



Change Management for Integrated Impact Investment Strategies

DEFINING IMPACT INVESTING



IMPACT INVESTING:

Investing intentionally to target positive social or environmental change alongside financial returns

RELATED TERMS

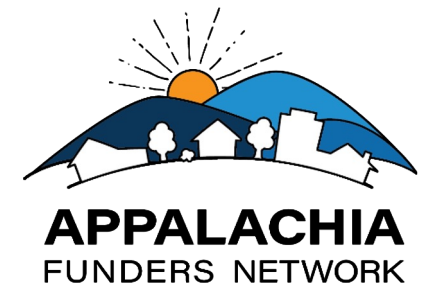


- SRI (socially-responsible investing)
- ESG (environmental, social, governance)
- Divesting/screening
- Shareholder activism
- IPS (Investment Policy Statement)

Mission Related Investments (MRI)

- No formal or IRS definition
- Foundation is **primarily acting as an investor**, seeking financial results plus positive social or environmental change
- Assumption of market-based returns

MRIs and PRIs: DEFINING TERMS



Program Related Investments (PRI)

- Defined by IRS and included in 5% payout MDR (minimum distribution requirement)
- Foundation is **primarily acting as a grantor**, seeking charitable results
- Assumption of below-market or no return, or high risk
- Recorded on the balance sheet as a charitable use investment

Examples of PRI investments



- Certificates of Deposit
- Loans, revolving loan funds
- Loan guarantees
- Equity (e.g.: real estate, venture capital)

The Allegheny Foundation

Mary Fant Donnan



Historic Masonic Theatre

Clifton Forge, Virginia



A story of...

- One, small town but a big undertaking
- Persistence
- Shared Leadership
- Creative Problem-solving
- Positive Results

Historic Masonic Theatre

Total Project Cost: \$6M

Total Assets: \$60 M

Foundation Investment/Structure: \$629,000/ Contingency grant –actual cost \$46,301

Annual Grantmaking Budget: \$2.2M

Impact: Transformed a critical anchor building into a thriving, first-class venue for performances, education and social activities for the region.



Historic Masonic Theatre

Circa 1950s



Volunteers

The New Engine of Change



The Historic Masonic Theatre
Celebrating the life and legacy
of our visionary leader

JOHN E. HILLERT

1950-2017

"We are a regional Theatre, not a Clifton Forge Theatre. We want people to come from all over and feel welcomed and comfortable. You can see by its beauty that this is not just a run-of-the-mill theatre...this is a first class operation and we welcome everyone. Every time you walk into the Theatre, it is a 'feel good' moment."

John E. Hillert, Grand Reopening of the Historic Masonic Theatre

Project Overview

4 Stories/ 55,000 sq ft

Total Construction Costs: \$6,000,000

Sources:

New Market Tax Credits

Federal Historic Tax Credits

State Historic Tax Credits

VA-IRF Grant

Enterprise Zone Grant

Local Fundraising (pre-development costs)

The Challenge: Securing “Bridge Financing”

Total Costs:	\$6,000,000
Cash/grant (on hand)	\$1,800,000
Bridge Loan (needed):	\$4,200,000



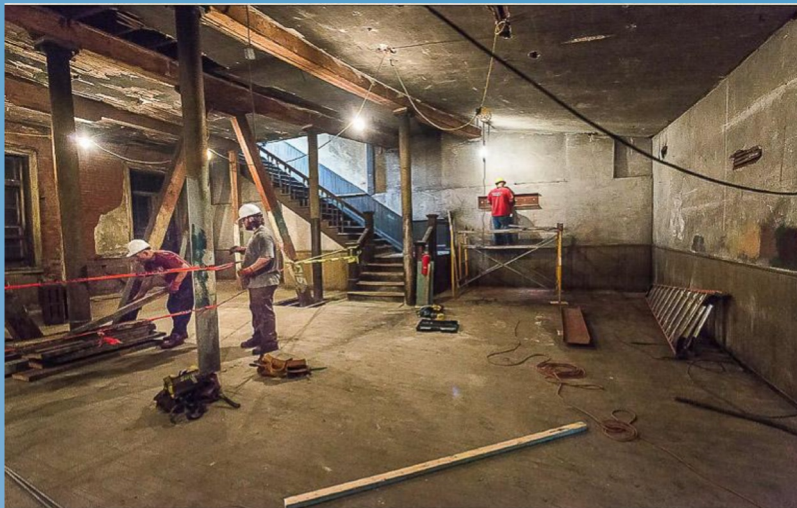
The Solution

Loan Guarantee/Contingency Grant

- **Typical approach: Loan Guarantee**
- **Alternative approach: Contingency Grant**
- **\$629,000 allocated; \$46,301 used**



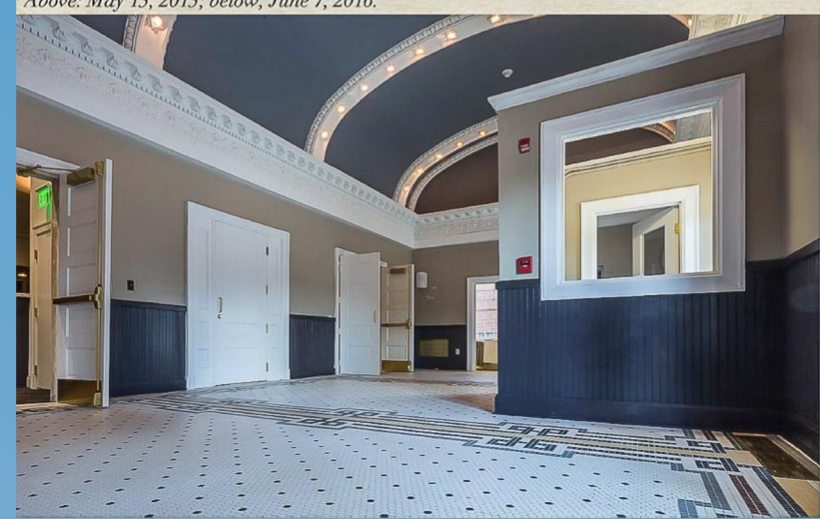
Above: May 8, 2015; below, June 10, 2016.



Above: June 1, 2015; below, June 7, 2016.



Above: May 15, 2015; below, June 7, 2016.





Lessons Learned

- Formed an Ad Hoc Committee to dig into the details.
- Large projects need cash/equity on hand attract other dollars.
- Rural communities do not have “developers” and there is a steep learning/capacity curve.
- Perceived risk and real risk are both important and real – but as our numbers showed the actual exposure was much less than the potential.
- Business plans, for real estate projects like this, are important, but its just a plan – the asset and the equity in the project were the keys to bringing new capital.

- \$ 3 million to Virginia Community Capital (VCC)
- Seven years
- Form of a Promissory Note
- Paired with grant for staff and technical assistance

Results and Lessons Learned



- Technical assistance was needed:
 - Workshops
 - Lodging and Housing Studies
- Small business lending was not the unmet need – equity surfaced
- As a private foundation, “PRIs are like a grant disguised in investment clothing.”

Dogwood Health Trust



\$2.2mm Revolver

- Obligated a portion of the housing annual budget in 2023 to set up a Line of Credit to be able to do short-term loans for housing initiatives-mainly land acquisition purposes.
 - Land is scarce, and this helps our non-profit partners compete with for-profit developers.

RS Middle School

- DHT funded a feasibility study grant request from Rutherford County, NC, to look into the viability of converting the 1925 Middle School Building to housing for educators.
 - Study came out favorable
 - 41 apartments (efficiency, 1-bedroom and 2-bedroom units)



The historic main building, on the old campus that was once R-S Central High School, and later R-S Middle School, was built in 1925. Plans are underway to convert the Rutherfordton building into affordable apartments designated for educators who work in Rutherford County Schools.



- School Board voted to move forward with next steps and to enter into a long-term land lease (50+ years) at \$1 per year and work with local partners to repurpose the building for housing for educators.
 - The intent is not to just house first-year teachers as has been modeled before but to offer apartments to employees working in all areas of the school system.
- Partnership opportunities were discussed for who would own and operate the units for the school system: it was decided that DHT would provide and loan and equity, and Gateway would be the managing member working closely with a proven property management company.



- 1925 Building is on the historic registry as well as the administrative building. The intent is not to just house first-year teachers as has been modeled before but to offer apartments to employees working in all areas of the school system.
 - Property is eligible for 10% of the total cost in federal historic tax credits as well as 10% state historic tax credits, and as Rutherford Co is a Tier 1 county, it gets a 5% bump; this covers a good bit of the gap in financing needed.



- A housing consultant, historian, and an architect and legal firm, as well as a GC with lots of historic renovation experience, have been brought in by DHT to put together a successful project.
 - Historian and architect have determined that a good portion of the building can be preserved (ex: auditorium), and the lower gym can be repurposed to accommodate housing as well to keep the 41 units possible. Also, the historian is talking to SHPO and Natural preservation to have the library added to the registry as well. This would make 51 units now possible.



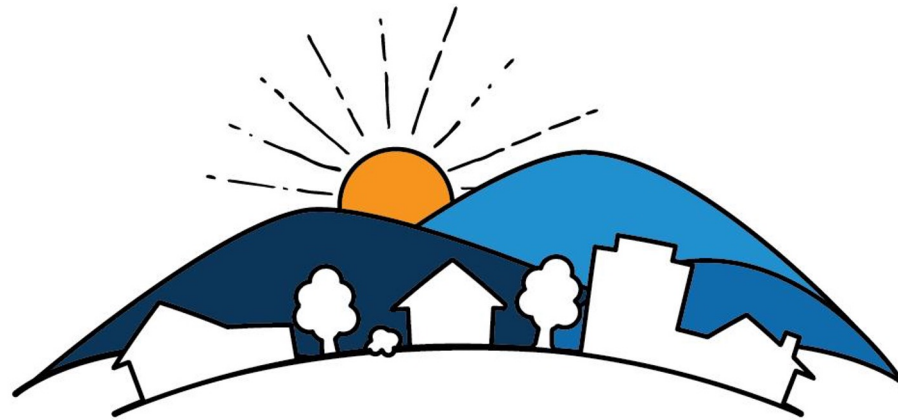
- Capital Stack:
 - Land Donated to project-(Long Term Lease-only \$1 per year cost)
 - Tax Credit Equity (% of total cost-20% Federal 20% State and 5% Tier 1)
 - SECU \$2mm loan at 0% for 20 years will be applied for by partners
 - DHT Loan
 - DHT Equity paid back through cash flow over time

EFA and Mission Aligned Investing

- Mid 1990s: began SRI and shareholder activism focus
- 2014: Founding signatory of Divest/Invest Philanthropy and fully divested endowment from fossil fuels
- PRIs began in 2018; currently 4 active

EFA and PRIs

- PRIs originate through program areas
- Two Examples:
 - Loan: Incentivizing solar power in Appalachia
 - Loan to equity: Historic preservation in Selma, AL



APPALACHIA
FUNDERS NETWORK