

COMMUNITY IMPACT INVESTMENTS: HISTORY AND WAY FORWARD

April 25, 2023

BACKGROUND

- Often called Mission Related Investments (MRIs)
 - Creates the ability to make local investments at a greater scale than grantmaking
 - Seeks market-rate or near market-rate returns
- Dan saw a presentation at a Council on Foundations Conference
 - Mostly larger foundations with more discretionary assets
 - Referenced working with Community Development Finance Institutions (CDFIs)
 - Came back and started researching
 - Only one CDFI headquartered in Monterey County (Cal Coastal)
 - Others providing services in MC
 - Primary source material: *Community Foundation Field Guide to Impact Investing* published by Mission Investors Exchange (www.missioninvestors.org/cfguide)
- Presented to the CFMC board at the 2018 board retreat and February 2018 board meeting.
 - Board gave approval to form the CII committee
 - Nolan Kennedy agreed to be the founding chair

GETTING STARTED

- Committee was formed
 - Included two bankers who were non-board members
 - Knew underwriting was going to come into play
- Defining the program and creating policy documents
 - Several options could be pursued
 - Place money with credit unions who would use as loan capital
 - Make direct investments (e.g., partner in a housing development)
 - Loan program to nonprofits
 - Capital campaigns
 - Lines of credit
 - Make loans to CDFIs
 - Evergreen concern was finding a way to participate in affordable housing
- Decided to initially invest in CDFIs
 - We loan to them, and they use the capital to re-loan to their clients
 - CDFIs work with clients who are often underserved and have trouble obtaining traditional financing
 - RFP was sent in summer of 2018

GETTING STARTED

CONTINUED

- How to fund?
 - CFMC has a healthy base of discretionary assets, but they're dedicated to grantmaking
 - Some CFs raise impact investment money from outside or DAF holders
 - We chose to revise the Investment Policy Statement, adding CII as an asset class
 - It was the only source of funds with the capacity to fund the program
 - Range of 0 – 5% of the long-term portfolio; target of 2%
 - Target has been raised to 3% (roughly \$9 million)
- First loans
 - Accion (then called the Opportunity Fund) (December 2018)
 - \$1 million at 2.5%; five-year loan
 - Accion invests in small businesses with emphasis on women entrepreneurs and people of color
 - California Farmlink (December 2018)
 - \$750,000 at 2.5%; five-year loan with option to renew
 - California Coastal Rural Development
 - \$1 million at 2.5%; five-year loan
 - Loan was cancelled as Cal Coastal had other sources of loan capital

AS THE PROGRAM PROGRESSED

- Wanted to assist Pajaro and North County as they are particularly underserved
 - Conversations with El Pajaro CDC
 - They partner with a CDFI in San Francisco (MEDA; Fondo Adalente is the actual CDFI)
 - \$500,000 loan; 2.5% interest; five-year with five-year renewal
 - Lowered to \$250,000 as EPCDC had other sources of capital
- James Irvine Foundation passed through a \$1 million grant that went to EPCDC and Cal Coastal
 - Money did not have to be repaid
 - Made our loans a lower priority for utilization
- Made first housing loan
 - \$250,000 to CHISPA for Mills Ranch in King City
 - 2.5%; five-year loan
- Hired Community Capital Advisors to produce portfolio impact reports
 - Needed a better tool for board reporting and tracking

PROGRESSING

CONTINUED

- Began to feel we'd exhausted the CDFI opportunity
- Opened loan program to nonprofits for capital projects
 - Revised policy docs to accommodate
 - Asset allocation target moved from 2% of Long-Term Portfolio to 3%
 - \$1MM loan to United Way for Impact Center
 - 3.5% interest rate; five-year term
 - 12 months interest-only; then quarterly; payments based on 25-year amortization
 - \$1.35MM LOI with Sunstreet Center for new treatment center
 - Dependent upon receipt of state grant
 - \$1.35MM loan to Monterey Museum of Art for purchase of Miller Adobe
 - In negotiation
- Still very interested in housing
 - Continuing conversation around project on Market Street in Salinas
 - Continuing conversation with MPUSD to support teacher downpayments
 - Dan meeting with for-profit affordable housing developer
- Program is a hybrid of strategic and opportunistic
 - In varying interest rate environment, working on tying loan rates to treasuries