Forward Community Investments was retrieved online: http://www.forwardci.org/invest-in-your-community/how-to-invest and from Forward Community Investments Prospectus documents
[7] See US securities law for a definition. Accredited investor status established through a net worth and income test.
[8] Ibid.

2.2.2 401 Vine Street, Wisconsin Dells

St. Vincent De Paul Society of Wisconsin Dells purchased a property to develop 10 multi-bedroom, long-term, affordable housing units specifically for homeless, or unstably housed families with children in the Wisconsin Wells School District area. Tenants will have access to an on-site case manager who will work with tenant families to connect them to other services in the community to support them in maintaining their tenancy long-term. The total project cost $1,445,500 USD and FCI provided $675,500 USD in financing.

2.2.3 Calvert Foundation

The Calvert Foundation is a CDFI based in Maryland. It was created in 1988 by Calvert Investments (a mutual fund)[9] in response to an increasing demand from their clients wanting to invest directly in underserved communities.[10]

> *"The Foundation's mission is to enable people to invest for social good in order to foster a more equitable and sustainable society. By creating innovative financial products and services, the Foundation has enabled individuals - not just institutions -- to participate in community investing, and has established a more effective social capital market in which more resources flow faster to communities in need".*

In 1995, the Calvert Foundation launched the lending program with $483,860 raised from 170 individual investors through its signature Community Investment Note.

Through its Community Investment Note[11], the Foundation currently has over $180 million invested in approximately 200 non-profits and social enterprises in 80 countries. The investment portfolio includes organizations working in affordable housing development, microfinance, women's empowerment, fair trade and sustainable agriculture, small business development and financial services.[12] As of December 2013, the Community Investment Note balance was $240 million from 5,194 individual and institutional investors, with 60% invested domestically and 21.6% dedicated to affordable housing development.[13]

Investors can either invest directly or through a brokerage firm. The Community Investment Note is a debt-security, where investors earn a fixed return with risk managed by the Calvert Foundation. A self-directed Individual Retirement Account may invest in the some types of the Notes. Notes are available to individual and institutional investors.

The terms include:

- Minimum investment of $20-$1,000
- Financial return of 0-3% over 1 to 20 year terms
- Notes are viewed as an investment to be held to maturity but the Foundation does allow for early redemption and partial withdrawals
- Investors choose where to target their investments through targeted impact options[14]
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The Calvert Foundation has directed investment to a number of affordable housing initiatives across the United States.The Preservation of Affordable Housing is just one of many affordable housing focused organizations that the Calvert Foundation supports through investment.

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[9] Retrieved online at: http://www.calvert.com/
[10] Retrieved online at: http://www.calvertfoundation.org/about/history
[11] With information from the Calvert Social Investment Foundation Prospectus (2014)
[12] Ibid.
[13] Calvert Foundation, 2014 retrieved online: http://www.calvertfoundation.org/storage/documents/CI-Note-Fact-Sheet.pdf
[14] Ibid.

Preservation of Affordable Housing (POAH)[15]

- POAH is a non-profit organization whose mission is to preserve and steward affordable rental housing to provide stability, hope, and economic security to low- and moderate-income individuals and families. Since its founding in 2001, POAH has rescued and restored some of most 'at risk' rental housing in the United States.
- *"POAH has revitalized or created more than 8,000 affordable homes at 64 properties in nine states and the District of Columbia. POAH's portfolio has grown quickly since its creation in 2001, increasing its housing stock in the Southeast, Middle Atlantic, Midwest, and, most significantly, the Northeast."*[16]

2.2.4 ENTERPRISE

Enterprise Community Partners is a Community Development Entity that draws on the New Market Tax Credit (NMTC) program to incentivize investments in the local projects. Enterprise's mission is to create opportunity for low- and moderate income people through affordable housing in diverse, thriving communities. Since 1982, Enterprise has raised and invested nearly $16 billion in equity, grants and loans to help build or preserve nearly 320,000 affordable rental and for-sale homes to create vital communities and more than half a million jobs nationwide. Enterprise's NMTC program began in 2002 and is one of the largest tax credit allocators in the country. Enterprise has received a total of $722 million in allocations, leveraging over $3 billion in total development financing and used this to invest in more than 55 real estate projects and low income businesses.[17]

Miller's Court, Baltimore

- Miller's Court in Baltimore, Maryland is a mixed-use residential and commercial development designed as a transit-oriented, walkable community providing affordable housing options for teachers. It includes 40 apartments, 34,000 square feet of office space and 1,000 square feet of retail space. At least ten of the apartments will be affordable.[18] Approximately $19 million in New Market Tax Credit allocation was used to finance the $21.9 million total development cost.[19]

[15] For more information on POAH, see visit the website: http://www.poah.org/
[16] Verbatim form website: http://www.calvertfoundation.org/impact/stories/240
[17] Enterprise Community Partners, 2014. Retrieved online: http://www.enterprisecommunity.com/servlet/servlet.FileDownload?file=00Pa000000Tt72HEAR
[18] Enterprise Community Partners, 2014. Retrieved online: http://www.enterprisecommunity.com/financing-and-development/new-markets-tax-credits/portfolio-and-approach/millers-court
[19] Ibid.

2.3 CIFs: Leveraging Local Capital for Affordable Housing in Canada

Canadian examples of successful community investment vehicles have demonstrated outcomes in increasing investment in locally owned businesses, contributing to job creation, and generating new sources of capital for housing and other community services. There is a solid evidence base to build on to expand this dynamic approach to retaining local investment capital in local communities, particularly investments in tax deferred retirement savings (RRSPs). Currently, four Canadian provinces (Nova Scotia, Prince Edward Island, New Brunswick, Manitoba) have established Community Economic Development Investment Fund (CEDIF) programs or enabling legislation. Collectively these programs have raised hundreds of millions of dollars from local investors and in some cases have had a profound impact on redirecting outward-bound investment and RRSP flows toward local projects. Across the country investors are seeing financial and social returns on their investments in these funds and vehicles.

As of 2014, all the below described provincial programs allow local investment in pooled funds and all five offer a significant tax credit to investors. However, to date, Nova Scotia is the only province that has worked with its provincial security commission to make adjustments for CEDIFs. As a result, the Nova Scotia Securities Commission have simplified securities filing and reporting process for CEDIFs and issued a blanket order to reduce the burden of complex requirements. Only Nova Scotia has sought approval from the CRA to have investments in a CEDIF pre-approved as RRSP eligible investments

Table 2: Provincial CEDIF Programs at a Glance

	Nova Scotia	PEI[20]	New Brunswick	New Brunswick	Manitoba
Date created	1993/1999	2011	2003	2014	2004
Number in operation	47	0	396	N/A	12
Capital raised	$56.7 M	0	77.6 M	N/A	2.25 M
Number of investors		0	2,103		
Open to co-operatives	Yes	Yes	No	Yes	Yes
Investment in EBCS	Yes	Yes	Yes	Yes	Yes
Investment in Pools	Yes	Yes	No	Yes	Yes
Tax credit	Yes (35%, 20%, 10%)	Yes (35%)	Yes (30% individuals only)	Yes (30% individuals and 15% corporations and trusts)	Yes (30%)
Simplified Securities Process	Yes	No	No Offering Document required	Unknown	No
Pre-qualified for RRSP	Yes	No	No	No	No

[20] Current to July 2013

While four provinces in Canada have enacted legislation and policy environments that support CEDIFs through tax incentives and other mechanisms, there are examples of community investment vehicles operating without enabling policy environments. Three examples of community investment programs or vehicles are described below: Nova Scotia which has an enabling policy environment, Alberta Opportunity Development Co-ops which operate without enabling policy, and the Vancouver Island Community Investment Co-operative which is currently in development.

2.4 Nova Scotia

The Nova Scotia Community Economic Development Investment Fund 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. 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.

Most significantly, the CEDIF regulations that have been adopted set out a “special relationship” for the CEDIFs and securities regulations.

1. 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.

2. The 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 Offering Memorandum filers to comply with Canadian Generally Accepted Accounting Principles for Public Enterprises[21].

3. 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.

[21] See: NSSC Blanket Order No. 51-504 and http://www.novascotia.ca/just/regulations/regs/secced.htm#TOC1_3

2.4.1 Nova Scotia 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 $8 m, 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 $6.8 m for reinvestment in community assets and enterprises since 2004.

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

2.4.2 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 the 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 $2.4 m 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 $1.5 m 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 $35 k 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.

2.4.3 New Dawn CEDIF: Lessons Learned

In an interview with New Dawn Executive Director, Rankin MacSween, he noted the following lessons learned from their experience operating a CIF.

Success factors:

- Creating a sense of shared identity;
- Knowledge development and education;
- 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:

- 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.
- 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).

2.5 Alberta

Unlike the Nova Scotia context, Alberta does not have an enabling policy environment, such as the investment tax benefit, to support CIFs. The Alberta Community and Co-operative Association is an example of how local community investment vehicles can operate without an enabling policy framework.

The Alberta Community and Co-operative Association (ACCA) is running an extensive pilot program called "Unleashing Local Capital" with funding and support from the Alberta Government's Rural Alberta Development Fund. The project builds on the successful examples of the Sangudo Opportunity Development Co-operative and other rural examples from Alberta. Since launching the pilot in 2012, five (5) new Opportunity Development Co-ops have been created to keep local investments in rural communities for job creation, business development and expansion, and increase local control of economic resources. Support, seed funding, template documents, and access to a professional network has been provided to pilot co-operatives through the ACCA.

This project is focused exclusively on co-operatives as a model to pool funds for local investment. The Alberta model is similar to the model currently being developed by the Community Social Planning Council (see below) with a few notable exceptions:

- To date the Alberta Opportunity Development Co-ops have relied on an exemption in Alberta securities regulations, that allow the co-op to raise up to $10,000 per investor from up to 99 investors. This exemption does not have the same audit requirements as does use of the Offering Memorandum.
- All of the Alberta examples are designed for rural settings; none have been piloted in an urban context.

2.5.1 Examples of Alberta Opportunity Development Co-operatives

The **Crowsnest Opportunity Development Co-operative**[22] is working on renovating a historic building for mixed housing and retail spaces. There will be four (4) rental housing units available. Since this cooperative endeavor was announced, the Co-op has received 20 investment commitments, out of 50 needed to make the Coopertaive viable. The first investment is $12,000, with an estimated 5% return per year, and is open to only 50 investors. Other housing initiatives are being explored including a seniors housing complex.

The **West Lock Grain Terminal**[23], Alberta is a New Generation Co-op that raised $1.2 million in community investment over a 6 week period to purchase the local grain elevator, the coop currently has 239 shareholders.

The **Battle River Railway New Generation Co-op**[24] in Camrose, Alberta brought together 350 individual investors (151 farmers) in 2009 to contribute 3.4 million to the purchase and operations of the abandoned railway track and raise an additional 1.4 million in debt financing. One of the key barriers facing the leadership in this co-op was securing appropriate expertise in the business and operational planning and the cost to develop the share offering and for co-op development were over $350,000.

The **Sangudo Opportunity Development Co-operative** was incorporated May 7, 2010 in response to the loss of significant community businesses and assets in the rural community of Sangudo. In creating the cooperative, local residents realized that they needed to create an investment structure that would work for many types of investments and businesses. The Co-op received $50,000 from ACCA for start- up and business planning costs, and members contributed their own money as well. The cooperative leverages financial capital from local area residents through membership shares and loans and then provides loans to local businesses. In order to access a loan from the co-operative, entrepreneurs must also become co-op members and each deal is uniquely structured. They see their role as that of a business incubator and a vehicle to invite local entrepreneurs to run their own businesses. The co-op has faced significant securities legislation barriers, which restrict the number and amount of shares a co-op can issue. To comply with securities legislation, capital is raised through a combination of membership shares and member loans (membership shares are $1,000, and members loans are $9,000); self- directed RRSPS only apply to their member shares.

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[22] Information retrieved online: http://www.codcoop.org/projects.htm
[23] Following three examples with information from Accelerating Co-operative Development in Alberta published by the Alberta Community and Co-operative Association
[24] (Cabaj, 2011)

2.5.2 Alberta- Opportunity Development Co-operatives: Lessons Learned

- Keep share prices low enough to encourage investment from all members of the community, but high enough to raise sufficient investment capital.
- Set a short timeframe for people to investment because a majority of investments will wait till the last week (or day) to purchase shares. If the timeline is too long, investors may lose interest.
- Talk to the surrounding communities because they have a strong vested interest in this venture
- Do not hire a salesman to sell the shares. This is the work of the project leadership. The people of the community will be more likely to trust someone they know and respect.
- A key success was the offering a class of investments with a defined rate of return. These proved to be the most popular share offering[25].

Table 3: Summary of Key Advantages and Disadvantages of Provincial CEDIFs

	Key Advantages	Key Disadvantages
Nova Scotia	• Up to 60% Investor tax credit availability • Pre-qualified RRSP eligible investment • Investment possible directly in eligible businesses or in capital pools • Simplified securities process • Simplified audit requirement	
Alberta	• Investment possible in co-operatives serving as capital pools • RRSP-eligible investment • Templates, seed funding and support available • Purposely designed to minimize securities compliance required (under audit thresholds)	• No tax credit • No provincial program of support • Limits to amount of capital raised

[25] Excerpted from Cabaj, P. Gismondi, M.; Stringham, R.; Wood, D. (ND). West Lock Grain Terminals: A Case Study

3.

Vancouver Island Community Investment Cooperative: An Emerging Community Investment Fund

The Vancouver Island Community Investment Co-operative (or Community Investment Fund) is designed to address two pressing needs on Vancouver Island: a need among affordable housing and social enterprise developers to access diversified sources of capital and a growing demand among local investors to see their investment dollars at work in their own community. The CIF aims to contribute significantly to achieving affordable, family and workforce housing targets set by local, regional and provincial governments and to business diversification, growth and expansion in the region.

Currently, local investing remains largely out of reach for non-accredited investors. Securities Regulations that have been established to protect investors from fraud have cut off an important source of capital from our communities and resulted in most local investors to sending their money off-shore or out of the community. In 2010, residents of the Vancouver Island contributed over $571 million to Registered Retirement Savings Plans alone; and yet very little of this investment 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[26], or help grow the revenues of several small businesses.

3.1 Structure

The Vancouver Island Community Investment Co-operative (operating name: Community Investment Fund or “CIF”) is a legally incorporated for-profit co-operative under the BC Co-operative Association Act that raises community capital with a portion of its portfolio directed to the development of affordable housing. The CIF has been created to provide an investment opportunity for residents of Vancouver Island and the Gulf Islands to invest on the Island. Investor capital is pooled with that of all other investors within a given class of investment shares and the proceeds are used to make equity or debt investments in a range of projects. As such, both the risk and return from these investments is pooled across all investors in a given class.

The CIF is targeting below market financial returns for investors of approximately 2%, combined with a high social and community return. Investments in the CIF are eligible for inclusion in one’s self-directed RRSP through a program of the Canadian Worker Co-op Federation, which acts as the custodian. Membership and investment are limited to residents of Vancouver Island and the Gulf Islands.

[26] 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.

3.1.1 Governance

The Community Investment Fund is governed by a local volunteer Board. The Founding Board is made up of five local entrepreneurs, non-profit leaders, and venture investors. Investment decisions will be vetted by an Investment Committee. This committee will include local experts with experience in financial services and investment, business and real estate valuation. The investment committee will review all prospective investments to ensure their financial viability and social impact and make a recommendation to the Board for decision. An ethical investment “screen” will be used to assess investment options based on sustainable social, economic and environmental impacts.

3.2 Financial Considerations and Capital Raising

The Community Investment Fund raises capital through the periodic issuance of investment shares, subject to regulation by the BC Securities Commission. In its most public phase the CIF will rely on an Offering Memorandum to do so.

3.2.1 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.[27]

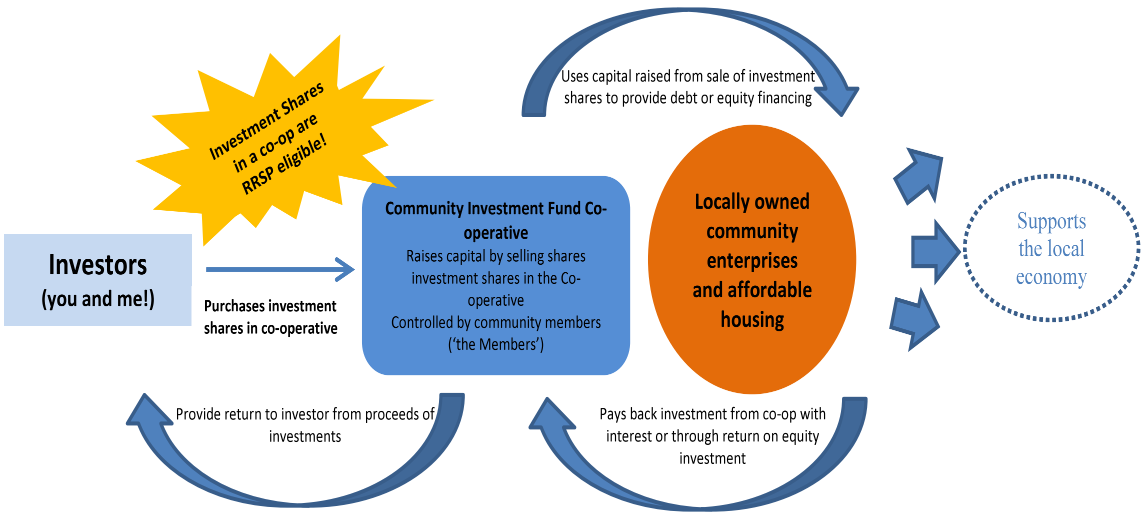
3.2.2 Offering Memorandum Limitations

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 that you should be sure you can re-coup your costs from before pursuing.

[27] Personal Communication; Bull, Hauser, and Tupper LLP.

Figure 1: How It Works At a Glance



3.3 When is a Community Investment Fund the Right Approach?

While affordable housing and community enterprise developers can currently raise equity from non-accredited investors through existing exemptions outlined in National Instrument 45-106-Prospectus and Registration Exemptions, the available options are limited in terms of number of investors and capital raised (e.g. a private issue) or the cost and complexity of doing so is prohibitive for a single project (e.g. the Offering Memorandum exemption). As such, projects with potential for high social return tend to stall out, and local investors are unable to support projects in their own community.
In developing the Community Investment Fund model, we aimed to help overcome some of these challenges by creating a vehicle that:

- Can be used to invest in a mix of project types, including affordable housing, mixed use real estate and commercial ventures with a strong social outcome;
- Is flexible enough that it can be deployed for multiple projects so as to reduce the cost barrier that affordable housing, real estate and local enterprises currently face in raising private capital;
- Is replicable and helps build the professional and technical relationships that other communities can draw on in the future;
- Is available to local private, non-accredited investors (RRSP eligibility is important to this) and institutional investment (e.g. Foundations, local governments) where appropriate, and;
- Is financially and administratively nimble and lightweight.

3.4 External Factors and Regulatory Environment

In British Columbia, CIFs are subject to three basic sets of legislation that collectively govern their actions and capabilities.

- Securities Rules and Regulations: this governs to whom and how an organization can sell securities[28].
- The BC Co-operative Association Act or the BC Business Corporations Act which govern the co-op or company that will be using its investment shares to sell Securities.
- 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.

3.4.1 Barriers for Community Investment Funds in BC

Through our research and design process we have identified a number of barriers to the successful implementation of the Community Investment Fund model in British Columbia. These are outlined in the following sections. The success of the CEDIFs described above hinges on enabling policy environments, provincial and federal.

3.4.2 Provincial

i. Securities Environment:

The sale of investment shares is subject to regulation by the BC Securities Commission. The Vancouver Island Community Investment Fund will comply with National Instrument 45-106-Prospectus and Registration Exemptions. This means that when selling shares to the public, beyond a limited number of 'friends, family and close business associates or Accredited Investors', the CIF will produce and make available an Offering Memorandum.

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. An Offering Memorandum requires continuous updating to ensure the accuracy of the information contained. Since 2011 those utilizing the National Instrument 45-106-Prospectus and Registration Exemptions have been required to comply with a higher audit standard (the cost of which is estimated ~$20,000) 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, puts this option out of reach for most community-based initiatives.

[28] A security is any tradable asset and includes debt, equity and derivative securities. For a full definition see: the BC Securities Act

ii. Lack of Appropriate Tax Credit

Our scan of other provinces demonstrates that investor tax credits have been critical to creating incentives for local investment. BC lacks an equivalent tax credit program. The closest equivalent is the existing Venture Capital Program (VCP) that provides a 30% tax credit for equity investments in select industries and activities through either direct investment in an eligible business corporation, a Venture Capital Corporation or a Labour Sponsored Venture Capital Corporation.

The Venture Capital Program (VCP) is not open to companies incorporated under the BC *Co-operative Association Act*. The VCP contains several specify budgets to drive investment towards identified sectors and priorities. Within the program, the Community Diversification budget is allocated for regional economic diversification, but is not open to investments in the Lower Mainland and the Capital Region. The Community Diversification component of the VCP program is undersubscribed. This is puzzling given that it is well documented that rural communities are in need of capital investment.

3.4.3 Federal

i. Income Tax Act and RRSP eligibility

Specified Co-operative Corporation and Income Tax Act
Investment Shares in a co-operative are RRSP eligible providing they meet the definition of a Specified Co-operative Corporation under the Income Tax Act.

The Income Tax Act (ITA) Regulations state that a qualifying investment (i.e., one suitable for inclusion in a self-directed RSP or similar) includes a qualifying share in a specified co-operative corporation. A specified co-operative corporation is defined (in Regulation 4901) as a co-operative corporation. The ITA defines “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 necessaries 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, 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

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, thereby cutting off important potential partnerships and opportunities to leverage funding. This regulation creates an administrative burden on co-operatives that must effectively constantly monitor the composition of their membership and capital to ensure compliance. Additionally this is not a well-understood part of the tax or co-operative law, and there are relatively few legal experts working in this area, greatly increasing the risk of errors due to inadequate information and oversight.

Limits on Shares Held by an Individual or Related Party

Changes to federal tax rules in December 2011 have an impact on RRSP eligibility for co-operatives, so no person or related parties 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. This change has had a particularly negative effect on smaller co-operatives and co-operatives with highly differentiated share structures and has made the overall governance and management process complicated and burdensome.

4.

Conclusion: Future Outlook and Emerging Issues

This paper provides a summary of the experience in Canada, and to some extent the US, of locally sourced social finance instruments to raise capital for community benefit. The social finance sector in Canada is a relatively young segment of the economy that combines financial and social returns to investors. There has been a longer term experience and a much larger financial investment in this sector in the US, and in European and developing countries around the world, from which we can learn.

The social finance movement – alongside its counterparts in community economic development, fair trade and social economy organizations – has grown dramatically as civil society seeks new ways of generating community assets that create social and economic outcomes. This has occurred partly because of failures in both the market and government activity to address inequality and invest effectively in social development. However it is also a growing movement because of a proactive desire by many civil society organizations to purposefully create a more people, planet, and community centered economy.

These trends will continue to impel social financing as a growing sector in Canada. It also has great potential to address the financing needs of affordable housing developers, which are particularly acute in high land cost markets like those in the Lower Mainland and Southern Vancouver Island. In particular, community investment funds and other forms of social financing could be a key source of investment for affordable rental housing which is in short supply in the continuum of affordable housing.

About the Authors

Community Social Planning Council of Greater Victoria

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 1938. 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.

COMMUNITY SOCIAL PLANNING COUNCIL
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Acknowledgements

This project was made possible thanks to funding and support from the following organizations:

The Real Estate Foundation of BC

The Real Estate Foundation of BC is a philanthropic organization with a mission to transform land use attitudes and practices through innovation, stewardship, and learning. The Foundation's grants program supports non-profit organizations working on progressive projects that address environmental and urban issues. Since 1988 the Foundation has approved more than $67 million in grants to create positive change for BC communities.

real estate foundation BRITISH COLUMBIA

BC Housing

BC Housing develops, manages, and administers a wide range of subsidized housing options across the province of British Columbia in Canada. We partner with private and non-profit housing providers, other levels of government, health authorities, and community groups to increase affordable housing options for British Columbians in greatest need. BC Housing also helps bring about improvements in the quality of residential construction in B.C. and helps strengthen consumer protection for buyers of new homes.

BC Housing

Vancity Credit Union

Vancity is a values-based financial co-operative serving the needs of its more than 501,000 member-owners and their communities through 57 branches in Metro Vancouver, the Fraser Valley, Victoria and Squamish. As Canada's largest community credit union, Vancity uses its $17.5 billion in assets to help improve the financial well-being of its members while at the same time helping to develop healthy communities that are socially, economically and environmentally sustainable.

BC Cooperative Association

The British Columbia Co-operative Association (BCCA) is the umbrella organization that works on behalf of co-ops and credit unions in British Columbia, Canada. We promote co-ops as powerful tools for community control over local economies and as key strategies for economic and social reform. We are a member-driven organization that is a registered "second-tier" co-operative of other co-ops, credit unions, and supportive organizations drawn from across the spectrum of our economy. Among our members are some of the largest co-operatives in Canada, as well as some of the smallest and newest types of co-ops.

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