



THE DOUBLE BOTTOM LINE Handbook

A Practitioner's Guide to Regional Double Bottom Line
Investment Initiatives and Funds

FUNDED BY:

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PRODUCED IN PARTNERSHIP BY:

Erin Flynn, Future Works

James Nixon & Joe Gross, Sustainable Systems, Inc.

Belden Hull Daniels, Economic Innovation International

Deborah La Franchi, Strategic Development Solutions

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The authors of the Double Bottom Line Handbook appreciate any feedback, correction, and/or additions that may be appropriate to incorporate into future additions. Please email any comments to handbook@sdsgroup.com.

The Double Bottom Line Handbook Co-Authors

Erin Flynn, Senior Associate, Future Works
375 Concord Ave., Suite 002
Belmont, MA 02478
617-489-4200
flynn.ek@gmail.com
www.futureworks-web.com

James Nixon, Chair, Sustainable Systems
Joseph Gross, President, CEO, Sustainable Systems
300 Frank Ogawa Plaza, Suite 210
Oakland, CA 94612
510-903-1908
jnixon@ctcluster.com
egross@ctcluster.com
www.ctcluster.com

Belden Hull Daniels, President, CEO
Economic Innovation International
5 Sentry Hill Place
Boston, MA 02114
617-523-1490
belden@economic-innovation.com
www.economic-innovation.com

Deborah J. La Franchi, President, CEO
Strategic Development Solutions
11150 W. Olympic Blvd., Suite 910
Los Angeles, CA 90064
310-914-5333
dl@sdsgroup.com
www.sdsgroup.com

The Double Bottom Line Handbook Advisory Group

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Susan Beal
Director
Center for Business and Economic Research
Louisiana State University at Shreveport

Scott Bernstein
President
Center for Neighborhood Technology

Joe Brooks
Vice President
PolicyLink

Paul Brophy
Brophy & Reilly LLC

Elizabeth Ferguson
Executive Vice President and Managing Director
Bay Area Family of Funds
Bay Area Council

Chuck Grigsby
President
The Life Initiative

Lisa Hagerman
Research Associate
School of Geography Oxford University

Tessa Hebb
Senior Research Associate
School of Geography Oxford University

Victor Hoskins
Secretary,
Depart. Housing and Community Development
State of Maryland

Gloria Lee
Director, Community Development Investments
Citibank

Rick McGahey
Program Officer, Ford Foundation

Georgia Murray
Chair, Inner City Economic Forum

Manuel Pastor
Professor Latin American Studies and Co-
Director Center for Justice, Tolerance and
Community, UC Santa Cruz

Luther Ragin
Vice President, Investments, F.B. Heron
Foundation

Brad Rosenberg
President, CEO, Genesis LA

Burton Sonnenstein
Chief Financial Officer, Annie E. Casey
Foundation

Kerwin Tesdell
President, CEO, Community Development
Venture Capital Association

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THE DOUBLE BOTTOM LINE HANDBOOK

CHAPTER 1: INTRODUCTION & OVERVIEW

A Field Takes Shape

A new investment field of Regional Double Bottom Line (DBL) Investing is growing rapidly across the country. In regions as diverse as New England, Southern California, the San Francisco Bay Area, Puget Sound, and Northwest Louisiana, business civic and community economic development organizations are launching Regional Investment Initiatives that employ a variety of market-based strategies to encourage economic development and community revitalization in low- and moderate-income (LMI) neighborhoods. As the core strategy for accomplishing their objectives, these Regional Investment Initiatives are utilizing Private Equity Investment Funds managed by professional Fund Managers with strong track records in order to pursue Double Bottom Line Returns.

Figure 1.1 The First and Second Bottom Lines

THE DOUBLE BOTTOM LINE

The First Bottom Line:

DBL Funds target market-rates of return for financial investors (banks, insurance companies, pension funds, foundations, endowments, and high-net-worth individuals).

The Second Bottom Line:

DBL Funds create measurable economic, social, and environmental returns in the forms of job and wealth creation, community revitalization, and smart growth in LMI neighborhoods.

(Note: the terminology "Triple Bottom Line" is also frequently used, however, in the DBL Handbook, economic, social, and environmental returns are all dealt with as aspects of the Second Bottom Line.)

Regional DBL Funds are designed to attract large-scale capital to real estate and business deals in LMI inner city and inner ring suburban neighborhoods. In the context of Regional DBL Initiatives, business and community sponsors organize DBL Private Equity Funds to pull growth back into central cities, fully re-deploy inner city infrastructure, and take advantage of the workforce and buying power assets of the inner city.

The field of DBL Investing is producing market rate financial returns for institutional investors while creating jobs and community revitalization in LMI neighborhoods for community stakeholders. This dynamic and promising field has created great excitement among civic and community leaders, investors, and Fund Managers in metropolitan regions across the country.

These DBL Funds have flourished and grown rapidly in the last decade. Since 1998, investors have created over \$6 billion in DBL Funds nationally, including \$2.5 billion in Funds with a regional orientation.

This new industry has grown quickly because it fulfills market, social, and environmental imperatives in four key ways:

- 1) The aggregation and deployment of equity capital by DBL Initiatives/Funds provides a much needed financial source for developers and businesses constituting the more difficult money to access, given that it is the equity funding that must come in first before lower-risk debt or loans can be accessed. This is analogous to the down payment, a home buyer must make (the “equity” – traditionally 10%) before mortgage financing (the loan) can be obtained.
- 2) By employing professional Fund Managers who capitalize on imperfections in LMI markets, DBL Funds have generated track records in excess of the targeted mid- to high-teens annual return on investment projected for investors.
- 3) DBL Initiatives/Funds have provided community stakeholders with the opportunity to join in building real estate and business ventures that create wealth, provide jobs, and revitalize neighborhoods in ways that benefit current residents of the neighborhoods where the investments take place.
- 4) DBL Initiatives/Funds are contributing to smarter, more efficient forms of regional growth and development by pursuing infill strategies that redeploy existing infrastructure in the urban core and locate jobs, retail and housing near existing transit hubs.

As such, DBL Initiatives/Funds present a rare opportunity to craft an economic and social consensus leading to market-rate profitability and equitable and sustainable development.

As the field of DBL Investing has emerged over the last few years, an extensive body of knowledge and practice has been developed. To date however, there has been no systematic effort to define the field of Regional Initiative and Fund Building, identify its component parts, or distill best practices.

The *Double Bottom Line Handbook* has been developed to fill this void. It is a practical, “hands-on” resource for business and community leaders, investors, economic development practitioners, government officials and Fund Managers seeking to use the DBL Initiative and Fund approach to enhance community revitalization efforts in the country’s metropolitan regions.

Tapping Under-appreciated Assets for Community Revitalization and Regional Economic Growth

Conventional wisdom has historically led investors to view LMI neighborhoods as “disadvantaged” neighborhoods with high levels of risk. But new national best practice in economic development is

turning this paradigm upside down and applying the global market's perspective in relation to developing overseas emerging markets.

Underdeveloped LMI neighborhoods are now increasingly viewed as “domestic emerging markets” with substantial potential to contribute to the growth and vitality of the regional economy of which they are often a neglected part.

Underutilized LMI assets can add real market value to the region's economic development if they are leveraged through tough-minded investment. Underutilized LMI assets include:

- An available workforce to fuel further regional growth.
- High per-acre disposable income due to density of urban neighborhoods.
- Under-served consumer demand that provides untapped markets for regional goods and services.
- Significant tracts of land near the central city with unrealized opportunities for commercial and industrial development.
- Underutilized physical infrastructure often located near transportation hubs.
- Significant market opportunity to build quality affordable and workforce housing.

Figure 1.2 below illustrates the Gateway Retail Center and shows an example of how a DBL fund can impact an LMI community.

Figure 1.2 The Gateway Retail Center

**Example: Bay Area Smart Growth Fund
Gateway Retail Center - Marin City, California**

The Marin City Community Land Corporation was in danger of losing its land. The land was home to the Gateway Retail Center – a failing shopping center in Marin County across the Golden Gate Bridge from San Francisco. Rent from the land was supposed to fund community services and affordable housing in Marin City, a primarily African-American unincorporated area with household median income at 54% of the area median income for Marin County. But the owner of the 182,054-square foot Center had failed to pay rent for some time.

Enter Walter L. Ross and the Bay Area Smart Growth Fund (the Smart Growth Fund). Ross – with decades of experience in structuring transactions for Union Carbide and ITT – structured a deal whereby the Smart Growth Fund formed a 50/50 joint venture with the Marin City Community Land Corporation. The Smart Growth Fund, managed by Pacific Coast Capital Partners, invested \$8.56 million and the Community Land Corporation invested its ownership in the land. The joint venture purchased the Center for \$25 million.

As the new management, the Smart Growth Fund upgraded the Center and brought in higher quality stores. Now the Center has begun to thrive. The investment saved 380 jobs, of which 33% are from Marin City, led to 59 new jobs with benefits for local residents, and funding for community services and affordable housing has begun to flow. Investors in the Smart Growth Fund are projected to receive financial returns from this deal that are better than the market rate mid- to high-teen returns that the Fund projected. In 2004, the Gateway Retail Center transaction won the San Francisco Business Times Real estate Deal of the year Award in the category of “Best Retail Sale or Lease.”

This is Regional Double Bottom Line investing in action.

Regional DBL Funds capitalize on these underutilized assets by investing in a variety of different asset classes including: industrial and commercial real estate; new and rehabilitated housing; mixed-use and mixed-income projects; start-up businesses; established businesses poised for rapid growth; and Brownfield clean-up for productive reuse of land and buildings. Regional DBL Funds are managed by professional Fund Managers with track records of market returns in similar asset classes. The presence of professional Fund Managers provides institutional investors with confidence, thereby enabling the fund to engage large-scale capital investments that have not historically been marshaled for inner-city development.

Figure 1.3 DBL Private Equity Funds

DBL Private Equity Funds are based on a number of key propositions:

- LMI Area community revitalization is an economic, social and political imperative for the country's long-term prosperity and equity.
- Public sector resources for this community revitalization are insufficient at the municipal, county, state and federal levels for the foreseeable future.
- Successful, large-scale LMI Area revitalization depends on the engagement of the private sector and on market strategies to wholesale investment of large-scale equity and debt assets for profitable return.
- Substantial untapped market opportunities exist in inner cities.
- Effective and efficient returns for both Bottom Lines result from an integrated effort of private, nonprofit, community and public resources.

Types of Double Bottom Line Investing

Double Bottom Line Investing takes several forms, including Sponsor-Driven Regional DBL Funds, Manager-Driven DBL Funds, and Community Development Venture Capital. Together, these types of Funds make up the DBL Investment Industry. In relation to organization and governance, there are four basic categories of DBL Private Equity Funds that form a four-part matrix:

	Regional Funds	National Funds
Sponsor-Driven Funds	Sponsor-Driven Regional Funds	Sponsor-Driven National Funds
Manager-Driven Funds	Manager-Driven Regional Funds	Manager-Driven National Funds

While Sponsor-Driven Regional DBL Funds are the focus of the *Double Bottom Line Handbook*, it is important to understand the different approaches and how they can complement each other to build toward a national system of DBL Investing. There are at present no Sponsor-Driven National DBL Funds, though some are under consideration and are expected to be in formation soon. Manager-Driven DBL Funds are also an important model. There are both Manager-Driven National DBL Funds and Manager-Driven Regional DBL Funds. All three of the four types of DBL Private Equity Funds that have been implemented have produced successes in relation to accomplishing both Bottom Lines.

The distinctions between Sponsor-Driven and Manager-Driven DBL Funds¹ are discussed briefly below and compared with Community Development Venture Capital Funds. (Figures 1.4 and 1.5

¹This is a key distinction in the growing Double Bottom Line industry. Of the estimated more than \$6 billion in Double Bottom Line funds under management, approximately 60% of investment is "Fund Manager-Driven" and 40% is "Sponsor-Driven". Appendix B of the Handbook provides a discussion of Fund Manager-Driven Funds.

below depict the scale and scope of the Sponsor-Driven and Manager-Driven aspects of the DBL Industry.)

The focus of the *Double Bottom Line Handbook* on Sponsor-Driven Regional DBL Funds should not be taken to mean that the authors of the *Double Bottom Line Handbook* think that this type is inherently better. Rather, since Sponsor-Driven Regional DBL Funds have generated a lot of interest among regional business, community, and civic leadership groups and are growing rapidly, the *Double Bottom Line Handbook* is designed to respond to this interest and to be of particular assistance in the formation and operation of Sponsor-Driven Regional DBL Funds.

Sponsor-Driven Regional DBL Funds

Sponsor-Driven Regional DBL Funds are embedded in Regional DBL Investment Initiatives that are managed by regional, nonprofit leadership organizations that hire Fund Managers through a competitive process to deploy Funds and strike deals in the context of agreed-upon regional growth and development strategies. As such, Regional DBL Investment Initiatives and Funds are firmly engaged within the leadership infrastructure of the region and are a key vehicle for achieving regional economic development goals.



Figure 1.4 Sponsor-Driven Funds

Sponsor-Driven Regional DBL Initiatives and Funds contain the promise of a *systemic* approach to urban revitalization within a targeted geography as they address multiple aspects of development and seek to alter the way economic development proceeds at a regional scale. They often take a holistic approach to revitalization by creating regional Families of Funds that can invest in industrial, commercial, and mixed-use real estate, affordable and mixed-income housing *and* growing businesses – i.e. real estate *and* business ventures.

Sponsor-Driven Regional DBL Funds are informed by new regional economic development theory and practice. Today, metropolitan regions are widely viewed by economists and business strategists as

the economic building block of the national and global economy. Economists view metropolitan regions as geographic areas whose size is ideally suited to achieve low-cost economies of scale. Complementary businesses tend to locate in metropolitan areas where they can draw upon resources provided at the regional level such as research and technology, skilled labor, supply networks, and transportation infrastructure. At the same time, metropolitan regions are considered small enough for business leaders in related sectors to network, build trust and share information which can lead to collaboration, new technologies, innovation and growth.

In this context, metropolitan regions provide Sponsor-Driven DBL Initiatives and Funds comparative economic and social advantages that enable them to deliver First and Second Bottom Line results. They flourish at a metropolitan scale because regions are large enough to achieve economies of scale (for fund raising and deal flow), yet small enough to foster the trustworthy relationships between business, civic and community leaders required to implement a fund successfully. Metropolitan regions are also ideal for forging the economic and social capital links necessary to integrate LMI communities into the regional economy. Firms in LMI neighborhoods can export goods and services to the larger regional economy and regional wealth and jobs can be imported to LMI neighborhoods to revitalize communities and create opportunity for residents.

Manager-Driven DBL Funds

Manager-Driven DBL Funds are another powerful expression of DBL Investing. Manager-Driven DBL Funds are professionally managed Funds that seek out large-scale transactions in overlooked segments of the urban real estate and business venture markets.



Figure 1.5 Manager-Driven Funds

Manager-Driven DBL Funds do not have a nonprofit Sponsor. Manager-Driven DBL Funds can be either National or Regional. They tend to have large-scale capitalization and to focus on large deals with equity investments ranging from \$10 million - \$40 million or more. They can have a

transformative impact on inner-city neighborhoods by creating large, new commercial, industrial and residential developments.

Likewise, Manager-Driven DBL Business Finance Funds focus on investing in businesses with venture or mezzanine investments and seek to grow promising, often minority-owned, businesses into nationally recognized brand names.

Most Manager-Driven DBL Funds do not typically limit themselves to a particular geographic region. These Funds are opportunity driven and seek out large-scale deals in multiple urban markets.

Community Development Venture Capital Funds

Another clear expression of the growth of DBL Investing is the growth of *Community Development Venture Capital (CDVC) Funds*. Some CDVC Funds are Sponsor-Driven and some are Manager-Driven. The majority of CDVC Funds are regional.

CDVC Funds use the tools of venture capital to create jobs, build entrepreneurial capacity, and expand the wealth of distressed communities by investing in *individual companies* located in LMI communities and/or employing LMI residents.

According to the Community Development Venture Capital Alliance (CDVCA) – the trade association for CDVC Funds – the field has grown from a handful of organizations just a few years ago, to over 60 funds today with \$870 million under management.

Research

Regional DBL Investing is based on the premise that a new economic development paradigm is emerging that is helping to build dynamic, sustainable metropolitan regions. Whether this new paradigm is referred to as sustainable economic development, smart growth or DBL Investing, it is based on the recognition that forging strong links between business, community, environmental, and public leadership is crucial to reduce conflict and reach consensus on development patterns that are in the interest of all stakeholders.

In this vein, considerable intellectual effort has been directed in recent years toward the development of mechanisms to increase the flow of capital to LMI inner-city communities. *The Double Bottom Line Handbook* takes its place among several major action-oriented research efforts currently underway that seek to increase the flow of capital to inner cities.

The Milken Institute, by way of example, recently launched a Center for Emerging Domestic Markets. The Center provides research and information, education programs and a financial innovations lab to increase capital to minority-owned companies.

In 2003, the Initiative for a Competitive Inner City established the Inner City Economic Forum – an annual convening of capital providers, business leaders and policymakers. The Forum's research and action agenda is centered on increasing access to capital, growing inner-city companies to scale, and marketing the inner city as a viable business location.

The Pension Funds and Urban Revitalization Initiative, a co-project of Oxford University's School of Geography and the Harvard Law School's Labor and Worklife Program, is a third important project. The goals of this project are to investigate and promote best practice in urban economic development by U.S. public sector pension funds and to expand the number of urban revitalization projects undertaken by these funds.

In addition to efforts aimed at increasing capital flows to inner cities, a number of efforts are underway that seek to measure the social and economic impact of capital investment on LMI neighborhoods.

One of the largest is the Research Initiative on Social Entrepreneurship (RISE) based at the Columbia Business School. RISE studies the growing impact of building for-profit and not-for-profit ventures that aim to achieve social and financial impact through products, services, and other business practices, and the entities that fund them. RISE recently initiated a project to map investment vehicles that make early-stage equity investments in scalable, for-profit ventures that have positive social or environmental impact. In addition, RISE is working in collaboration with several social investment funds and foundations to review, analyze and apply various methods that can be used by early-stage social enterprises to help assess social impact and measure social return on investment (SROI).

The Double Bottom Line Handbook: Key Characteristics and Emerging Best Practices for Regional DBL Investing

Regional DBL Investing is evolving rapidly. Large-scale Regional DBL Initiatives with multiple funds under management are now firmly rooted in Massachusetts, Los Angeles, Philadelphia, and the San Francisco Bay Area. Regional DBL Funds are also operating in Sacramento, San Diego, Portland, OR, Portland, ME, Kentucky, and St. Louis. And new regional funds are in development in Northwest Louisiana, Maryland and the Puget Sound region of Washington State.

Regional DBL Investing has now attained enough scope, breadth and maturity that it is possible to distill best practices. *The Double Bottom Line Handbook* is being written with the goal of making best practices widely available to expedite the creation of new DBL Initiatives/Funds and to expand existing DBL Initiatives/Funds in metropolitan regions throughout the country.

Following Chapter 1: Introduction and Overview, *The Double Bottom Line Handbook* is organized into three additional chapters and two Appendices.

- Chapter 2: Best Practices.
- Chapter 3: Fund and Deal Profiles.
- Chapter 4: Theory.
- Appendix A: Glossary.
- Appendix B: Manager-Driven Funds.

The Double Bottom Line Handbook is meant to be used as a reference guide as well as a narrative, so many of the sections are drafted to make sense when read by themselves. This means that some of the

same ground is covered from different perspectives in the different sections. Brief descriptions of Chapters 2, 3 and 4 follow:

Chapter 2: Best Practices

The design and implementation of Regional DBL Initiatives/Funds is a complex process involving the expertise and commitment of many different individuals and groups. The Best Practice Chapter is organized into 10 sections that walk the reader through the different aspects of design and implementation. Together, the 10 sections provide the information required to participate in launching the process of DBL Initiative/Fund Building.

The 10 Best Practices Sections are:

- 1) **10 Key Characteristics of Fund Building** – an explication of 10 key characteristics that contribute to successful DBL Funds.
- 2) **Regional Context** – a discussion of why DBL Initiatives/Funds often take place in a regional context.
- 3) **Mapping the Players** – a graphic depiction and definition of the players involved in building and implementing Regional DBL Initiatives/Funds.
- 4) **Structuring a Regional Investment Initiative** – key steps the nonprofit Sponsor can take to lead a Regional DBL Initiative and sponsor a DBL Fund.
- 5) **Legal Forms of Fund Sponsorship** – a description of the four legal models of DBL Fund Sponsorship that have emerged to date.
- 6) **The Role of Fund Managers** – a discussion of the critical role played by the Fund Management team.
- 7) **Bringing Deals to the Table** – how deals are sourced and structured to produce First and Second Bottom Line results.
- 8) **Investors** – why investors are putting their money into Regional DBL Funds.
- 9) **Regional Community Investment Networks** – a discussion of a vehicle for bringing together various capital providers in a region to learn about business and real estate deals that meet First and Second Bottom Line criteria.
- 10) **Monitoring and Evaluating the Double Bottom Line** – best practices to date for assessing the impact of DBL Investments on LMI neighborhoods.

Chapter 3: Fund and Deal Profiles

Chapter Three of *The Double Bottom Line Handbook* provides detailed profiles of Regional DBL Initiatives/Funds including Initiative/Fund Overview, Background and Origins, Model and Sponsorship, Fund Management, and Impact and Measurement. In addition, this section profiles individual real estate and business equity deals.

Profiles of the following nine Regional DBL Initiatives/Funds are provided:

- *Genesis LA Family of Funds*
- *The Bay Area Family of Funds*
- *Massachusetts Life Initiative*
- *Coastal Enterprise Family of Funds*
- *The Nehemiah Sacramento Valley Fund*
- *The San Diego Capital Collaborative*
- *Puget Sound Family of Funds*
- *Maryland Community Development Family of Funds*
- *Northwest Louisiana Family of Funds*

Chapter 4: Theory

The Double Bottom Line concept is embedded in and grows out of the intersection of a set of five different but related theoretical frameworks – domestic emerging markets, smart growth, sustainable development, socially responsible investing, and community investing. The Theory Section of *The Double Bottom Line Handbook* provides a summary of a DBL Theory of Change and examines the Double Bottom Line from the perspective of each of the five related theoretical frameworks.

CHAPTER 2: BEST PRACTICES FOR REGIONAL DOUBLE BOTTOM LINE INVESTING

The Best Practices section of The Double Bottom Line Handbook attempts to capture much of the accumulated knowledge of practitioners building Double Bottom Line (DBL) Initiatives and Funds in regions across the United States. It aims to meet the growing demand for concise information and practical examples related to DBL Initiative/Fund Building.

The Best Practices Chapter will evolve and grow as additional information from the field is incorporated. The materials included here provide the most accurate and up-to-date information on Regional DBL Investing currently available.

Best Practices: Introduction

Since 1998, nearly \$2.5 billion has been invested in DBL Funds with a *regional* orientation across the United States. Regional DBL Initiatives/Funds have been developed and taken root in a wide range of metropolitan regions across the country. DBL Initiatives/Funds on the West Coast are currently operating in the San Francisco Bay Area, Los Angeles, San Diego, Sacramento and Seattle. On the East Coast, Regional DBL Initiatives/Funds are operating in Maine, Massachusetts, Maryland, Greater Philadelphia and New York City. Regional DBL Initiatives/Funds are also at work in St. Louis, Northwest Louisiana, and Kentucky.

Regional DBL Investment Funds are designed to attract large-scale capital, managed by Fund Managers with strong track records, into targeted low- and moderate-income (LMI) neighborhoods. In the context of Regional DBL Initiatives, nonprofit business and community Fund Sponsors organize DBL Funds to provide investors with market-rates of financial return and business and community stakeholders with community revitalization, measurable job and wealth creation, and smart growth.

Regional DBL Funds are embedded in DBL Initiatives that include the DBL Funds, but go beyond them to provide a robust network of shared understanding, connections to local and regional leadership, and access to the additional financial and non-financial resources and support needed to optimize the success of the investments.

The DBL Initiatives are also leveraging vehicles, maximizing the Second Bottom Line (the positive, economic, social, and environmental impacts of DBL Fund investment) and increasing overall financial investment from sources other than the DBL Funds in the priority neighborhoods.

Regional DBL Initiatives take a comprehensive approach to community revitalization in LMI neighborhoods. These Regional DBL Initiatives are based on recognition that scaling up community revitalization efforts requires private sector engagement and market-based strategies to wholesale large-scale equity and debt assets for profitable return.

By operating at a regional scale, the DBL Initiatives are able to generate sufficient deal flow to capitalize the DBL Funds at a high enough level to attract and engage the services of high-quality professional Fund Managers. The professional Fund Managers, in turn, spot unrealized market opportunities in LMI neighborhoods, thereby generating First and Second Bottom Line returns to investors and regional stakeholders. The goal is for the DBL Funds to be so successful that investors commit repeated rounds of capital that enable the DBL Initiative to operate on a long-term basis and achieve transformative, large-scale community revitalization.

The design and implementation of Regional DBL Initiatives/Funds is a complex process involving the expertise and commitment of many different individuals and institutions. In the past several years, an extensive body of accumulated knowledge has been developed by practitioners. To date, however, this knowledge has not been accessible to: civic and community leaders who are Fund Sponsors or are interested in becoming Fund Sponsors; current investors in DBL Funds or investors who are interested in considering investment; or Fund Managers who are managing a DBL Fund or Fund Managers who are interested in undertaking management of such a DBL Fund.

The goal of the Best Practices section of the *Double Bottom Line Handbook* is to provide the first formulation of key characteristics and emerging best practices that define the field of Regional DBL Investing. The expectation is that by making this knowledge accessible, the *Double Bottom Line Handbook* will expedite the creation of new DBL Initiatives/Funds and the expansion of existing DBL Initiatives/Funds in metropolitan regions throughout the country. The Best Practices section of the *Double Bottom Line Handbook* is presented in 10 sections that provide the information required to begin the process of DBL Initiative/Fund Building.

The 10 Best Practice sections are:

- 1) **10 Key Characteristics of Fund Building** – an explication of 10 key characteristics that contribute to successful DBL Funds.
- 2) **Regional Context** – a discussion of why DBL Initiatives/Funds often take place in a regional context.
- 3) **Mapping the Players** – a graphic depiction and definition of the players involved in building and implementing Regional DBL Initiatives/Funds.

- 4) **Structuring a Regional Investment Initiative** – key steps the nonprofit Sponsor can take to lead a Regional DBL Initiative and sponsor a DBL Fund.
- 5) **Legal Forms of Fund Sponsorship** – a description of the four legal models of DBL Fund Sponsorship that have emerged to date.
- 6) **The Role of Fund Managers** – a discussion of the critical role played by the Fund Management team.
- 7) **Bringing Deals to the Table** – how deals are sourced and structured to produce First and Second Bottom Line results.
- 8) **Investors** – why investors are putting their money into Regional DBL Funds.
- 9) **Regional Community Investment Networks** – a discussion of a vehicle for bringing together various capital providers in a region to learn about business and real estate deals that meet First and Second Bottom Line criteria.
- 10) **Monitoring and Evaluating the Double Bottom Line** – best practices to date for assessing the impact of DBL Investments on LMI neighborhoods.

2.1 10 KEY CHARACTERISTICS OF DBL FUND BUILDING

Double Bottom Line (DBL) private-equity Funds investing in low- and moderate-income (LMI) neighborhoods have grown to over \$6 billion of capital under management in less than a decade. This tremendous growth is because DBL Funds work equally well for institutional investors and for community stakeholders by achieving two bottom lines. The most successful of these DBL Funds have developed 10 key characteristics contributing to their success. This Best Practice section explicates the 10 key characteristics.

The most successful of the DBL Funds have developed 10 key characteristics contributing to their success. These Regional DBL Families of Funds:

- 1) Invest in targeted LMI neighborhoods.
- 2) Contribute to the region's economic health.
- 3) Are scaled to succeed with both Bottom Lines.
- 4) Are initiated by a nonprofit Fund Sponsor.
- 5) Are responsible to the nonprofit Fund Sponsor that receives a management fee.
- 6) Engage proven, private equity Fund Managers.
- 7) Produce market-rates of financial return.
- 8) Attract large institutional investors.
- 9) Are not just a DBL Fund, but a Family of DBL Funds forming a long-term development system.
- 10) Are smart growth Funds emphasizing the "Three Es" – a prosperous *Economy*, *Social Equity*, and a *Healthy Environment*.

These 10 characteristics of a successful Regional DBL Funds are spelled out in the sections below.

1. Invest in Targeted LMI Neighborhoods

Conventional wisdom has historically led to the view that low- and moderate-income (LMI) neighborhoods are "disadvantaged" areas. However, new national best practice is turning this paradigm upside down by adopting the global market's perspective in relation to developing overseas emerging markets. These inner-city neighborhoods, older suburbs and rural areas become "domestic emerging markets" full of opportunities to be developed, not "disadvantaged areas" to be avoided.

The old way to address poor neighborhoods was a "go-it-alone" strategy that focused on physically rebuilding the neighborhoods without any regard as to how they fit into the larger regional economy.

This strategy has also been highly dependent on scarce grants and subsidies to fuel these development projects.

Current national best practice now demonstrates that a sound revitalization plan for LMI areas will only succeed if these neighborhoods are fully integrated economically into the larger regional economy.

- LMI neighborhoods generally under-perform their regional economies because they are not fully integrated socially, politically and economically into the economic base of the region. *By integrating these communities through investments that generate jobs and housing, these communities can begin to move in a direction towards greater regional parity.*
- LMI residents can only increase their income and wealth if they have access to jobs in the larger regional economy and generate business enterprises that can export goods and services to sell to the larger regional economy. *External capital flows when attracted to a region serve as a job-creating engine.*
- Some regions contain declining neighborhoods in a declining regional economy. Fortunately many regions can integrate their LMI neighborhoods into a vital and diverse regional economy that is experiencing dynamic growth. *Investments in LMI neighborhoods can serve as the force to integrate the neighborhoods to the larger region by better tying the two socially, politically and economically.*

If LMI neighborhoods are properly integrated into their region in a realistic and tough-minded way, and if the capital markets are engaged in driving their re-emergence, this is a win-win for both the LMI neighborhoods and the region. These neighborhoods have many under-appreciated assets that can add real market value to the region's economic development, including:

- An under-employed workforce to fuel further regional growth.
- An under-served consumer base that provides an untapped market for regional goods and services.
- Under-appreciated opportunities for mixed-use and mixed-income commercial, industrial and housing development.
- Significant market opportunities to build quality affordable and workforce housing.
- Substantial under-utilized infrastructure that could be more profitably employed.
- Vast unrealized opportunities to employ private-equity capital to drive the developments, and realize these opportunities for the benefit of both investors and community stakeholders.

The task of a nonprofit Regional DBL Initiative/Fund Sponsor is to create jobs, firms, income and wealth for residents in LMI neighborhoods by fully connecting the neighborhood economy into the region, as outlined in Figure 2.1 below.

2. Contribute to the Region’s Economic Health

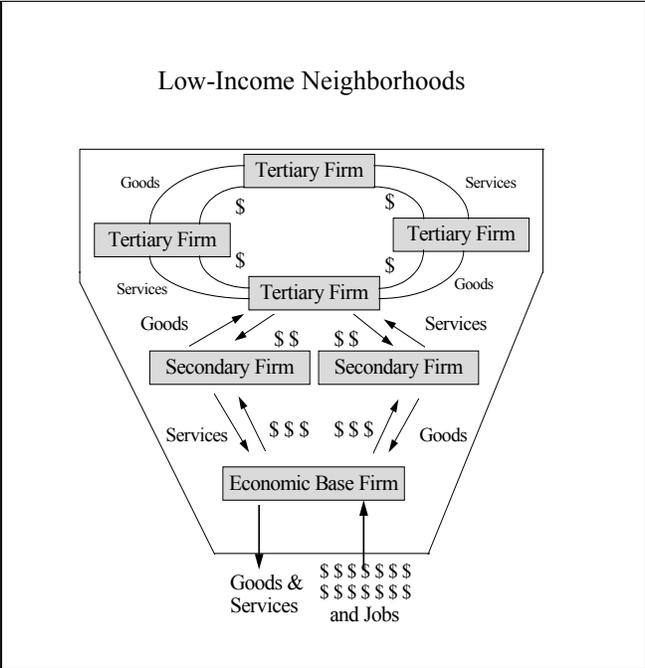
To an increasing degree, regions – not cities, states or nations – have come to be recognized as the most important context for real estate and business development. As the Ford Foundation-funded website, MetroBusinessNet, puts it, “metropolitan regions” are “the central unit of economic activity in today’s global economy. Increasingly, businesses compete with one another not only in the head-to-head marketplace of products and services, but also in behind-the-scenes skirmishes where the assets of their home region – financial, social, physical and human – emerge as strengths or liabilities.”²

The economic base industries in Figure 2.1 drive both the regional and neighborhood economies. These basic, or primary, industries are those that import new income and jobs into the neighborhood by exporting goods and services to the region.

Without a strong and growing economic base, there can be no durable community revitalization. But if a DBL Fund can grow firms that reside in the LMI area and produce goods and services sold to the region, then good jobs, income and wealth can be imported back into the neighborhood, contributing to its stability and growth.

Thus, the Bay Area Smart Growth Fund I revitalizes an outmoded regional shopping center in very low-income Marin City. The result is dramatic – an increase of community value of \$25 million, producing a steady cash flow to support essential social services and new spin-off service businesses in security and maintenance. These new businesses can now sell their services to the larger regional community, and consumers from outside the immediate local community now come in to purchase goods.

Figure 2.1: North American and Global Economies



Distributive, or secondary and tertiary industries are those which re-circulate wealth already located within an economy or neighborhood. If one is looking at a poor neighborhood, small “mom and pop” stores too often do not have the market to survive and grow because they serve only the neighborhood. These distributive industries merely reflect growth or decline in the economic base and do not typically succeed in importing jobs or income. Increased demand for these tertiary and secondary goods only comes when the neighborhoods’ economic base industries innovate, grow and export goods and services to markets in the region, which then generate increasing demand for goods and services sold within the region’s LMI communities.

² See <http://www.metrobusinessnet.net/>

The centrality of regions has been addressed from many different perspectives. Harvard Professor Michael Porter's work clearly demonstrates that strategic advantage flows from strong regional economic clusters that capitalize on their comparative advantage.³ Inner cities constitute very significant regional marketplaces with substantial, often inadequately tapped purchasing power. Manuel Pastor's research shows that regions with less income disparity grow more rapidly.⁴

To address the economic revitalization of the LMI neighborhoods, a DBL Initiative/Fund Sponsor representing a strong private/nonprofit/public partnership can support strategies that continue to grow the region's entire economic base, and then develop strategies which bring the power of this strong and diverse regional economy to bear on job, enterprise, income and wealth creation in the targeted LMI neighborhoods.

The results of these actions need to contribute to:

- A stronger regional economy.
- Stronger, healthier and more productive LMI neighborhoods.
- More consumers with more disposable income for regional enterprises.
- A more experienced and productive workforce.
- A more attractive community for prospective employers.

The overarching mission of the DBL Initiative/Fund Sponsor can contribute to:

- The creation of increased opportunity where there now may be dislocation.
- The generation of jobs and wealth where there is now dependence.
- The establishment of community health where there is now disease.
- The transformation of economic and social costs (now borne mostly by LMI residents, but also placing a hidden tax on the middle-income and the wealthy) into productive market opportunities for all.

3. Are Scaled to Succeed with Both Bottom Lines

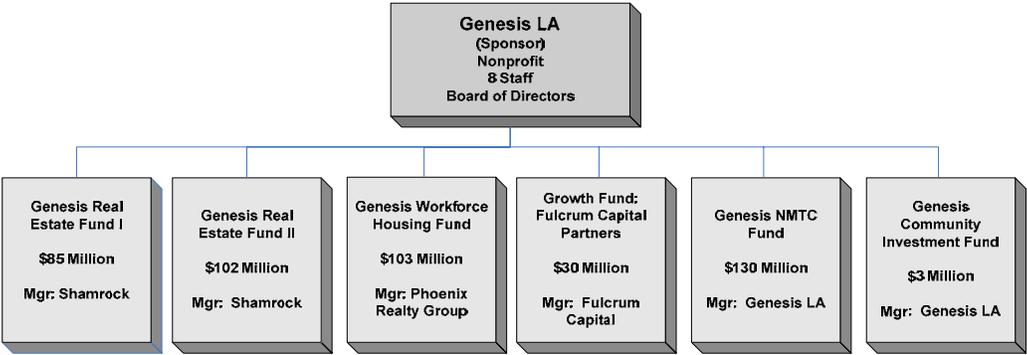
A DBL Fund cannot succeed with regard to either Bottom Line unless it can achieve sufficient scale in terms of its total capitalization. If a DBL Fund is to reach sufficient scale, there is a simple formula that must be achieved each time a DBL Fund is created. A market must have adequate deal flow to warrant a sizeable capitalization level for the DBL Fund. This, in turn, will attract a high-quality Fund Manager. Further, a highly skilled Fund Manager will give institutional investors greater confidence that the DBL Fund can generate the DBL Returns the investors and community stakeholders expect.

³ Michael Porter, "Clusters and the New Economics of Competition," (Boston: Harvard Business Review, 1998).

⁴ Manuel Pastor, Jr., Peter Dreier, Eugene Grigsby III, and Marta López-Garza, "Growing Together: Linking Regional and Community Development in a Changing Economy," (National Housing Institute, 1998), <http://www.nhi.org/online/issues/97/pastor.html>.

Genesis LA, the nonprofit Fund Sponsor created in 1999, closed its first \$85 million Genesis LA Real Estate Investment Fund I in the summer of 2000. Genesis LA has initiated six DBL Funds with more than \$400 million of capital under management leveraging nearly \$1.2 billion in investments in LMI neighborhoods. These DBL Funds generate sufficient fees to engage a professional staff of eight in the nonprofit Fund Sponsor.

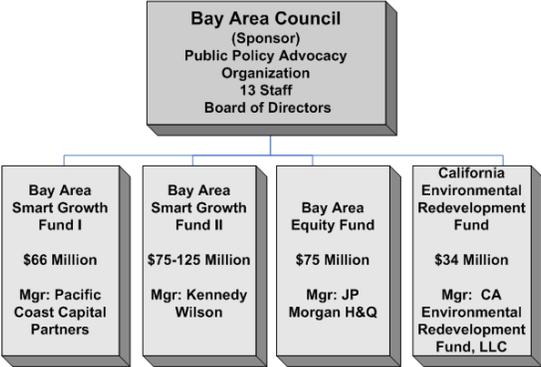
Figure 2.2: Genesis LA’s Family of Funds



The Bay Area Family of Funds, slightly younger than Genesis LA, closed its first \$67 million Bay Area Smart Growth Fund I on September 30, 2001. The Bay Area Council, the pre-eminent CEO-led Bay Area regional business civic organization, is the Sponsor of the Bay Area Family of Funds. The Bay Area Council was created after the Second World War to assist the Bay Area in addressing regional challenges.

The Bay Area Family of Funds is now building its fourth DBL Fund, Bay Area Smart Growth Fund II, which is expected to bring total capital under management to more than \$275 million in the four DBL Funds, leveraging over \$1 billion of projects in LMI neighborhoods in the Bay Area. The Bay Area Family of Funds generates a sufficient income stream for the Fund Sponsor to support a professional staff of three specifically dedicated to the Bay Area Family of Funds, in addition to continuing consultant support, with no governmental or foundation funding.

Figure 2.3: Bay Area Council's Family of Funds



These DBL Funds are flourishing because they are at a scale where they can meet the return expectations of investors and community stakeholders with regard to both bottom lines.

- The regional scale is large enough to attract high-quality management because the deal flow is sufficient to support the staffing needed to manage and deploy the capital effectively.
- The regional scale is also large enough to attract institutional investors because of sufficient deal flow and quality Fund Management.
- The regional scale is, conversely, small enough to engage a truly effective local and regional partnership of private, community, nonprofit and public leadership, incorporated in the nonprofit Fund Sponsors' activities.
- The regional scale is ideal for forging the economic and social capital links by which firms in LMI neighborhoods can export goods and services to the larger regional economy.
- Finally, the Fund Sponsors and the Fund Managers can coordinate a regional investment strategy that trades the export of LMI goods and services for imported jobs, income and wealth into the neighborhoods.

In establishing an economic region to be served by a DBL Fund, it is important to note that private capital markets do not recognize political boundaries. The natural flow of capital to an economic region is defined by its labor markets and the linkages that flow from these labor markets. Political jurisdictions are important in the choice of an economic region because of their roles in the “gap financing” resources in a redevelopment district that can complement a DBL Family of Funds and their responsibility for the entitlement process through which developments receive the regulatory authorization to proceed. Therefore, the final definition of the regional economy to be served by a DBL Family of Funds is a prudential one that best serves the market and the political economy.

4. Are Initiated By a Nonprofit Fund Sponsor

To create a DBL Family of Funds successfully, a region must have the institutionalized capacity of private, nonprofit, civic, and public leaders to transcend barriers between institutions. Only then can other forms of capital be integrated – human, innovation, financial and infrastructure capital. Typically, this requires a lead Civic Stakeholder to institutionalize this long-term, focused strategy to revitalize the LMI neighborhoods of the region, and account for the measurable job, wealth and community benefits created. In other words, it is the lead Civic Stakeholder that serves as the driver propelling the effort to create a Regional DBL Family of Funds.

In regions of the country – as disparate the San Francisco Bay Area, St. Louis, Missouri, Portland, Oregon and Shreveport, Louisiana – the lead Civic Stakeholders have been regional private-sector CEO leaders. These Civic Stakeholders stepped forward to take a powerful lead in partnering with community stakeholders to revitalize their LMI communities by mobilizing private capital and public support to re-integrate their LMI neighborhoods into their regional economies.

The most powerful and paradigmatic of these private sector-led initiatives is that of the Bay Area Council, in the San Francisco Bay Area. Early on, the CEOs of the Bay Area Council recognized that the region could not maintain its global supremacy and innovation unless everyone in the nine-county Bay Area participates in the regional economic growth. The Bay Area Council brings together business, civic, community, environmental, and political leadership to invest in the revitalization of LMI neighborhoods in these nine county Bay Area through the Bay Area Family of Funds, outlined in Figure 2.3, whose capitalization will soon grow to \$275 million.

The Greater St. Louis Regional Chamber and Growth Association, the Portland, Oregon Family of Funds and the Northwest Louisiana Strategic Action Council are undertaking similar DBL Initiatives/Funds in which private sector leadership has partnered with community leadership to address the revitalization of LMI neighborhoods in a regional context of sustainable growth. There are other successful approaches as well. In the case of Genesis LA, it was a strong and deeply private-sector oriented mayor, Richard Riordan. In the case of the Sacramento Valley, it was a large and strong African-American nonprofit, Nehemiah Corporation.

In every instance of a regional Fund Sponsor successfully creating a DBL Family of Funds, the record is clear that the heavy lift of these DBL Funds can succeed best if there is a lead Civic Stakeholder that steps forward to ensure that the conception becomes a reality.

5. Are Initiated by a Nonprofit Fund Sponsor That Supports the DBL Fund(s) and Receives a Management Fee

Some of the best Fund Managers in the country have found that DBL Funds are most successful if the Fund Manager collaborates with a highly respected consortium of private, community and nonprofit partners who form a Fund Sponsor to initiate and support the DBL Funds.

This nonprofit Fund Sponsor:

- Leads the process of choosing the Fund Manager and negotiating the Term Sheet.
- Helps to capitalize and close the DBL Fund.
- Monitors the DBL Fund to ensure that the Second Bottom Line is met.
- Works to ensure that no projects are undertaken that do not have strong community support.
- Plays a key role in delivering the job- and wealth-creating results expected of the Second Bottom Line.
- Supplements the activities of the DBL Fund through a DBL Initiative that provides an integrated set of other connections to local and regional leadership, and access to the additional financial and non-financial resources and support needed to optimize the success of the investments.
- Undertakes assessment and reporting on the success of both bottom lines.

- Participates in the financial success of the DBL Fund through sharing in management fees and the carried interest (the profit).

The first rule of nonprofits is not that they cannot earn income, but that they do not pay dividends or taxes. Harvard University is a highly profitable, 369-year-old, \$26 billion nonprofit. It simply reinvests its considerable annual income in carrying out its nonprofit mission – producing high-quality undergraduate and graduate education.

The key distinction, therefore, between a nonprofit and a for-profit is that a nonprofit cannot distribute its profit to shareholders, but must reinvest its profit in accomplishing its public purpose. A major goal of market-rate DBL Funds is to generate self-sustaining income for the nonprofit Fund Sponsor so that the nonprofit is not grant dependent. This is exactly what the six Genesis LA Funds and the soon to be four DBL Funds in the Bay Area Family of Funds are successfully doing.

Four models have emerged in the more than \$6 billion DBL Fund industry:

- The Contractual Model: Fund Sponsor contracts with the Fund Manager.
- The Ownership Model: Fund Sponsor owns or controls the Fund Manager.
- The Legislative Model: DBL Funds codified in law and watched over by community advocates.
- The Fund Manager Model: the DBL Fund Manager operates without a Fund Sponsor.

The Contractual Model has been used by more than \$2 billion of regional DBL Families of Funds. The nonprofit Fund Sponsor contracts with a Fund Manager with a strong track record to serve as Fund Manager of the DBL Fund, and the DBL Fund is then structured either as a Limited Liability Corporation (LLC) or a Limited Partnership (LP).

The DBL Fund can be legally structured to share a portion of the management fee (operating costs) and carried interest (profit) between the for-profit Fund Manager and the nonprofit Fund Sponsor. The Fund Sponsor, as Special Member or Special Limited Partner, receives a portion of the management fee and carried interest for value received by the DBL Fund in helping to source deal flow (especially the more complex deals with particularly extensive community benefits), helping to deliver the Second Bottom Line economic, social, and environmental returns, and monitoring the benefits to urban core neighborhoods.

The strength of the Contractual Model is that a strong regional strategy can be implemented. The Contractual Model should require that the Fund Sponsor and the Fund Manager enter into a long-term agreement to work together in the footprint of the Fund Sponsor. Otherwise, the Fund Manager of DBL Fund I may decide it wants to undertake a different type of DBL Fund (e.g. larger, new mission etc.) when it is time to create DBL Fund II. Unfortunately this new Fund concept may not be acceptable to the Fund Sponsor, as it may no longer focus specifically on the original region. The Contractual Model needs to build in assurance that the foundation of DBL Fund I will not be dramatically altered in DBL Fund II.

6. Engage Private Equity Fund Managers with Strong Track Records

A key to success in DBL Funds is selecting private-equity Fund Managers who see value where others see only loss. Fortunately, the private-equity capital industry is contrarian by nature. Private-equity Fund Managers only profit by spotting under-appreciated assets and removing the market barriers.

The new generation of DBL Funds has created a rapidly growing class of strong private-equity Fund Managers who are extremely good at assessing whether or not a real estate developer and its project have the requisite elements necessary for success. Moreover, if the Fund Manager finds that most of the key elements are in place, but there is not yet a complete developer team, the Fund Manager can and will make it a condition of investment that the developer team be strengthened before the investment is made. This may be done by pairing an emerging nonprofit developer with a for-profit developer to increase capacity. Analysts have commented that one of the principal consequences of for-profit DBL private-equity Funds investing in LMI neighborhoods, especially those with close working relationships with Fund Sponsors, is their profound contribution to “capacity building” in the neighborhood as a byproduct of their need to make sound investments.

Studies have shown that the mere availability of private equity managed by strong Fund Managers can “bring new ventures out of the woodwork.” Private-equity Fund Managers can identify unrecognized profitable deals and create new capital demand that would never have existed but for the risk-taking and risk management of a highly entrepreneurial Fund Manager.⁵

Private-equity Fund Managers are not just deal finders – they are dealmakers. They create economic activity that would not otherwise happen by exploiting a capital-market imperfection in a way that makes profits for themselves and their investors, and which creates new economic activity. In the case of venture capital, this means creating the new economic worlds of e-commerce and biotechnology and new medical instrumentation, and whole new industries we cannot yet imagine. In the case of DBL Private-Equity Funds, it means revitalizing emerging LMI neighborhoods that society and the conventional market had given up on, or failed to recognize.

To be precise, DBL Fund Managers only profit after they have returned the entire principal to their investors, and have returned an additional 7%-9% “hurdle rate” to their investors. Only then can they begin to share in profits of the DBL Fund, which are typically in the mid- to high-teens. Thus, they have to be very good at assessing risk and identifying profitable investments that others have not been able to recognize. In all of these cases, it is not the money that matters – it is the strong DBL Fund Management that profits from managing the risk of investing the money.

7. Produce Market-Rates of Financial Return

One of the reasons that DBL Funds are succeeding with both Bottom Lines is because Fund Sponsors accept and understand the fact that there is no Second Bottom Line if the First Bottom Line is not first

⁵ Daniel Shimshoni, "Regional Development and Science-Based Industry," *Essays in Regional Economics*, (Boston: Harvard University Press, 1971), 107-136.

successful. Institutional investors are responding as repeat investors in DBL Funds because these DBL Funds have been successful market-rate investments.

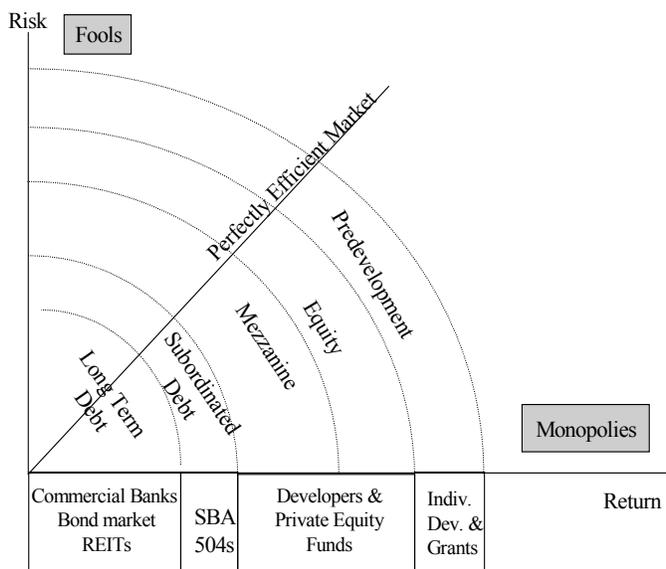
The new generation of private-equity DBL Fund Managers typically employs a five-part matrix of market imperfection to make profitable investment decisions for community revitalization in LMI neighborhoods.

These five systemic market imperfections are:

- 1) Insufficient risk pricing, pooling and spreading mechanisms.
- 2) High information and transaction costs.
- 3) Market prejudice.
- 4) Insufficient market competition.
- 5) Market-distorting government policies.

The most vivid way to graph an efficient real estate market is by means of the following risk-return diagram in Figure 2.4.

Figure 2.4: DBL Real Estate Funds Profit by Counting Market Failure



An efficient capital market splits the middle between risk and return. The earlier the stage of development, the higher the financial risk. Predevelopment finance is vastly riskier than equity real estate investment, equity capital is riskier than mezzanine capital and all forms of risk capital are generally riskier than all forms of debt, including subordinated debt and long-term senior real estate lending.

In each of these stages of development, there is a great risk of being very

“foolish.” That is, making investments that are high-risk and low-return. The collapse of the dot.com initial public offering (IPO) market in 2001 and the telecommunications and fiber optics cable markets in 2002 are recent cases in point, as has been true of real estate markets at many times, such as the United States in the late 1980s, and Japan in the early 1990s.

Private equity or venture capital is still a young industry with little more than 50 years of history. In the early days, many venture capitalists had near monopolies in their local markets that allowed them to skim low-risk, high-return deals. Today, the private-equity industry has become phenomenally

competitive on a global basis.⁶ Nevertheless, the emergence of private-equity Funds focused only on equity real estate investments is still a new and relatively rare phenomenon. The small number of private-equity real estate funds, and the even smaller number of DBL Funds, means that there are still real market imperfections in this highly specialized market.

In the end, the quality of risk management by the Fund Managers is critical. This will determine whether or not potential unrealized LMI area demand is fully appreciated in a DBL Fund, a market-rate of return for investors is provided, and the DBL goals are accomplished.

In designing a DBL Fund, it is important to remember that money by itself is not enough to revitalize poor neighborhoods. Financial capital is a necessary but insufficient factor of production. Access to capital can never make up for lack of markets, poor management or the absence of other crucial supply factors such as adequate labor, land and infrastructure. To put it simply, there is not one single instance in which “good money ever made a bad deal good.”

Nevertheless, the contrary is also true. The absence of the right kind of capital at the proper time can keep otherwise good deals from happening, and systemic market failures can cause this to happen over long periods of time for whole classes of projects and people in particular LMI neighborhoods. This systemic market failure can lead to large-scale disinvestment over time of the kind now found in LMI neighborhoods across the nation.

The task of the DBL Fund Manager is to be able to recognize those situations where good money makes all the difference, and profit-seeking investors and community stakeholders alike benefit from the investment.

8. Attract Large Institutional Investors

In the past decade, large institutional investors have, as has been noted, chosen to invest more than \$6 billion in the new class of DBL Funds. These investors include many of the nation’s leading commercial banks, foundations, insurance companies, public pension funds and an increasing number of large nonprofit corporations, university endowments, faith-based investors, Taft-Hartley Union pension funds and high-net-worth individuals.

Most significantly, many of these institutional investors are repeat investors. They are repeat investors for only one reason – to date, their expectations for annual returns on investment (ROI) have been realized. Nevertheless, each major group is attracted to the DBL Private-Equity Investment category for varying reasons.

- Commercial Banks were initially drawn to DBL Funds for Community Reinvestment Act (CRA) credit. The expectation of market-rates of financial return has made them repeat investors.
- Foundations initially were drawn to Program Related Investments (PRIs) in DBL Funds for reasons of mission, but increasing numbers of foundations are choosing to make

⁶ PriceWaterhouseCooper’s official website, <http://www.pwcmoneytree.com>.

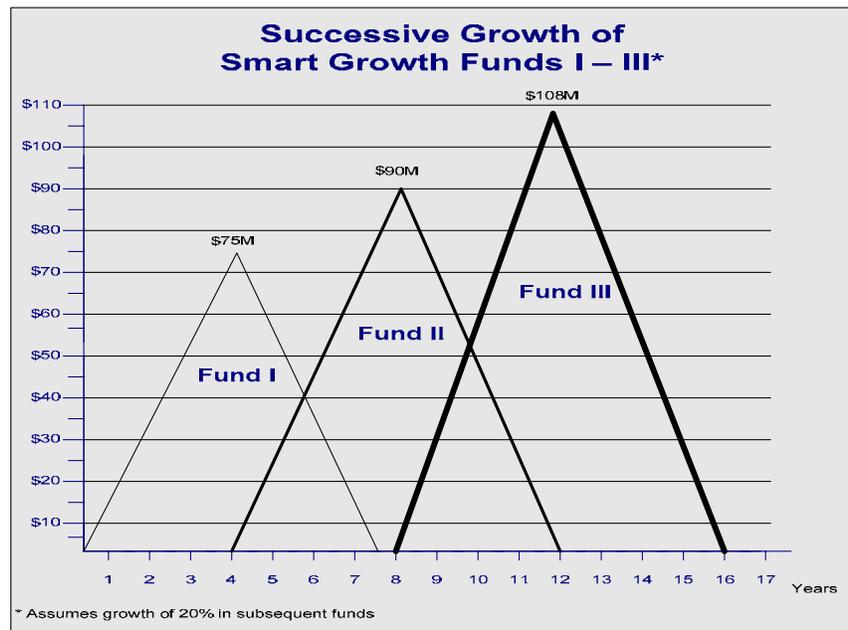
- portfolio investments with their corpus, as they are able to attain market-rates of financial return appropriate to their endowments.
- Insurance Companies originally reacted to DBL Investments as a protection against state CRA legislation, but some large recent repeat investments suggest a recognition that returns on investments are a better reason.
 - Public Pension Funds will, properly, only invest for market rates of financial return, but the enhanced benefits of DBL Investments within their jurisdiction are a plus if all other variables are in order.
 - Faith-based Investors and Taft-Hartley Union Funds have been slow to come on board, but represent fertile ground for the future.
 - University Endowments have, in a few cases, joined as DBL Fund investors when their interests were directly at stake.
 - High-Net-Worth Individuals are now becoming an important source of local and regional support, especially as syndications are created for their benefit.

9. Not a DBL Fund, but a DBL Family of Funds that form a Long-Term Development System

The mission of DBL Initiative/Fund Sponsors is not to build just a DBL Fund. The mission of a DBL Initiative/Fund Sponsor is to create a DBL Family of Funds that is a long-term, self-sustaining DBL Fund system. Such a system can assist in transforming LMI neighborhoods in the target region with a powerful, long-term, regional economic development impact.

The strategy of the first DBL Fund is to invest profitably the full capital commitments within the first four- to five-year drawdown period, and return all capital by the end of the eighth to ninth year. Based on the experience of Genesis L.A. and the Bay Area Family of Funds, the returns to investors may be so strong by Year 4 that the investors are prepared to begin building DBL Fund II. As shown in Figure 2.5, the success of DBL Fund I results in an even larger DBL Fund II and an even larger DBL Fund III. This growth continues so long as the DBL Funds successfully produce market-rates of financial return for investors and measurable jobs, wealth and healthy environmental impacts for community stakeholders.

Figure 2.5: The Successive Growth of Larger & Better DBL Family of Funds



By way of example, the \$85 million Genesis LA Real Estate Investment Fund I closed in the summer of 2000. By Spring 2005 – a little over five years later – Fund I is fully invested, and has already returned much of its capital with a market-rate of financial return. The result is that the \$103 million Genesis LA Real Estate Investment Fund II has now been capitalized at 20% larger than the original Fund I.

DBL Families of Funds can include individual DBL Funds that specialize in:

- Mixed-income housing development.
- Industrial development.
- Retail.
- Office.
- Business ventures.
- Environmental cleanup.

These DBL Families of Funds operate under the aegis of a nonprofit policy overseer, the Fund Sponsor, which assists in ensuring that the DBL Family of Funds operates collaboratively on common projects and produces measurable Double Bottom Line returns for both community stakeholders and investors.

10. Smart Growth Funds Emphasizing the “Three Es”

Global capital markets are designed to flow downhill to the investments that create the least resistance. The structure of private financial markets currently is unconsciously structured and incented to favor

large-scale suburban housing developments, industrial tracts, auto malls and big-box retail development.⁷ As these developments require large parcels, they are always easier and cheaper to develop on suburban land or outlying greenfields.

There is a growing perception that this typical pattern of regional growth is flawed. Greenfield suburban development has led to a jobs/housing imbalance, a stressed transportation system, declining urban cores, increasing levels of urban poverty and the emigration of large corporations from core cities to suburban sites. An alternative to this sprawling growth has come to be characterized as “smart growth,” which orients around in-fill, transit-oriented, mixed-use, mixed-income developments that are surrounded by greenbelts. Portland, Oregon at a metropolitan regional level is perhaps best known for pursuing this alternative. Many regions and states are now attempting this type of smart growth.

One of the primary reasons for “greenfields” being cheaper and easier to develop than “brownfields” are inadvertent public policies that have unintended consequences – tax and regulatory policies and transportation and infrastructure policies that do not fairly price the costs of greenfield development to the public. This results in an unfair and heavy burden on the older LMI areas, as a dwindling urban core area ends up paying hidden costs through the flight of businesses and residents to newer developments built further away from the urban core. Thus, there are land use and real estate market imperfections that parallel the capital market imperfections outlined above in Key Characteristic six.

The emergence of market-rate DBL Funds across the country in this past decade has paralleled the evolution of a smart growth policy framework in many regions.

As noted above in Key Characteristic 4, the San Francisco Bay Area, “*the CEOs of the Bay Area Council recognized that the region could not maintain its global supremacy and innovation unless everyone in the nine-county Bay Area participates in the regional economic growth.*” This leadership sensibility, that true economic progress must be linked with social equity and environmental responsibility, has informed the emergence of the private/community leadership initiatives that have created DBL Funds across the country.

From this perspective, sustainable development can be recognized by evaluating proposed actions on the basis of whether they produce what the U.S. President’s Council on Sustainable Development and the Bay Area Alliance for Sustainable Communities (the broad-based private, community and environmental leadership regional spin-off from the President's Council on Sustainable Development) have called the “*three Es*”:

- A prosperous *Economy*
- A quality *Environment*

⁷ One irony is that the real estate investment arms of many national foundations are actively investing tens of millions of their corpus in support of these developments that may contribute to sprawl, while the program side of the foundation is investing the earned income from those investments in trying to support sustainable and smart growth development. The increasing willingness of these foundations to invest substantial corpus in these market-rate Double Bottom Line smart growth real estate Funds is an encouraging sign.

- Social Equity

A sustainable economy that can survive over extended time periods needs to build, rather than deplete, not only its economic capital but also its social and environmental capital. The *three Es* are mutually reinforcing. Sustainable development is like a platform held up by these three legs. If any one of the legs is missing, the platform will fall over.

Enterprises oriented only toward financial return, one dimension of the first “E” of *Economic prosperity*, have become extremely powerful. They have been the organizational vehicles of the industrial revolution, reaping its benefits. In so doing, they have also caused much of the world’s environmental and social dislocation, but as the experience in the San Francisco Bay Area, Portland, Oregon, San Diego, California and many other DBL models demonstrate, CEO leadership is also now playing a leading role in using its economic power in support of sustainability and restoration out of a reasonable understanding of its self-interest.

Double Bottom Line best practice begins with the simple concept that enterprises have to succeed financially and be profitable *first*. That is the *First Bottom Line*. Without a successful *First Bottom Line*, there is no *Second Bottom Line*. Conversely, sustainable development is based on enterprises that also recognize the importance of the Second Bottom Line – broad economic prosperity, social equity and environmental quality. Such enterprises seek to establish positive relationships with all of their stakeholders, which include shareholders, management, workforce, customers, suppliers, the community, and the environment.

There is increasing evidence that some of the strongest enterprises are the ones that measure up along both bottom lines. Profitability is being re-defined to include economic, social and environmental factors, as well as financial factors, thereby building all three kinds of capital.

This makes good sense intuitively. Businesses ought to do better financially if they are well run fiscally, while producing a high-quality product or service, treating their workers and customers well, and benefiting their communities and the environment. Businesses ought to do less well financially if they produce poor products/services, exploit their customers and workers, do damage to their communities and pollute the environment. DBL Funds, by focusing on both bottom lines, have generated a proven track record of success.

2.2 REGIONAL CONTEXT

Metropolitan regions and megaregions offer Double Bottom Line (DBL) Investment Initiatives and Funds comparative economic and social advantages that enable them to deliver First and Second Bottom Line Returns. This section of the Double Bottom Line Handbook discusses why the metropolitan region and the megaregion are the appropriate scale at which to design and implement DBL Investment Funds.

Overview

Metropolitan regions and megaregions are now widely viewed by economists and business strategists as the economic building blocks of the nation-state and the global economy. Complementary businesses tend to locate in metropolitan areas where they can draw upon resources provided at the regional level such as research and technology, skilled labor, supply networks, and transportation infrastructure. The business strategist Michael Porter describes this tendency in terms of industry clusters, which are concentrations of related and complementary businesses that utilize the resources of a region that are particularly well-suited to it.

Economists view metropolitan regions, and, more recently, megaregions as geographic areas whose size is ideally suited to achieve low-cost economies of scale. Some of our nation's most vibrant research and development communities are organized at the regional level. A prime example is Greater Boston's life sciences cluster. This highly sophisticated cluster is anchored by universities and hospitals located in the Longwood Medical Area in Boston but also consists of hundreds of biotechnology firms located throughout Cambridge and surrounding communities.

At the same time, metropolitan regions are considered small enough for business leaders in related sectors to network, build trust, and share information which can lead to collaboration, new technologies, innovation and growth. Trust is built through proximity and repeated interaction, which in turn stimulates the collaboration, new technologies and innovation. Working relationships are created at a regional level among business partners that can be difficult to achieve on a global, national or even state level. The growth of the computer and software industries in northern California's Silicon Valley is a testament to the success of a cooperative, network model fostered by geographic proximity.

As global competition accelerates, there is growing recognition among business and civic leaders that the economic competition they face is regional – as opposed to local – in nature. This realization has given rise to new and powerful economic development strategies in which regional leaders strive to position their metropolitan areas as exceptional places to locate or expand business operations, work, raise a family, and live. In this context regional leaders have come to recognize that concentrated poverty and sharp disparity in income levels across segments of the population have both an adverse impact on economic performance and quality of life.

The link between regional growth and competitiveness and concentrated poverty in the central city is substantiated by a growing body of research showing that cities and suburbs are interdependent parts of one regional economy. Residents and businesses that inhabit the cities and towns that make up a metropolitan region are linked by a common industrial structure, educational infrastructure, integrated labor and real estate markets, a delineated commuter shed, and transportation systems. These shared attributes drive, support or impede regional economic performance and quality of life without regard to jurisdictional boundaries.

This economic link between central cities and suburbs is further confirmed by a correlation of both income levels and housing values. According to a study by Robert Weissbourd and Chris Berry, the incomes of people in the suburbs and their central cities go up or down together, as does the value of real estate.⁸ Research by Manuel Pastor also points to the connection between economic growth and concentrated poverty. In a study of 74 metropolitan regions, Pastor found that efforts to reduce central city poverty led to an increase in regional income even when other determinants of growth and the poverty-reducing impacts of growth itself were factored in.⁹

Through the America 2050 initiative, the Regional Plan Association (RPA) has expanded the focus on region to address megaregions – large networks of metropolitan areas, where most of the population growth by mid-century will take place. Megaregions comprise multiple, adjacent metropolitan areas connected by overlapping commuting patterns, business travel, environmental landscapes and watersheds, linked economies, and social networks. America 2050 has identified at least 10 megaregions in the United States.

Double Bottom Line Investing and Regional Economic Development

DBL Initiatives/Funds are being developed in the context of new regional economic development thinking and practice. Like individual firms and industry clusters, DBL Funds flourish at a metropolitan scale because regions are both large enough to achieve economies of scale and small enough to foster the trustworthy relationships between business, civic and community leaders required to implement a DBL Fund successfully.

Regions are also ideal for forging the economic and social capital links necessary to integrate LMI communities into the regional economy. Firms in LMI neighborhoods can export goods and services to the larger regional economy and regional wealth and jobs can be imported to LMI neighborhoods to revitalize communities and create opportunity for residents.

Although it has not happened yet, it is likely that DBL Initiatives/Funds will emerge that address megaregions. The Bay Area Council is considering this orientation with the Family of Funds in relation to the Northern California megaregion.

⁸ Robert Weissbourd and Chris Barry, Living Cities Working Paper, 2005.

⁹ Manuel Pastor, “Growing Together: Linking Regional and Community Development in a Changing Economy.”

Economies of Scale

Metropolitan regions offer DBL Initiatives/Funds comparative economic and social advantages that assist them to accomplish both First and Second Bottom Line results.

First, metropolitan regions offer efficient scale for DBL Investing. As has been stated, if a DBL Fund is to reach scale, there is a simple formula that must be achieved each time a DBL Fund is created. The DBL Fund must be created in a marketplace capable of generating enough deal flow so that it can be capitalized at a level that will attract high quality Fund Managers. High quality Fund Managers, in turn, give confidence to large institutional investors that the DBL Fund can generate the DBL Returns expected by investors and community stakeholders.

Second, metropolitan regions are small enough to engage a truly effective local and regional partnership of private, community, nonprofit and public leadership who are held accountable for the performance and impact of the DBL Fund. In recent years the heightened emphasis on regional competition and economic growth has given rise to new multi-sector leadership collaborations in metropolitan regions across the country. These new collaborative structures pave the way for Regional DBL Initiatives/Funds to address issues of poverty and community revitalization in the region. While mobilizing the civic leadership of a region to develop and implement a DBL Fund is no easy task, metropolitan regions provides a geographic scale in which it is possible for business and civic leaders to establish trustworthy relationships and meet on a regular basis to plan, execute and evaluate a DBL Fund's impact and performance.

Economic Integration

Regions are the ideal size to forge the economic and social capital links required to integrate LMI communities into the larger regional economy.

LMI neighborhoods generally under-perform their regional economies because they are not fully integrated socially, politically and economically into the economic base of the region. Under the old economic development paradigm, the way to renew poor neighborhoods was to “go-it alone” – a strategy that focused on physically rebuilding the neighborhoods without any regard for how they fit into the regional economy. This strategy did nothing to address the economic and social isolation that many LMI neighborhoods experienced. Today there is growing recognition that a sound revitalization plan for LMI areas will only succeed if these neighborhoods are fully integrated economically into their regional economy.

LMI neighborhoods have many under-appreciated assets that can add real market value to the region's economic development. These include:

- An available workforce to fuel further regional growth
- An under-served consumer base that provides an untapped market for regional goods and services

- Unrealized opportunities for commercial and industrial development
- A significant market opportunity to build quality affordable and workforce housing
- Substantial under-utilized infrastructure that could be more profitably employed

The goal of the Regional DBL Initiative/Fund is to create jobs, firms, income and wealth for residents in LMI neighborhoods by fully connecting these neighborhood assets to the regional economy.

2.3 MAPPING THE PLAYERS

Building Double Bottom Line (DBL) Initiatives and Funds is a complex process involving the expertise and commitment of many different types of individuals and institutions. This Best Practice section provides a map of the players, defines their roles and responsibilities, and describes how players relate to one another.

DBL Funds operate within the context of Regional DBL Initiatives designed to alleviate poverty, revitalize distressed urban neighborhoods, and promote smart growth.

DBL Initiatives/Funds are typically sponsored by a nonprofit leadership organization such as a Chamber of Commerce, a CEO leadership group or a community-based organization. Most often, DBL Initiatives/Funds are part of a larger regional economic development strategy that has secured support from the region's private, public and nonprofit leadership.

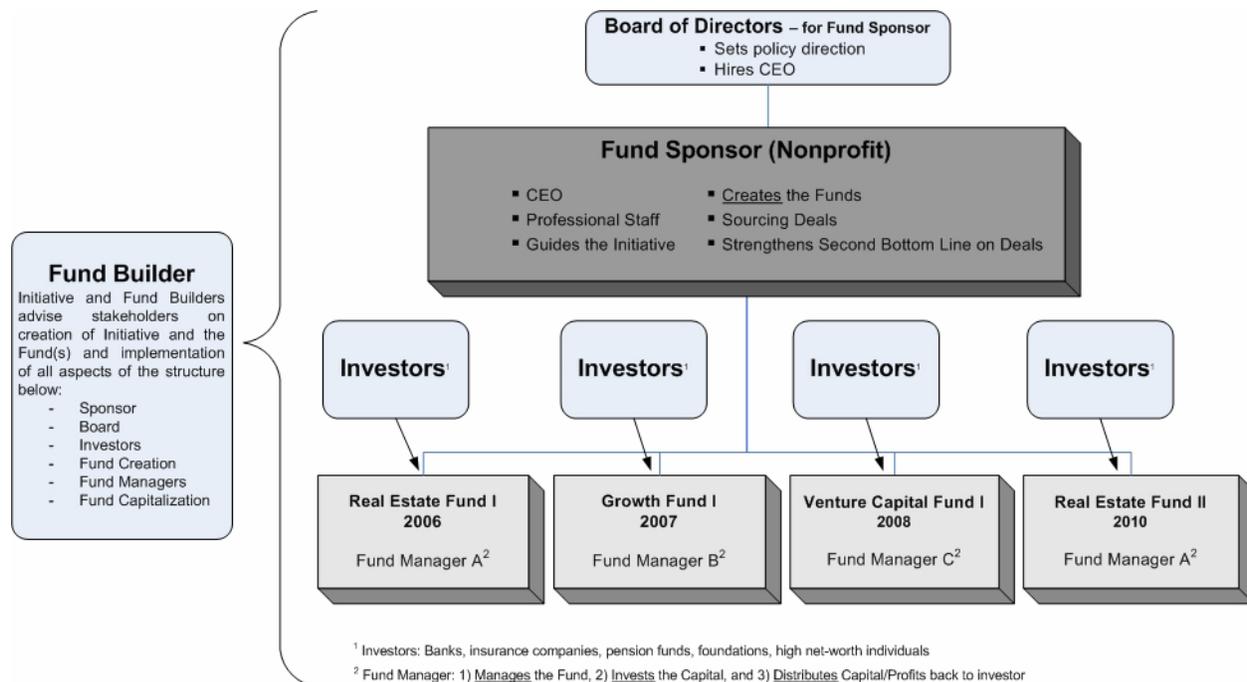
The Regional DBL Initiative encompasses the DBL Fund(s) *and* all of the individuals, institutions and financial and non-financial resources required to successfully implement the DBL Fund. The DBL Initiative is organized by the nonprofit Sponsor for three primary purposes: 1) to oversee the creation and implementation of the for-profit DBL Fund or DBL Family of Funds, 2) to ensure that established goals of the DBL Fund – both First and Second Bottom Line – are realized, and 3) to undertake ancillary activities that contribute to the realization of the goals that guide the DBL Fund or DBL Family of Funds.

Key players involved in the development of the Regional DBL Initiative/Fund include:

- Nonprofit Sponsor
- Nonprofit Sponsor Board (or Committee)
- Fund Builder
- Initiative Builder
- Investors (Lead and Institutional)
- Fund Advisory Committee
- Fund Manager

The chart below (Figure 2.6) provides a stylized depiction of the relationship between the Initiative/Fund as well as they key players required to build and implement a DBL Fund.

Figure 2.6: DBL Family of Funds: Key Elements



Definitions and roles and responsibilities of each player depicted in the chart above are provided below for easy reference. More detailed discussion of the roles and responsibilities of each player are provided in subsequent Best Practice sections. A detailed glossary of terms is included as Appendix A.

Nonprofit Sponsor: A nonprofit leadership organization typically sponsors the Regional DBL Initiative/Fund (or Family of Funds). The nonprofit leadership organization typically is an existing organization – such as a metropolitan chamber of commerce or community economic development agency – or it may be a new organization created specifically to lead the Initiative and Sponsor the DBL Fund. In either case, the nonprofit organization formulates the DBL Initiative/Fund, selects the Fund Manager and is accountable to regional stakeholders and investors for First and Second Bottom Line results.

The DBL Fund (or Family of Funds) is specifically structured to support the nonprofit DBL Initiative/Fund Sponsor with an income stream. The income stream enables the nonprofit Initiative/Fund Sponsor to fulfill Initiative goals and build a self-sustaining DBL Fund system without reliance on grants.

The nonprofit Initiative/Fund Sponsor:

- Secures regional business, community and government leadership commitments for the DBL Initiative/Fund.
- Decides on the type(s) of DBL Fund(s).

- Prioritizes neighborhoods for investment.
- Leads the process of choosing the Fund Manager and negotiating the Term Sheet.
- Helps to capitalize and close the DBL Fund(s).
- Assists in identifying deals and in accessing the Second Bottom Line potential of deals.
- Oversees the DBL Fund(s) to ensure that the Second Bottom Line is met.
- Assists in building community support for projects.
- Plays a key role in delivering the Second Bottom Line job and wealth creating results.
- Establishes the Regional DBL Initiative, including the organization of a Regional Community Investment Network and serving as a Community Development Catalyst.
- Assesses impact and reports on the success of the DBL Fund(s).
- Participates in the financial success of the DBL Fund through sharing in management fees and the carried interest of the DBL Fund(s) (the profit).

Sponsor Board (or Committee): The nonprofit DBL Initiative/Fund Sponsor requires a board (or a committee if the Fund Sponsor is a pre-existing organization) to guide and oversee the DBL Initiative/Fund. The nonprofit organization serves as Initiative/Fund Sponsor, Special Member of the Fund, and Community Development Catalyst. Board (or committee) members need to possess special qualifications to lead the nonprofit DBL Initiative/Fund Sponsor in all of these areas. This requires a diverse board (or committee) with expertise in regional development, community and neighborhood development, venture capital, deal making, real estate, business start-ups and entrepreneurship, among other areas.

Support and buy-in from leadership in from the private, public, nonprofit and community sectors facilitates widespread support for the DBL Initiative, facilitates access to LMI neighborhoods and institutions, increases deal flow, and helps leverage additional financial and non-financial resources to achieve Second Bottom Line results.

Fund Builder: The Fund Builder is an individual or team with extensive experience in assisting in launching DBL Funds. The nonprofit Fund Sponsor may hire an experienced DBL Fund Builder to help with all aspects of Fund Building including a market assessment, identification of lead investors, relationship to and selection of the Fund Manager, development of the term sheet including financial return objectives and Second Bottom Line economic, social and environmental criteria, and capital raising for the DBL Fund.

Initiative Builder: The Initiative Builder is an individual or team with significant experience in DBL Initiative Building. The nonprofit DBL Initiative Sponsor may hire an experienced Initiative Builder to assist with organization and program development in relation to the DBL Initiative/Fund Sponsor organization. The Initiative Builder assists the DBL Initiative/Fund Sponsor in proceeding through the learning curve in relation to all of the roles that need to be performed, including: relations with

the Fund Manager, deal sourcing, supporting deals in the entitlement process, strengthening the Second Bottom Line on deals that receive investment, organizing a Regional Community Investment Network, serving as a Community Development Catalyst, and monitoring and evaluation.

Investors: Lead Investors are often relatively large Institutional Investors who by their early involvement and size often play a significant role in defining the terms of the DBL Fund. Institutional Investors are large investors with well-established standards and procedures for investing in and following investments in private equity funds. These include commercial banks; insurance companies; pension funds of all sorts, including corporate, public and Taft-Hartley union pension funds; university endowments; foundations; corporations. High-net-worth individual investors are also involved in some DBL Funds.

Fund Advisory Committee: The for-profit Fund Manager and the nonprofit Fund Sponsor usually create a Fund Advisory Committee composed of some or all of the investors in the DBL Fund. The Fund Advisory Committee may include select representatives from the Board (or committee) assembled by the nonprofit Initiative/Fund Sponsor. The Fund Manager reports on potential deals and the status of investments to the Fund Advisory Committee at regular intervals.

It is important to note that the role of the Fund Advisory Committee is truly advisory as the Fund Management Team is protected from investors and stakeholders by a firewall. The Fund Management Team has complete authority over all investment decisions.

Fund Management Team/Fund Manager: The Fund Manager is the professional entity that is fully and solely responsible for making all investment decisions in the DBL Fund. The Fund Management Team is usually selected by the nonprofit Fund Sponsor through a national search/request for proposal process. The Fund Management Team must have a strong track record in achieving the financial and economic, social, and environmental returns stipulated by the DBL Initiative/Fund.

The Fund Manager makes all investment decisions within the confines of the organizational documents of the DBL Fund established with investors, and operates behind a secure firewall that protects investors and the Fund Sponsor from liability for losses beyond the extent of each individual investment.

2.4 STRUCTURING A REGIONAL DBL INITIATIVE

Regional Double Bottom Line (DBL) Funds typically operate within the context of Regional DBL Initiatives designed to alleviate poverty, revitalize distressed urban communities, and promote smart growth. DBL Initiatives include DBL Funds as well as the individuals, institutions, networks and financial and non-financial resources required to assist in ensuring that the DBL Funds meet First and Second Bottom Line criteria. In addition, DBL Initiatives undertake various ancillary activities that support the DBL Funds and magnify their impact. This Best Practice section describes the steps involved in structuring a Regional DBL Initiative with a particular focus on the role of the nonprofit Initiative/Sponsor.

Overview

Regional DBL Funds typically operate within the context of Regional DBL Initiatives. These initiatives are driven by increasing recognition among business civic organizations and other regional leadership groups that neighborhoods with high levels of poverty have a powerfully adverse impact on regional prosperity. This recognition has led regional leaders to become the Sponsors of Regional DBL Initiatives/Funds with the related goals of poverty reduction, community wealth creation, and smart growth.

Regional DBL Initiatives include the DBL Funds but go beyond them to provide a robust network of shared understanding, connections to local and regional leadership, and access to additional financial and non-financial resources. The DBL Initiatives produce what can be characterized as "unconventional underwriting" or an "incubator-without-walls", surrounding real estate developments and/or businesses that receive investment from the DBL Funds with the full range of non-financial resources, assistance, and support needed to optimize the success of the investments.

The DBL Initiatives are also leveraging vehicles, maximizing the Second Bottom Line (the positive, economic, social, and environmental impacts of DBL Fund investment) and increasing overall financial investment from sources other than the DBL Funds in the priority neighborhoods.

DBL Initiatives may be relatively broad or relatively narrow, explicit or implicit – but there is always some type of Initiative associated with any Regional DBL Fund and the best practice is to design and implement the DBL Initiative explicitly.

Structuring a Regional DBL Initiative

A fully developed Regional DBL Initiative includes:

- Formal commitment from regional business, community, and government leadership.
- Prioritization of neighborhoods for investment.

- Identification of assets, liabilities, leadership, and deal potential in the priority neighborhoods.
- Establishment of a DBL Fund and selection of the Fund Manager.
- Focusing the full range of other private and government financial and non-financial resources on the prioritized neighborhoods.
- Identification and structuring of deals so that they are ready to receive investment.
- Undertaking of ancillary activities such as establishment of Regional Community Investment Networks and operation as a Community Development Catalyst.
- Assessment of investment impact on priority neighborhoods.

Securing Leadership Commitment to the DBL Initiative/Fund

The Sponsor of a Regional DBL Initiative/Fund (Sponsor) is typically a nonprofit corporation that is either pre-existing with multiple purposes or specifically formed to be the Sponsor the DBL Initiative/Fund. Business civic organizations, such as the Bay Area Council or the St. Louis Regional Chamber of Commerce and Growth Association, are examples of pre-existing organizations that have developed Regional DBL Initiatives/Funds. Genesis LA and the San Diego Capital Collaborative are examples of organizations specifically founded to Sponsor a DBL Initiative/Fund.

The Sponsor of the DBL Initiative may choose to work with an Initiative Building Consultant to engage national best practices in the Initiative Building process. At the outset of a Regional DBL Initiative, the lead organization has to organize broad understanding of and support for the objectives and strategy of the DBL Initiative among the relevant regional business, community, and government leadership groups. This typically takes the form of an organizing process that involves a series of one-on-one meetings, leading to group meetings and ultimately to commitments of organizational support.

Prioritization of Neighborhoods

A Regional DBL Initiative is place-based – i.e. it involves the identification of specific geographic areas that are prioritized for investment. For example, the Bay Area Family of Funds has prioritized census tracts with household median incomes that are at 80% of Area Median Income (AMI). The Funds invest in or near those census tracts and the other non-financial dimensions of the DBL Initiative are also focused on those census tracts.

Since a criterion such as 80% of AMI is likely to include a relatively large number of census tracts, additional prioritization is required to enable the DBL Initiative to begin by concentrating on a few neighborhoods to receive a critical mass of financial and non-financial investments that can lead to positive transformation. Once a few neighborhoods are well underway, the DBL Initiative can move on to the next set of prioritized neighborhoods.

However, this is not always a straightforward process. Sometimes the additional prioritization will take place because the DBL Fund finds a good deal to invest in and then the DBL Initiative drops

additional resources around that deal to strengthen its impact. Sometimes the DBL Initiative chooses a neighborhood to engage with and DBL Fund investments come later. Which of these approaches is chosen depends on the unique characteristics and priorities of the region and the particular neighborhoods.

In either case, the DBL Initiative needs to assess the assets and liabilities of priority neighborhoods, in the context of the overall regional economy, and establish strong relationships with local and regional business, community, and government leadership.

While the priority neighborhoods indeed have liabilities that need to be understood, it is their assets that are key. The neighborhoods are not seen as being “disadvantaged”. Rather the neighborhoods are seen as “domestic emerging markets” with important market potential that the regional investment market has overlooked. Inner city neighborhoods usually have existing workforce, underutilized infrastructure and high demand for products.

It is also important to establish good relationships with the individual and organizational leadership of the neighborhood and to understand that leadership's objectives and strategies. Any new real estate or business development needs to connect with the neighborhood in ways that provide clear economic, social, and environmental benefits for current residents so that it is in the interest of current residents to support the development. Some of the time and, thereby, money saved by avoiding conflict can be used to pay for community benefits.

An analysis of neighborhood assets and a relationship with neighborhood leadership naturally leads to the identification of specific DBL real estate and business development opportunities that a Regional DBL Fund can invest in.

Sponsorship of a DBL Fund

In building a Regional DBL Fund, the nonprofit Sponsor of the DBL Initiative/Fund will typically work with one or more Fund Building Consultants who have had extensive experience in building DBL Funds.

The first step for the nonprofit Sponsor is to determine the type(s) of DBL Fund(s) to build. DBL Funds can focus either on real estate or on business ventures. Many DBL Initiatives develop a “DBL Family of Funds.” The Family will encompass multiple types of DBL Funds. The Bay Area Family of Funds, for example, includes two Smart Growth Real Estate Funds, an Environmental Clean-up Fund and a Business Equity Fund. In the Bay Area, the capital deployed by the different DBL Funds includes both equity and mezzanine debt.

The DBL Fund(s) may also employ New Markets Tax Credits or other forms of credit enhancement. The type of DBL Fund(s) will depend on which vehicle(s) are best able to accomplish the objectives and strategy of the Regional DBL Initiative.

Working together the Sponsor and the Fund Builder identify lead investors and develop a Term Sheet for the DBL Fund, including the type of DBL Fund, relationship with the Investment Manager, financial return objectives, and Second Bottom Line economic, social, and environmental criteria.

The Sponsor and Fund Builder, with advice from lead investors, select the Fund Management Team. This process involves:

- Establishing a Hiring Committee
- Preparing a Request for Proposals
- Developing a hiring process
- Interviewing Fund Management candidates according to the hiring process
- Recommending a preferred Fund Manager to the full Board of nonprofit Sponsor

Once a Fund Manger is hired, the Sponsor, Fund Manger, and lead investors negotiate the final terms for the DBL Fund, including the final formulation of the Second Bottom Line economic, social, and environmental criteria that will be included in the Private Placement Memorandum and organizational documents for the DBL Fund.

The Sponsor provides the selected Fund Manager an orientation to the region, including an introduction to the regional economy, the situation in the low- and moderate-income neighborhoods, the state of community leadership and regional business leadership and community-based and regional organizations.

The Sponsor also works with the Fund Building Consultant and the Fund Manager to raise private equity capital for the DBL Fund by:

- Identifying potential sources of funding
- Engaging in capital raising presentations to potential investors (including describing the role of the Sponsor as a Special Member [or Special Limited Partner] of the DBL Fund).
- Assisting in closing particular investments as appropriate.

Finally, the Sponsor and its attorney have to review carefully all aspects of the Private Placement Memorandum and organizational documents for the DBL Fund with an explicit and precise sign-off process.

The Sponsor as a Special Member of a DBL Fund

Once the capital has been raised and the DBL Fund is closed, the nonprofit DBL Initiative/Fund Sponsor shifts its role to become a participant in the operation of the DBL Fund(s) as a Special Limited Partner or Special Member (depending on the organizational form of the DBL Fund[s]). The Special Member receives a portion of the DBL Fund's management fee and carried interest in exchange for providing value to the DBL Fund.

The Sponsor/Special Member has the responsibility for collaborating with the Fund Manager on deal flow; assisting the deals that receive investment to produce an optimal second (economic/social/environmental) bottom line; establishing a network of other regional and national investment resources; and coordinating engagement of non-financial investments in neighborhoods that receive investments by the DBL Fund.

Through the process of working on deal flow, the Fund Manager and the Sponsor/Special Member engage in a high level of interaction and exchange. If the Fund Manager sources a deal, it will typically present the deal to a committee or some other leadership structure of the Sponsor/Special Member for feedback on the Second Bottom Line profile of the deal, potential economic risk, and potential political risk. If the Sponsor/Special Member sources a deal, it will present the deal to the Fund Manager for financial assessment.

There will be significant give and take between the Fund Manager and the Sponsor/Special Member, and the Sponsor/Special Member will be expected to add value by assisting in strengthening the Second Bottom Line profile of deals as they are considered. At the same time, a final decision-making firewall must be maintained to enable the Fund Manager to make final investment decisions free of political pressure. Loosely speaking, the Sponsor/Special Member will have an informal veto over deals that do not have an adequate Second Bottom Line profile, but the Sponsor/Special Member cannot compel the Fund Manager to invest in a deal, no matter how strong the Second Bottom Line profile.

Once an investment has been made the Sponsor/Special Member will work with the Fund Manager and the developer/entrepreneur and other parties in the deal to:

- Support the development in the entitlement process.
- Assist in resolving any problems that emerge between the developer/entrepreneur and the community leadership in the neighborhood where the deal is located.
- Collaborate in implementing the economic/social/environmental bottom line.
- Expand the positive impact of the development/business throughout the neighborhood and the region (e.g. by assisting the development to access minority suppliers and contractors, by working with the development to implement local hiring, and by helping in the establishment of ancillary businesses that are catalyzed by the primary development).
- Monitor and evaluate the impact of the development on the neighborhood and the region to be of assistance in mid-course corrections and in deriving lessons that can be applied in other neighborhoods.

Focusing Regional Resources

In addition to its roles as a Sponsor/Special Member of the DBL Fund, the Sponsor of a DBL Initiative will also coordinate access to other financial and non-financial regional and national investment resources that can be of benefit to the LMI neighborhoods where the investments are taking place.

Additional financial resources can be organized in a network set up to explore co-investment with the DBL Fund(s), to invest in ancillary opportunities generated by investments made by the DBL Fund(s), and to invest in good deals that, for some reason, do not work for the DBL Fund(s). For example, in the Bay Area, the Bay Area Council has established the Bay Area Community Investment Network (BACIN), a network of banks, Community Development Finance Institutions (CDFIs), angel and venture investors, and financial intermediaries. Another example is Genesis LA, which has established a partnership with USC's Lusk Center which focuses on real estate development. Genesis regularly holds forums where small- to medium-sized community developers are invited to attend. The focus of the presentations is to acquaint them with the various equity funds, illustrate how equity can be used in their projects and to make direct introductions with the Fund Managers.

The DBL Initiative/Fund Sponsor can also work with government and nonprofit organizations to coordinate the engagement of regional and national non-financial resources (e.g. human services, education, child care, health care, public safety, business incubation, and employment training and placement) with the neighborhood where the DBL Fund makes investments. This can strengthen individual deals and enhance the business climate and quality of life in the neighborhoods where the deals are taking place.

Preparation of Deals

In addition to focusing financial and non-financial resources on the priority neighborhoods, a DBL Initiative/Sponsor also plays the role of what can be characterized as a Community Development Catalyst by assisting in structuring deals in situations where there is a significant economic opportunity, but a deal has not been put together or a deal that exists is deficient in some fashion and needs to be restructured. Sustainable Systems, Inc. and Walter L. Ross and Associates have identified a three-phase approach to deal structuring: “pre-care,” deal structuring proper, and “after-care.”

“Pre-care” involves identifying the opportunity, the potential developers, and the likely sources of financing. Frequently these deals will be joint ventures involving a mainstream developer and a community development partner, so pre-care also can identify the potential developers and community partners.

Deal structuring puts the deal together identifying the roles each party will play, the financial structure of the deal, and the financing, such that the deal documents can be drawn up and signed.

“After-care” addresses all of the ways the deal can be assisted and enhanced. All deals receive after-care, regardless of whether they are pre-existing deals sourced by the Fund Manager or whether they are structured by the DBL Initiative/Fund Sponsor. It is the responsibility of the DBL Initiative/Fund

Sponsor to create a regional after-care infrastructure as one of its most important value-adds in relation to the DBL Fund(s).

Board Member Qualifications

In some cases a Regional DBL Initiative will be launched by a pre-existing organization and in other cases a new organization will be formed. In either case, a Board (or Committee) should be created to oversee the nonprofit DBL Initiative/Fund Sponsor, which plays multiple roles including:

- A nonprofit corporation (usually a corporation exempt from federal taxes according to section 501(c)(3) of the Internal Revenue Service).
- A DBL Initiative Sponsor.
- A Sponsor of the DBL Fund during the Fund-Building stage.
- A Sponsor/Special Member of the DBL Fund, once the DBL Fund is in operation.
- A Community Development Catalyst.

This calls for a Board with special qualifications to lead the organization in relation to each of these areas of operation, as well as: formulating the organization's mission statement and values in relation to DBL Investing that benefits LMI neighborhoods and the region as a whole; establishing policy to guide the functioning of the organization; hiring and overseeing staff in the implementation of that policy; and establishing a conflict of interest policy.

If a pre-existing organization is organizing the Regional DBL Initiative, then it will typically form a Committee to oversee the DBL Initiative. The Committee will likely include members that are also members of the parent Board and also members that are not. If a new organization is being formed, then a whole new Board will need to be recruited. In either case, Board members will need to have the relevant background and expertise to guide the DBL Initiative, without having a substantial conflict of interest in relation to each of the DBL Initiative's areas of operation.

Members of the Board or Committee should be characterized by:

- Understanding of and commitment to the mission of the DBL Initiative and the Double Bottom Line emphasis – and have a balanced appreciation for both bottom lines.
- Diversity of race and gender, reflecting the make-up of the region.
- Real estate, property development, and/or construction project understanding.
- Representation of LMI neighborhoods, business, and faith communities.
- Ability to embrace all the priority neighborhoods and not only represent and/or be concerned with one neighborhood.
- Interest in and knowledge of – or willingness to learn about – the basic operations of private equity real estate and/or business equity DBL Funds and Regional DBL Initiatives.

- Knowledge of business, community, faith, and government sectors and ability to serve as an effective representative of the DBL Initiative to these sectors.
- Appreciation for the need of entrepreneurial development, and the appropriate type of commerce to fit this need.
- Ability to work effectively with other Board members to form a strong, unified team, and to work with and provide supervision for staff.
- Ability to commit long term to a “working board.”

The creation of an effective DBL Initiative/Fund Sponsor Board (or committee) is critical to the success of the DBL Initiative/Fund. Support and buy-in from economic, political, and community leadership encourages widespread support for the DBL Initiative/Fund, facilitates access to LMI neighborhoods and institutions, increases deal flow, and helps leverage additional financial and non-financial resources to achieve Second Bottom Line results.

2.5 LEGAL FORMS OF DBL FUND SPONSORSHIP

Double Bottom Line (DBL) Funds encompass a variety of different legal models and structures. This section of the Double Bottom Line Handbook outlines the four alternative legal forms that have emerged in support of DBL Funds and discusses the advantages and disadvantages of various approaches.

Overview

To date, four legal models have emerged as alternative ways to construct Regional DBL Private Equity Funds. The four alternative legal models are:

- The Contractual Model: a nonprofit DBL Initiative/Fund Sponsor contracts with the Fund Manager.
- The Ownership Model: a nonprofit DBL Initiative/Fund Sponsor owns or controls the Fund Manager.
- Legislative Model: the DBL Funds are codified into law and watched over by community advocates.
- Fund Manager Model: a DBL Fund Manager manages a DBL Fund independent of an Initiative/Fund Sponsor.

The key distinction among the four models is the relationship between the nonprofit DBL Initiative/Fund Sponsor and the Fund Manager.

In the Contractual, Ownership and Legislative models, the DBL Funds are developed in the context of Regional DBL Initiatives and are legally structured to support the nonprofit DBL Initiative/Fund Sponsor with an income stream through sharing a portion of the DBL Fund operating costs and/or profit between the Fund Manager and the nonprofit Fund Sponsor. The income stream is acknowledged as compensation for the very valuable role the nonprofit DBL Initiative/Fund Sponsor plays in designing the DBL Fund, building positive relationships with targeted LMI neighborhoods, sourcing deals and producing and measuring Second Bottom Line results. The income stream is also a mechanism to create a self-sustaining system so that the nonprofit Fund Sponsor is not reliant on the foundation or government support to play its roles with the DBL Fund.

The Fund Manager model presents a distinct contrast. In the Fund Manager model, the Fund Manager establishes a DBL Fund without nonprofit involvement or Fund Sponsorship and therefore has no financial commitment to a nonprofit DBL Initiative/Fund Sponsor.

The four legal models of Fund Sponsorship are described below. In each case, DBL Fund examples are provided to illustrate how the model works in practice.

Contractual Model

In the Contractual Model, the nonprofit DBL Initiative/Fund Sponsor contracts with a Fund Manager with a strong track record to serve as Fund Manager of the DBL Fund, and the DBL Fund is then structured either as a limited liability company (LLC) or a limited partnership (LP).

The DBL Fund can be legally structured to share a portion of the management fee (operating costs) and carried interest (profit) between the for-profit Fund Manager and the nonprofit DBL Initiative/Fund Sponsor. The Initiative/Fund Sponsor as Special Member receives a portion of the management fee and carried interest for value received by the DBL Fund in helping to source deal flow (especially the more complex deals with high levels of community participation and a wide variety of community benefits), helping to deliver the Second Bottom Line results, and monitoring the benefits to urban core neighborhoods.

Figure 2.7: Fund Structure: Limited Partnership or Limited Liability Company

Structure	Limited Partnership (LP)	Limited Liability Company (LLC)
Fund Manager	General Partner	Managing Member
Investors	Limited Partners	Non-Managing Members
Fund Sponsor	Special Limited Partner	Special Member

The strength of the contractual model is that the best Fund Managers are attracted, which in turn will attract the best institutional investors. The weakness of the contractual model is that, unless the DBL Initiative/Fund Sponsor and the Fund Manager enter into a long-term agreement to work together in the footprint of the DBL Initiative/Fund Sponsor, the Fund Manager later may decide to do their next DBL Fund without the benefit of the nonprofit DBL Initiative/Fund Sponsor. That option does not exist with the ownership model.

The Contractual Model is best illustrated by the Bay Area Family of Funds and Genesis LA. In both cases, the nonprofit DBL Initiative/Fund Sponsor selects the Fund Manager and has a contract outlining the parameters of the DBL Fund and any fees and obligations the Fund Manager and DBL Initiative/Fund Sponsor have to one another. DBL Funds adhering to the Contractual Model tend to be regional in nature and seek equity investments from each investor in the \$2 - \$15 million range.

In the Contractual Model, the DBL Initiative/Fund Sponsor and the Fund Manager are supposed to work closely together sourcing deals and providing “pre-care” and “after-care” to deals that provide a high level of community benefit but may not have been ready for the DBL Fund investment without concentrated assistance. An additional benefit of this Contractual Model is that the nonprofit DBL Initiative/Fund Sponsor is usually responsible for facilitating ongoing economic and housing development within its region. As a result, the investments stay targeted on the designated region and

the nonprofit becomes a self-sustaining entity that continues to create more DBL Funds and garner more resources for the region it serves.

Ownership Model

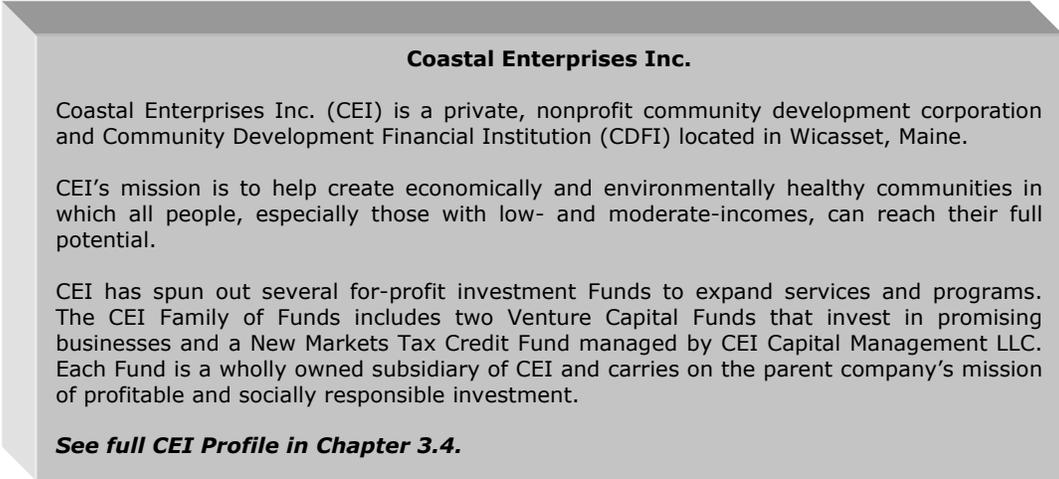
The Ownership model is structured so that the nonprofit Fund Sponsor owns the for-profit Fund Manager. In the Ownership Model the nonprofit Fund Sponsor establishes the policy for the DBL Fund – e.g. investments in low- and moderate-income areas only, no displacement permitted, mixed-use and mixed-income, measurable job and wealth benefits for residents. In the Ownership Model, institutional investors are limited partners and the nonprofit parent shares in the management fee and carried interest.

The ownership model is an older model than the contractual model. It is the preferred model of what are sometimes referred to as “first generation of community investment.” Many, but by no means all, of these “first generation” funds tended to incorporate various forms of subsidy and to make below market investments. As a result, the majority of these funds remained small in size and made small investments in small deals.

A number of “ownership model” funds have been so successful that they have gravitated into the “second generation of DBL Funds” by virtue of their success in accomplishing both bottom lines, and in generating DBL Funds II and III that are as large as contractual model second generation DBL Funds.

The advantage of the ownership model is that the Fund Manager cannot decide to “go it alone,” as the Fund Manager can in the contractual model if the contract does not include subsequent DBL Funds. The potential problem with the ownership model is that the nonprofit Fund Sponsor may not create a Fund Manager of the same strength as the Fund Managers typically engaged by DBL Funds using the contractual model and therefore the DBL Fund may have difficulty attracting institutional investors. The DBL Fund highlighted below, demonstrates that this problem can be overcome.

Figure 2.8: Coastal Enterprises Inc.



Coastal Enterprises Inc.

Coastal Enterprises Inc. (CEI) is a private, nonprofit community development corporation and Community Development Financial Institution (CDFI) located in Wicasset, Maine.

CEI’s mission is to help create economically and environmentally healthy communities in which all people, especially those with low- and moderate-incomes, can reach their full potential.

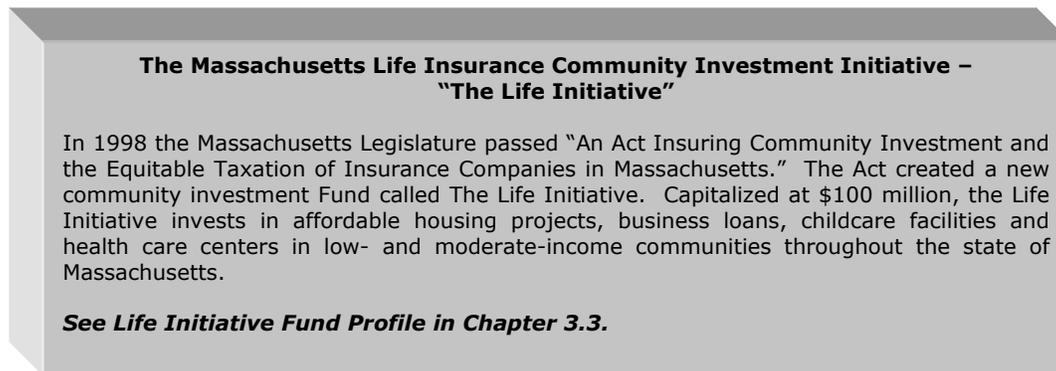
CEI has spun out several for-profit investment Funds to expand services and programs. The CEI Family of Funds includes two Venture Capital Funds that invest in promising businesses and a New Markets Tax Credit Fund managed by CEI Capital Management LLC. Each Fund is a wholly owned subsidiary of CEI and carries on the parent company’s mission of profitable and socially responsible investment.

See full CEI Profile in Chapter 3.4.

Legislative Model

The Legislative Model, in which the legal structure of the DBL Fund is codified in legislation, has only emerged for insurance companies in Massachusetts – the same state that originated Community Reinvestment Legislation for commercial banks. In 1988, the Massachusetts legislature passed “An Act Insuring Community Investment and the Equitable Taxation of Insurance Companies in Massachusetts.” The Act created two separate \$100 million investment pools – The Massachusetts Life Insurance Community Investment Initiative (The Life Initiative) and the Massachusetts Property and Casualty Community Investment Initiative (P&C Initiative). In exchange for investing in the DBL Funds, insurance companies benefit from state tax cuts phased in over a five-year period from Fund inception.

Figure 2.9: The Massachusetts Life Insurance Community Investment Initiative



Fund Manager Model

The Fund Manager model presents a distinct contrast to the Contractual, Ownership and Legislative models described above. The first distinction is that the Fund Management Team creates the DBL Fund on its own without a nonprofit Fund Sponsor. The second distinction is that DBL Funds created by professional Fund Managers often have a larger geographic footprint than DBL Funds created in the context of Regional DBL Initiatives.

DBL Funds created by Fund Managers may focus investments in particular regions but they are not typically an aspect of Regional DBL Initiatives characterized by commitment and buy-in from regional leadership and stakeholder groups.

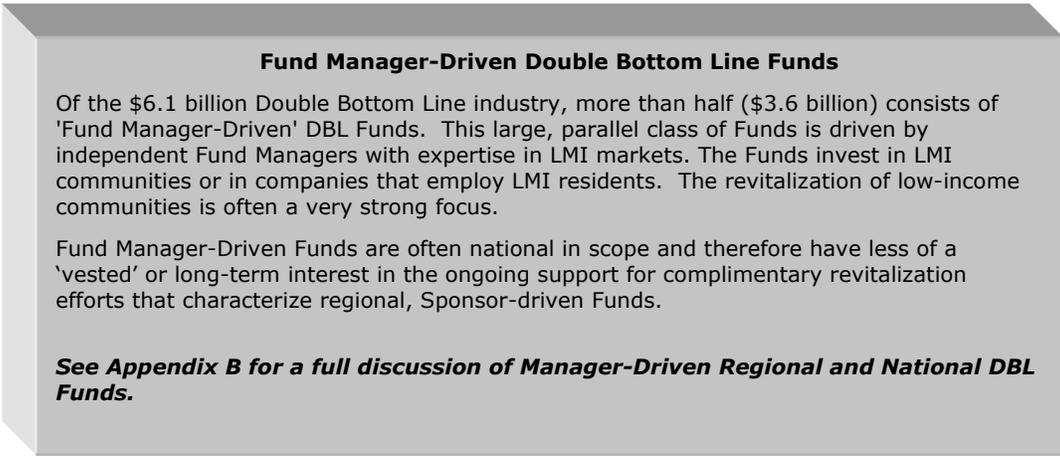
A good example of the Fund Manager Model in real estate is the Canyon-Johnson Urban Fund, L.P. The Canyon-Johnson Fund is one of the largest urban real estate funds in the United States with nearly \$300 million in committed capital from 21 national investors. This DBL Fund targets overlooked segments of the urban real estate market and seeks to create economic opportunity for the residents of urban neighborhoods in which the Fund invests. Canyon-Johnson focuses on large-scale

transactions that require \$10 million - \$30 million of equity with total capitalization between \$30 million - \$100 million.

A good example of the Fund Manager model in business equity is SJF Ventures. SJF Ventures finances and assists rapidly growing companies whose competitive advantage includes environmental or workforce innovation. SJF Ventures focuses on expansion stage companies with revenues of \$1 million - \$20 million that are at an inflection point for rapid growth. SJF is highly selective in identifying teams and business models that can sustain rapid sales, profitability, employment growth and premium exits. SJF Venture Fund I has invested \$12.8 million in 20 companies. A second Fund, SJF Venture Fund II, is currently being capitalized at \$50 million. SJF has offices in Durham, NC and Philadelphia, PA and targets investments in the Eastern United States.

The advantage of the Fund Manager Model is that professional Fund Managers have the confidence of investors and are therefore able to capitalize DBL Funds at high levels allowing them to invest in large-scale, transformative deals. The downside of the Fund Manager model is that there is often less focus on and measurement of Second Bottom Line results.

Figure 2.10: Fund Manager-driven DBL Funds



Fund Manager-Driven Double Bottom Line Funds

Of the \$6.1 billion Double Bottom Line industry, more than half (\$3.6 billion) consists of 'Fund Manager-Driven' DBL Funds. This large, parallel class of Funds is driven by independent Fund Managers with expertise in LMI markets. The Funds invest in LMI communities or in companies that employ LMI residents. The revitalization of low-income communities is often a very strong focus.

Fund Manager-Driven Funds are often national in scope and therefore have less of a 'vested' or long-term interest in the ongoing support for complimentary revitalization efforts that characterize regional, Sponsor-driven Funds.

See Appendix B for a full discussion of Manager-Driven Regional and National DBL Funds.

Figure 2.11: Four Legal Approaches to Fund Oversight

Legal Model	Strengths	Weaknesses	Examples
<p><u>Contractual Model:</u></p> <p>Fund Sponsor contracts with an independent Fund Manager with a strong track record to serve as Fund Manager of the DBL Fund, and the DBL Fund is then structured either as an LLC or Limited Partnership</p>	<p>Independent Fund Manager with a strong track record, giving institutional investors confidence in the DBL Fund; Fund Sponsor assisting with deal flow and Second Bottom Line implementation and monitoring</p>	<p>Fund Manager can run off with the idea with no accountability to nonprofit Fund Sponsor, if on-going Funds are not built into the contract</p>	<p>Genesis LA Funds, Bay Area Family of Funds, San Diego Capital Collaborative, and The Nehemiah Sacramento Valley Fund</p>
<p><u>Ownership Model:</u></p> <p>Nonprofit Community Development Corporation (CDC) Fund Sponsor owns for-profit Fund Manager</p>	<p>CDC Fund Sponsor has control over Fund Manager</p>	<p>Institutional Investors tend to have less confidence in CDC owned Fund Managers</p>	<p>Community Preservation Corporation/CPC Resources</p> <p>Coastal Enterprises/CEI Ventures</p> <p>MA Housing Investment/MHIC Equity LLC</p>
<p><u>Legislative Model:</u></p> <p>DBL Fund criteria and tax deal codified in state legislation</p>	<p>Good option with a sympathetic legislature</p>	<p>Not an option with an unsympathetic legislature</p>	<p>MA Life Initiative, MA Property & Casualty Initiative</p>
<p><u>Fund Manager Model:</u></p> <p>Fund Manager operates without a nonprofit Fund Sponsor</p>	<p>Investors like returns, Fund Managers, and Double Bottom Line concept</p>	<p>Issue of Second Bottom Line results and who is monitoring Second Bottom Line</p>	<p>American Ventures, CA Urban Investment Partners, Canyon Johnson Urban Fund, Paradigm Properties, Urban America, Yucaipa Fund, SJF Ventures</p>

2.6 THE ROLE OF FUND MANAGERS

Fund Managers compose the professional team fully and solely responsible for making all investment decisions in a Double Bottom Line (DBL) Fund. Fund Managers can produce market-rates of financial return for investors because they spot under-appreciated assets created by market barriers in low- and moderate-income (LMI) neighborhoods. This Best Practice section describes the critical role of the Fund Manager in identifying market imperfections and turning them into Double Bottom Line advantage.

Fund Managers are investment professionals with track records managing private equity investment funds. The Fund Management Team is typically selected by the nonprofit Sponsor of a DBL Fund through a competitive, national Request for Proposal (RFP) selection process. Fund Managers make all investment decisions within the confines of the contractual boundaries established by each DBL Fund (including Second Bottom Line, economic, social, and environmental investment criteria) and operate behind a secure firewall that protects investors and the Fund Sponsor from liability for losses beyond the extent of each individual investment.

DBL Fund Managers only profit after they have returned the entire principal to their investors and, usually, only after an additional “hurdle rate” has been achieved that is significantly higher than prime (usually prime plus 2% or 3%). Thus, they have to be very good at assessing risk and identifying profitable investments that others have not been able to recognize.

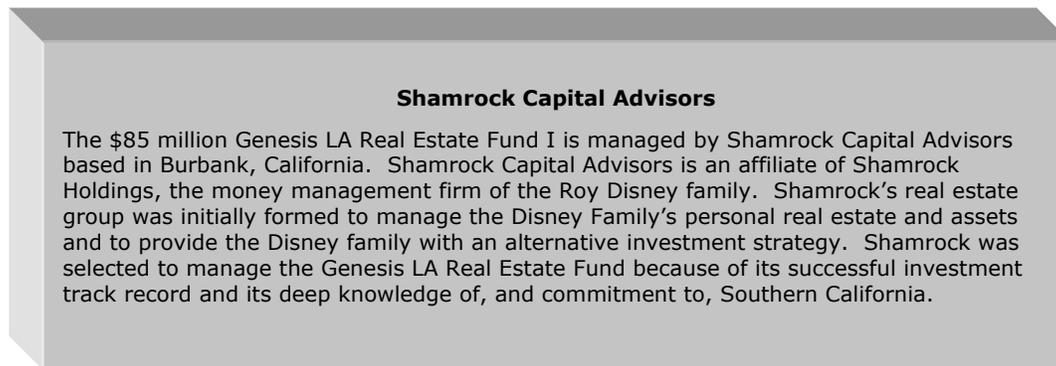
As a result, private equity – such as a DBL Fund – is the only form of financial capital that is supply-leading, rather than supply-following. That is, private equity makes economic activity happen that would not have happened without the availability of the capital. Commercial bank loans, other private placement debt instruments, and publicly traded forms of equity capital (stocks) and debt capital (bonds) follow real goods demand created by businesses in real goods markets. Studies have shown, however, that the mere availability of private equity managed by strong Fund Managers can “bring new ventures out of the woodwork.” Private equity Fund Managers can identify unrecognized profitable deals and create new capital demand that would never have existed but for the risk taking and risk management of a highly entrepreneurial Fund Manager.¹⁰

Private equity Fund Managers are not just deal finders, they are dealmakers. They create economic activity that would not otherwise happen to exploit a capital market imperfection in a way that makes profits for themselves and their investors, and which creates new economic activity that never existed before. In the case of venture capital, this means creating the new economic worlds of e-commerce and biotechnology and new medical instrumentation, and whole new industries that cannot yet be imagined. In the case of DBL Private Equity Funds, it means revitalizing emerging LMI neighborhoods that society and the conventional market had given up on, or failed to recognize.

¹⁰ Shimshoni, Daniel. "Regional Development and Science-Based Industry", in Kain and Meyer, *Essays in Regional Economics*, Harvard University Press, 1971, pp. 107-136.

Just as private equity in Silicon Valley and Boston's Route 128 is creating new real capital demand for emerging technology ventures, a properly capitalized and properly managed DBL Fund will create new capital demand in emerging markets in LMI neighborhoods and rural areas. In all of these cases, it is not the money that matters. It is the proven Fund Management that profits from managing the risk of investing the money.

Figure 2.12: *Shamrock Capital Advisors*



The new generation of DBL Fund Managers employs the five-part matrix of market imperfection (see the Domestic Emerging Markets section of Chapter 4: Theory for more a detailed discussion) to make profitable investment decisions for community revitalization in LMI neighborhoods. These five systemic market imperfections are:

- 1) Insufficient risk pricing, pooling and spreading mechanisms
- 2) High information and transaction costs
- 3) Market prejudice
- 4) Insufficient market competition
- 5) Market-distorting government policies

These five market imperfections simultaneously distort both real estate and financial markets in LMI neighborhoods and create real opportunities for a properly structured DBL Fund to make market-rates of return for investors while revitalizing these same neighborhoods for community residents and stakeholders – “doing well while doing good.”

In designing a DBL Fund, it is important to remember that money by itself is not enough to revitalize poor neighborhoods. Financial capital is a necessary but insufficient factor of production. Access to capital can never make up for lack of markets, poor management, or the absence of other crucial supply factors such as adequate labor, land, and infrastructure. To put it simply, there is not a single instance in which “good money ever made a bad deal good!”

Nevertheless, the contrary is also true. The absence of the right kind of capital at the proper time can keep otherwise good deals from happening. And systemic market failure can cause this to happen for

whole classes of projects and people of particular kinds in particular LMI neighborhoods over long periods of time. This systemic market failure can lead to large-scale disinvestment over time for LMI neighborhoods across the nation.

The task of the Fund Manager is be able to recognize those situations were good money makes all the difference, and profit investors and community stakeholders alike with that investment.

Figure 2.13: DBL Fund Managers and Real Estate

Double Bottom Line Fund Managers and Real Estate

Private equity capital is specifically designed to be rewarded for recognizing under-appreciated assets and then profiting by intervening to correct market imperfections and removing market barriers. The new generation of DBL Funds have created a rapidly growing class of private equity Fund Managers who are extremely good at assessing whether or not a real estate developer – for-profit or nonprofit or a joint venture between two – is capable of organizing all the appropriate supply factors to address a low-income market to produce projects for substantially less than they can be sold.

Moreover, if the Fund Manager finds that most of the key elements are in place, but there is not yet a complete developer team, the Fund Manager can and will make it a condition of investment that the developer team be strengthened before the investment is made. This is especially true in DBL Funds where the Fund Manager may pair an emerging nonprofit developer with a for-profit developer to increase capacity. Analysts have commented that one of the principal consequences of for-profit DBL Funds investing in low-income neighborhoods, especially those with close working relationships with Fund Sponsors, is their profound contribution to “capacity building” in the neighborhood as a byproduct of their need to make only sound investments.

2.7 BRINGING DEALS TO THE TABLE

Double Bottom Line (DBL) Deals are at the center of any Regional DBL Initiative/Fund. In any given region there must be enough deals that can produce market rates of financial returns and significant economic, social and environmental returns to convince a Fund Manager that the capital can be successfully deployed. This Best Practice section describes how deals are identified, selected and serviced.

Deal flow is key to any regional effort to create a DBL Initiative/Fund. (This Best Practice section will solely address real estate DBL Funds.) In building a DBL Fund, there have to be enough DBL Deals that can produce market-rates of financial return and significant economic, social, and environmental return to convince a Fund Manager with a strong track record that the region can use the capital that the DBL Fund raises. At the same time, there have to be enough DBL Deals to support a capitalization in the DBL Fund that is large enough to support the work of the Fund Manager, based on the management fees and carried interest.

Prior to building a DBL Fund, a market assessment is undertaken to demonstrate that the DBL Deals are there. Once the DBL Fund has been built, the DBL Deals have to be found. Which DBL Deals are found and how they are structured will determine the success of the DBL Fund in relation to both Bottom Lines and the ability to access significant additional capital for a DBL Fund II.

DBL Deal flow is a shared responsibility between the Fund Manager and the Fund Sponsor. Every successful Fund Manager has a deal flow system that has been successful for that manager. If the Fund Manager has DBL Fund experience, then they will have a deal flow system that has succeeded in a Double Bottom Line context. If not, the Fund Manager will need to adapt the deal flow system that they have been using to the DBL Fund situation.

Three Types of Deals

With Real Estate DBL Funds there are three basic kinds of deals:

- 1) New Developments, in which the deal involves substantial or complete new construction.
- 2) Value-Added Developments, in which the deal may involve rehabilitation, re-tenanting, or other kinds of significant upgrades of the pre-existing situation.
- 3) Stabilized Developments, in which the deal involves purchase of a development that is in good shape, producing income, and needs no significant upgrades.

Most deals in real estate DBL Funds are either New Developments or Value-Added Developments. Since neighborhood revitalization is a primary purpose of DBL Fund investments, there typically isn't much Second Bottom Line benefit to the purchase and subsequent re-sale of a Stabilized Development. However, there are some situations when purchase of a Stabilized Development makes sense, as, for

example, where it is important to maintain a stable ownership structure for a development that is important to a community.

Deal Flow Strategies

Typically the Fund Manager will need to look at a large number of deals in order to find ones that work for the DBL Fund (the hit rate can be as low as 5% of deals seen). Therefore, identification of a large number of potential deals is essential. Some of the deals that are seen by the Fund Manager may be good deals, just not appropriate for the DBL Fund. Those deals can be referred to the Regional Community Investment Network if one exists in the region where the DBL Fund is located. (See Section 9, Regional Community Investment Networks.)

There are two basic types of deal flow strategies, top-down and bottom-up.

Top-Down Strategies: Top-down strategies leverage relationships with the real estate industry leadership in the region, including:

- Major developers.
- Real estate brokerage corporations.
- Real estate listings.
- Bank officials, particularly real estate lending officers.
- Insurance company executives.
- Real estate investment trust (REIT) executives.
- Investment bankers.
- Real estate property management firms.
- Mayors, county supervisors, and state elected officials.
- Redevelopment agency officers and staff.

Bottom-Up Strategies: Conversely, bottom-up strategies look for specific deals and development opportunities, often before they are actually on the market. Sources can include:

- Local developers.
- Individual local realtors.
- Local leasing agents and property managers.
- Local city council members and staff.
- Local redevelopment staff and project area committees.
- Community development corporations.
- Community based organizations.

- Churches.
- Chambers of commerce, particularly ethnic chambers.

Role of the Fund Sponsor in DBL Deal Flow

The nonprofit Fund Sponsor of a DBL Fund can be of assistance to the Fund Manager of a DBL Fund with both the top-down and the bottom-up strategies.

When the Fund Sponsor is a business civic organization with strong connections to the regional business leadership, those connections can be leveraged in pursuit of DBL Deal flow. The Fund Sponsor may also have good relations with the regional and state political leadership. Putting out the word through the Fund Sponsor's network can be helpful as can a media strategy that talks about the objectives of the DBL Initiative/Fund(s) and the type of DBL Deals being pursued. Participation in relevant conferences and other types of meetings can also be of assistance in getting the word out.

When a Fund Sponsor is a community organization or when the Fund Sponsor has strong relationships with community organizations, these connections can also be leveraged. Again, it can be very effective to communicate the story of the DBL Initiative/Fund(s), and the type of DBL Deals being looked for through the community networks in the region and the newsletters and e-newsletters of the various community-based organizations. Churches often have property that they may be interested in making available for a DBL Development and the Fund Sponsor can assist the Fund Manager in gaining access to that information. The Fund Sponsor also often has relationships with local elected officials and government agency staff.

The Fund Sponsor may want to organize an annual community investment or Double Bottom Line conference of its own, or perhaps an annual networking reception to attract people who may know about deals now or at some time in the future. A state elected official is often willing to keynote such a conference or networking reception.

Managing a DBL Deal Pipeline

Once a DBL Deal pipeline has been established, it needs to be managed carefully, both in relation to the internal system for analyzing and tracking DBL Deals and in relation to the external system for building and maintaining good relationships with the developers of DBL Deals that are in the pipeline as well as the decision makers and stakeholders who can have an impact on the DBL Deals. If a DBL Deal is turned down, that needs to be accomplished with great care, so that good relations are maintained with the DBL Deal's developer, stakeholders, and proponents.

Typically, a system for managing a DBL Deal pipeline will include:

- Identification of prospects.
- An initial scan and review of the prospective DBL Deal to determine if it warrants a deeper assessment.

- An in-depth assessment of the DBL Deal, looking at both the financial and the economic/social/environmental bottom lines, including discussion with the Fund Sponsor.
- Production of a write-up of the DBL Deal.
- Presentation of the DBL Deal to an Investment Committee for approval.
- Approval of the DBL Deal.
- Development of a proposed Term Sheet, including a Second Bottom Line strategy.
- Agreement between the DBL Fund and the developer on the Term Sheet.
- Drafting and signing of organizational documents, usually in the form of a Limited Liability Corporation (LLC).
- Making the investment.
- Monitoring and assisting with the implementation of the DBL Deal.
- Implementation of the Second Bottom Line strategy for the DBL Deal.
- Monitoring and evaluating of the Second Bottom Line strategy, making mid-course corrections as necessary.

Interaction Between the Fund Manager and the Fund Sponsor

As a Fund Sponsor/Special Member of a DBL Fund, the Fund Sponsor will have responsibility for collaborating with the Fund Manager on DBL Deal flow, assisting the DBL Deals that receive investment to produce the optimal economic/social/environmental Second Bottom Line results, establishing a Regional Community Investment Network of other regional and national investment resources, and coordinating engagement of non-financial investments in neighborhoods that receive investments by the DBL Fund.

The process of working together between the Fund Manager and the Fund Sponsor on deal flow will involve a significant level of interaction. If the Fund Manager sources a DBL Deal, it will typically present the DBL Deal to staff or a committee or some other leadership structure of the Fund Sponsor for feedback on the Second Bottom Line profile of the DBL Deal, potential economic risk, and potential political risk. If the Fund Sponsor sources a DBL Deal, it will present the DBL Deal to the Fund Manager for financial assessment.

There will be significant give and take between the Fund Manager and the Fund Sponsor, and the Fund Sponsor will be expected to add value by assisting in strengthening the Second Bottom Line profile of DBL Deals as they are considered. At the same time, the final decision-making firewall must be maintained to enable the Fund Manager to make final investment decisions free of political pressure. Loosely speaking, the Fund Sponsor will have an informal veto over DBL Deals that do not

have an adequate Second Bottom Line profile, but the Fund Sponsor cannot compel the Fund Manager to invest in a deal, no matter how strong the Second Bottom Line profile.

The Fund Sponsor will also have a responsibility to coordinate access to other financial and non-financial regional and national investment resources. The investment resources can be organized into a Regional Community Investment Network (See Section 9, Regional Community Investment Networks) set up to explore co-investment with the DBL Fund and to look at DBL Deals that are not appropriate for the DBL Fund.

The Fund Sponsor as Community Development Catalyst

In addition to its role serving as the Sponsor and Special Member of a DBL Fund, the nonprofit Fund Sponsor will also have the opportunity to make a significant contribution to DBL Deal flow by serving as a Community Development Catalyst.

The role of Community Development Catalyst involves providing assistance in structuring DBL Deals in situations where there is a significant economic opportunity, but a DBL Deal has not been put together or a DBL Deal that exists is deficient in some fashion and needs to be restructured. Sustainable Systems, Inc. and Walter L. Ross and Associates have identified a three-phase approach to DBL Deal structuring: “Pre-Care,” Deal Structuring proper, and “After-Care.”

Pre-Care: Pre-Care involves identifying the opportunity, the potential developers, the likely sources of financing, and any site control or entitlement issues. Frequently these DBL Deals will be joint ventures involving a nonprofit community developer and a for-profit developer, so Pre-Care also can involve identifying the potential nonprofit and/or for-profit partner.

Sometimes a potential nonprofit community developer may not have the current capacity to undertake a DBL Deal that the Fund Sponsor is attempting to catalyze. Then the Fund Sponsor may need to arrange for the nonprofit community developer to receive some capacity building assistance. To be able to do this, the Fund Sponsor should know what the region’s community development capacity building resources are. They may include university programs, technical assistance providers, institutes, or assistance from larger for-profit developers.

Deal Structuring: Deal Structuring puts the DBL Deal together, identifying the roles each party will play, the financial structure of the DBL Deal, and the sources of financing for the DBL Deal, so that the DBL Deal can be structured, site control and entitlements can be obtained, and the deal documents can be drawn up and signed.

After-Care: After-Care addresses all of the ways the deal can be assisted and enhanced once the deal has received investment. All DBL Deals receive after-care, regardless of whether they are pre-existing DBL Deals sourced by the Fund Manager or the Fund Sponsor, or whether they are structured by the Fund Sponsor acting as a Community Development Catalyst. It is the responsibility of the Fund Sponsor to create a regional DBL Deal After-Care infrastructure as one of its most important value-adds in relation to the DBL Fund.

Once an investment has been made, the Fund Sponsor will work with the Fund Manager, the developer and other parties in the deal to accomplish its After-Care responsibilities, which may include to:

- Collaborate in developing and implementing the Second Bottom Line strategy.
- Assist in resolving any problems that emerge between the developer and the community leadership in the neighborhood where the deal is located.
- Expand the positive impact of the development throughout the neighborhood and the region (e.g. by assisting the development to access minority suppliers and contractors, by working with the development to implement local hiring, and by helping in the establishment of ancillary businesses that are catalyzed by the primary development.)
- Monitor and evaluate the impact of the development on the neighborhood and the region to be of assistance in mid-course corrections and in deriving lessons that can be applied in other neighborhoods.

The Fund Sponsor will also coordinate the engagement of relevant regional and national non-financial resources (e.g. human services, education, childcare, healthcare, public safety, business incubation, and employment training and placement) with the neighborhood where the DBL Fund makes investments.

2.8 WHY INVESTORS ARE INVESTING IN REGIONAL DBL FUNDS

In the past decade, large institutional investors have chosen to invest more than \$6 billion in national and regional Double Bottom Line (DBL) Funds, including \$2.5 billion in Regional DBL Funds. This section of the Double Bottom Line Handbook describes why different types of investors are attracted to DBL Funds.

Investors in national and regional DBL Funds include many of the nation's leading foundations, commercial banks, insurance companies, public pension funds, and an increasing number of large nonprofit corporations, university endowments, faith-based investors, Taft-Hartley union pension funds, and high-net-worth individuals. Many of these institutional investors are repeat investors. They are repeat investors for only one reason – to date, their expectations for annual returns on investment (ROI) have been realized. Nevertheless, each major group is attracted to the DBL Private Equity Investment category for varying reasons:

- Commercial Banks were initially drawn to DBL Funds for Community Reinvestment Act (“CRA”) credit, but it is only the expectation of higher than average returns that creates repeat investors.
- Foundations initially were drawn to Program Related Investments (PRIs) in DBL Funds for reasons of mission, but increasing numbers of Foundations are choosing to make portfolio investments because they expect corpus returns.
- Insurance companies originally reacted to DBL investments as a hedge against state CRA legislation, but some large recent repeat investments suggest a recognition that return on investment is a better reason.
- Public pension funds will, properly, only invest for risk-adjusted return, but the enhanced benefits of investments within their jurisdiction are a plus if all other variables are in order.
- Faith-based investors & Taft-Hartley union pension funds have been slow to come on board, but represent fertile ground for the future.
- Large nonprofit corporations & university endowments have, in a few cases, joined as DBL Fund investors when their interests were directly at stake.
- High-net-worth individuals are now becoming an important source of local and regional support, especially as syndications are created for their benefit.

Commercial Banks

Bank investors in pioneer DBL Funds have included Bank of America, Citibank, JPMorgan, Union, USBank, Wachovia, Washington Mutual and Wells Fargo Bank. Most have been strong \$5 million

and \$10 million repeat investors in regional DBL Funds across the country. CRA investment requirements brought the banks to the table, but the market-rates of financial return keep them there.

Although commercial banks tend to invest only in their market area, continuing large national mergers keep extending their unique expertise in LMI markets to more and more regions of the country.

Smaller regional commercial banks currently serving the market, and small community banks and credit unions, require considerable education to understand the hows and whys of what is a new, but nationally accepted, CRA investment practice.

The smaller regional commercial banks are, however, in a unique position to benefit significantly and directly from a DBL Initiative/Fund or Funds, because:

- 1) All commercial bank grant contributions to both the market assessment (Phase I) and the Fund Building (Phase II) are fully qualified by regulators for CRA credit.
- 2) Each bank dollar contributed to seed the building of the DBL Initiative/Fund provides multiple leverage and return.
- 3) When the DBL Fund is closed, a significant portion of the dollars granted to seed the creation of the DBL Initiative/Fund is recycled to the Fund Sponsor. These dollars at closing go back to the Fund Sponsor specifically to prime the startup of the DBL Initiative as a self-sustaining nonprofit. Thus, each dollar initially granted by the bank to seed the DBL effort is effectively recycled and re-used twice.
- 4) Once having given to the creation of the DBL Initiative/Fund, neither is expected to require additional charitable contributions from the banks. Not only is the DBL Fund for-profit and self-sufficient from the moment of creation, but the DBL Fund will generate an annual income stream to the nonprofit Fund Sponsor that will lead it to become completely self-sufficient over time. It is not expected to return ever again to its initial community supporters for future funding for the dedicated purposes of the DBL Initiative.
- 5) Each seed grant dollar from a commercial bank will leverage at least 100 times as much investment capital as the initial seed capital to start the DBL Initiative/Fund.
- 6) In turn, the DBL Fund itself will leverage \$3 - \$4 for each dollar invested, so the total leverage of the seed investment is three to four hundred times – a very substantial return on initial commercial bank seed capital investment.

Once the DBL Fund is in operation, commercial banks will further profit from the growth of individual and business clients that have deposit and borrowing and collateral service accounts. The DBL Fund will assist in growing these clients in markets that have vast untapped potential but have had little capacity to develop before the DBL Initiative/Fund starts making investments. Experience in other markets explicitly shows that the DBL Fund will grow homeowners, small businesses,

contractors and suppliers who have far more need for banking services than these neighborhoods generate today.

A \$50 - \$75 million DBL Fund will generate at least \$200 - \$300 million of deals that will both directly and indirectly generate several hundred million dollars of economic activity that does not exist today. These dollars will circulate and re-circulate through the banking system for the direct benefit of the banks and the larger community.

Finally, and most importantly DBL Funds are wholesale instruments that make it much easier for commercial banks to wholesale their private equity financial resources in these neighborhoods.

Foundations

Foundation investors have included the California Community, Annie E. Casey, Danforth, Ford, Jacobs, F.B. Heron, Knight, MacArthur, McDonnell, McCune, and Sand Hill Foundations, as well as local community foundations.

The Ford and MacArthur Foundation investments to date are Program Related Investments (PRI); however, an increasing number – including Annie E. Casey, California Community, Danforth, Heron, Knight and McDonnell Foundations – are choosing to invest corpus directly because the DBL Funds are producing risk-adjusted market-rates of return.

F. B. Heron Foundation has played a leadership role in encouraging other foundations and institutional investors to invest in DBL Private Equity Funds. Moreover, Heron is the national leader in encouraging other foundations to invest corpus in these market rate DBL Funds, instead of making the smaller and more expensive program related investments (PRIs) that have historically been the preferred vehicle of national foundations.

Insurance Companies

Insurance Company investors have included Allstate, AXA, California State Automobile Association, John Hancock, Mass Mutual, Mercury, Met Life, Liberty Mutual, Pacific Life, PMI, New York Life, Northwestern Mutual, Prudential and State Farm Insurance.

Insurance Companies, as was noted, originally reacted to DBL Investments as a protection against state CRA legislation, but some large recent repeat investments suggest a recognition that return on investment is a better reason. One large national insurance company has recently been the lead investor in two different Regional DBL Funds because of their confidence in the Fund Manager and the expected ROI.

Public Pension Funds

Public Pension Fund investment nationally has been led by the California Public Employee Retirement System (CalPERS), the California State Teachers Retirement System (CalSTRS), the Contra Costa County Retired Employees Association, and the New York Common Public Pension Fund, and New York City Public Pension Funds. Under the leadership of California Treasurer Phil

Angelides, CalPERS alone has committed \$500 million in market-rate capital targeted to LMI Area emerging markets. Now a number of other state, county and municipal public pension Funds have followed suit, and have either made or are currently weighing investments.

One of three major national action research projects that are redounding to the benefit of DBL Funds is an international research project supported by the Rockefeller Foundation and managed by Oxford University. This project aims to determine the factors necessary to increase public pension fund investment by more than \$1 billion in market-rate DBL Funds over the next several years. The Oxford/Rockefeller Project is now preparing case studies of the leading Public Pension Fund DBL Initiatives around the country, and has hosted a series of regional meetings.

Faith-Based Investors

Faith-based investors are an important – and largely untapped – asset class. Catholic Healthcare West has invested in the Bay Area Equity Fund, and Nehemiah is both a nonprofit and a faith-based Fund Sponsor and investor. This is one of the two most important, but as of yet, largely untapped growth markets for institutional investment in DBL Funds.

Taft-Hartley Union Pension Funds

Taft-Hartley Union Pension Funds are another important asset class. The Carpenters Union in the St. Louis has been an active investor, and the AFL-CIO Housing and Building Trusts have their own several hundred million urban initiative, but to date have not directly invested in national or regional DBL Funds. This is the other of the two most important, but as of yet, largely untapped growth markets for institutional investment in DBL Funds.

Large Nonprofit Corporations

Large nonprofit corporations can also be investors, as Nehemiah Corporation has demonstrated. Nehemiah is the Fund Sponsor of the Nehemiah Sacramento Valley Fund, as well as a \$5 million investor in the Genesis LA Real Estate Fund, and a \$3 million investor in the Nehemiah Sacramento Valley Fund.

University Endowments

University endowments are also an emerging institutional investor class. Washington University of St. Louis was recently a lead investor in the \$85 million Vectis Life Sciences Fund designed to build a resident life sciences industry in inner city neighborhoods surrounding the Washington University Medical Center.

High-Net-Worth Individuals

High-net-worth individuals are also increasingly investing in these DBL Funds. The first DBL Fund to engage wealthy individuals as investors is the Bay Area Equity Fund. A number of individuals have invested between \$50,000 and \$150,000 in the Fund, and one national broker-dealer is considering offering these DBL Funds to wealthy clients. The Northwest Louisiana Community Development

Fund I is expecting to offer an opportunity to local high-net-worth individuals, family and community foundations, and small commercial banks.

Attracting Local Investors

Experience demonstrates the importance of identifying a key, highly regarded local private sector leader to act as “Fund Champion” to enlist other local investors. Without such a committed champion to engage local investors first, it is unlikely that the investor circle can be broadened to include the national financial institutions necessary to the overall success of the fund raising effort. In some cases, a leading local commercial bank and a leading local foundation have acted as key local investors and “Champions” around whom other national investors rally.

2.9 REGIONAL COMMUNITY INVESTMENT NETWORKS

A Regional Community Investment Network is a network of financial institutions representing different aspects of the capital markets that are prepared to invest in business and/or real estate deals in low- and moderate-income (LMI) communities. This Best Practice section describes the financial institutions involved and the role the network plays in the screening and funding of deals in LMI neighborhoods.

A Regional Community Investment Network (Network) typically has a DBL Initiative/Fund or Family of Funds at its heart but may also include:

- Banks, particularly their Community Reinvestment Act (CRA) lending programs
- Community Development Financial Institutions (CDFIs)
- Community Development Banks
- Community Development Venture Funds
- Community Development Loan Funds
- Community Credit Unions
- Venture Funds
- Angel investor networks
- Insurance companies
- Finance intermediaries
- Federal, state, and regional government loan and loan guarantee programs

The Network meets three to four times a year. Each meeting typically includes:

- A presentation by a city or county economic development department or redevelopment agency, discussing the public programs in place to encourage investment and real estate and business development in LMI areas.
- Presentations of three to four pre-screened deals that meet the agreed upon DBL Investment economic/social/environmental criteria.
- Discussion of other opportunities or issues that are of interest to the participants.

The key objectives are to:

- 1) Leverage the capital in the DBL Fund(s).
- 2) Attract the various aspects of the regional capital markets into LMI neighborhoods.

- 3) Encourage the capital markets to make investments that produce DBL results.

Other objectives of a Regional Community Investment Network are to:

- Share information about public sector programs to encourage investment and business and real estate development in LMI neighborhoods.
- Identify areas of mutual interest and concern and formulate cooperative action strategies where appropriate.
- Exchange participant underwriting criteria to encourage mutual referrals of appropriate deals and co-investment.
- Provide a central point of access for developers and entrepreneurs to inform investors about deal opportunities.
- Engage Network participants in assisting community Fund Sponsors of potentially viable deals in acquiring technical assistance to build capacity.
- Learn about the community investment infrastructure of cities and counties in the region, as well as learn about relevant state and federal programs.

The organizer of a Regional Community Investment Network identifies deals that meet the investment criteria of some of the participants in the Network. Frequently deals are referred by Network participants, because the deal may not meet that participant's particular underwriting criteria, but it still seems like a good deal that other participants would be interested in. Redevelopment departments, economic development agencies, Chambers of Commerce, particularly Ethnic Chambers, technical assistance providers, investment managers, and developers are all also potential deal sources.

It is important for the organizer not only to pre-screen the deal, but also to rehearse the presentation of the deal with the maker(s) of the presentation. A competent developer or entrepreneur may not be a seasoned presenter to the type of audience represented by a Regional Community Investment Network.

The deal presentation needs to cover (among other things) the nature of the deal, the economic or business opportunity, the market for the development or the product or service, the stage of development of the deal, the experience and competence of the development or entrepreneurial team, the First and Second Bottom Line return projections, challenges to be overcome, and capital needs.

Figure 2.14: Bay Area Community Investment Network

Bay Area Community Investment Network (BACIN)

Best Practice Example: Regional Community Investment Network

The Bay Area Community Investment Network (BACIN) is the vehicle by which the Bay Area Council, in its capacity as Fund Sponsor of the Bay Area Family of Funds, proposes to leverage the existence of the \$200 million in capital in the Bay Area Family of Funds (Bay Area Smart Growth I; Bay Area Equity Fund: *A Double Bottom Line Fund*; and California Environmental Redevelopment Fund (CERF)).

The goal for BACIN is to generate \$1 billion of investment in the LMI neighborhoods prioritized by the Bay Area Family of Funds. The Bay Area Family of Funds is attempting to use BACIN to identify DBL Deals for the DBL Funds in the Bay Area Family of Funds and co-investors for Bay Area Family of Funds deals, as well as to stimulate the various aspects of the regional capital markets to make appropriate additional investments in LMI neighborhoods and thereby to magnify the overall amount of capital invested in LMI neighborhoods.

There are over 30 BACIN participating financial institutions. They include the three Funds in the Bay Area Family of Funds, bank CRA lending programs, mainstream venture capital funds, community development venture Funds, angel investor networks, Community Development Financial Institutions (CDFIs), community loan Funds, Community Credit Unions, bank and insurance financial intermediaries, loan guarantee programs, and other sources of capital.

BACIN has produced good results in its two-year life (2004 – 2005):

- BACIN meetings held: an organizing meeting and five meetings where deals were presented
- Presentations made: 14
- Requests for Funding: 12
- Deals Funded: 3
- Deals in Funding negotiations: 2
- Deals being tracked by a Fund in the Bay Area Family of Funds: 3
- Deals being explored by a BACIN participant: 2
- No BACIN participant interest: 2

For a complete list of BACIN membership and other information about BACIN, go to www.bacin.org.

2.10 MONITORING, EVALUATION, AND REPORTING

A Double Bottom Line (DBL) Fund will report both First and Second Bottom Line returns in some detail to investors. The DBL Fund will usually provide very general information on First Bottom Line returns and more detailed Second Bottom Line returns to a wider audience. Monitoring, evaluation, and reporting begin with clarity on the criteria to be used in assessing the performance of the DBL Fund along both Bottom Lines.

This Best Practice section briefly addresses First Bottom Line reporting and provides detail on Second Bottom Line criteria and reporting. The criteria and reporting provide the context for assistance in strengthening the Second Bottom Line profile of DBL Deals in ways that also can benefit the First Bottom Line.

Overview

DBL Funds typically monitor, evaluate, and report on their performance in relation to both bottom lines. The Fund Manager has responsibility to assess and communicate results in relation to both bottom lines. The nonprofit Fund Sponsor/Special Member of a DBL Fund typically shares responsibility for monitoring and reporting on the Second Bottom Line returns. These reports are sent to the investors in the DBL Fund and aspects of them are shared more widely.

It is important, while building a DBL Fund, to come to a clear agreement on the metrics that will be used in monitoring, evaluating, and reporting. This is true, in part, because the Fund Manager, the Fund Sponsor, and the other stakeholders need to know what the DBL Fund is attempting to accomplish in relation to both Bottom Lines.

In addition, agreement on metrics is also important in guiding the activities that the Fund Manager and the Fund Sponsor engage in to strengthen the First and Second Bottom Line performance of the projects that receive investment. Finally, the process of measurement and reporting is, of course, greatly facilitated by clarity in relation to the criteria, the metrics, and the system for reporting results.

The First Bottom Line Criteria and Reporting

The First Bottom Line is relatively straightforward. The Term Sheet and the Private Placement Memorandum for a DBL Fund will say that the financial return objectives are to obtain an internal rate of return (IRR) of some percentage, e.g. “mid-teens” or “mid- to high-teens.”

This means that the DBL Fund is seeking to return investors' capital and then, on top of that, produce annualized 13% - 17% ("mid-teens") or 15% - 19% ("mid- to high-teens") returns for the time from when the DBL Fund draws down the capital from investors to the time that the capital is returned to investors. These financial return objectives are established by the market and may vary depending on market conditions.

While the ultimate objective and measurement of financial return is simple, the method of obtaining these returns is more complex. Usually the investors receive their capital and a minimum rate of return such as an IRR of 8% (hurdle rate) first. After that, the returns produced by the investment are split between the investors, the Fund Manager, and the Fund Sponsor. For example, the investors may receive 79%, the Fund Manager receives 19%, and the Fund Sponsor receives 2%.

Typically Fund Managers treat information about First Bottom Line returns as proprietary and will not release them publicly, although large pensions funds such as CalPERS are forcing Fund Managers to make their financial returns public. However, Fund Managers are usually willing to say if they have met or exceeded the financial return targets of the DBL Fund. Fund Managers tend to be much more willing to report on Second Bottom Line results.

Second Bottom Line Criteria

Second Bottom Line criteria need to be simple, straightforward, clear, and relatively easily measured. The following are a set of sample criteria that include a general mission and specific criteria for the realization of that mission.

Every DBL Deal will certainly not accomplish every specific criterion, but every DBL Deal should address the Mission and produce substantial results in relation to Geographic Scope, Economic Impact, Community Impact, Wealth Creation, Community Engagement, and Environmental Performance.

Mission of the DBL Fund: To achieve DBL Returns, i.e. market-rates of financial return to investors and positive economic, social and environmental impacts for the low- and moderate-income (LMI) communities in which the DBL Fund invests.

Geographic Scope: Investments in or contiguous to LMI census tracts in the region, which should qualify as Community Reinvestment Act (CRA) investments.

Economic Impact: Catalyst for increased economic activity and value creation in the priority neighborhoods, particularly for current residents; and connection of the project to neighborhood, municipal, and regional economic development strategies.

Community Impact: Job creation; affordable housing production; joint ventures with community developers; local and minority contracting; system for local community engagement with the project; and community amenities created, such as parks, open space, and space for community facilities.

Wealth Creation: Opportunities for home, business, and real estate ownership; new or better quality community retail and shopping centers; and access to mainline financial services (e.g. local banking), particularly for current local residents.

Community Engagement: Incorporation of community input in projects through the entitlement process and/or other community participation vehicles.

Environmental Performance: Mixed-use and transit orientation; green building construction and operations; energy conservation; waste reduction, recycling, and pollution prevention; and solar, wind and other alternative energy utilization.

Second Bottom Line Reporting

A report on the Second Bottom Line profile of a DBL Fund will typically include aggregate information about the whole portfolio in the DBL Fund as well as descriptions of each individual project.

The same categories of information should be used for the aggregate information and for the individual project reports. The individual project reports will also include the unique story of that development, its developer, and its relationship to the community and the region where it is located.

The following reporting categories are beginning to emerge as relatively standard in the DBL Fund industry:

Geographic Location:

- Location of the project.
- Indication of whether the project is in or contiguous to an LMI census tract in the region.

Economic Impact:

- Developer(s) of the project.
- Type of project (residential, retail, office, industrial) and square footage for each type.
- Amount of investment by the DBL Fund.
- Amount of additional private sector, public sector, and nonprofit investment leveraged.
- Ways in which the project engages with and contributes to the local, municipal, and regional economy.
- Total revenues of the commercial tenants in the project.
- Tax revenue (including tax increment) generated at the municipal, county, state, and federal levels.
- Ancillary economic activity stimulated using economic multiplier calculations.

Community Impact:

- Total number of permanent jobs and temporary jobs created or preserved and projected to be created or preserved, including level of salaries and benefits for the jobs and total payroll generated.
- Percentage of LMI jobs created, preserved, and projected.
- Employment development and job training programs used to assist in filling the LMI jobs.

- Units of rental housing and for sale homes built.
- Generation of new neighborhood-serving retail and banking.
- Inclusion of community amenities in the project, such as parks, open space.

Wealth Creation:

- Number of units of affordable rental and for sale housing and the affordability ranges for the housing, usually expressed as affordable to a percentage of area median income (AMI), such as, for example, 80% of AMI.
- First-time homebuyer programs utilized and the number of participants in first-time homebuyer programs that purchase homes.
- Development by a nonprofit Community Development Corporation or participation of a nonprofit Community Development Corporation as a joint venture partner on the development team.
- Local, minority, and women developers undertaking projects directly or as a joint venture partner.
- Local, minority, and women contractors used for contracting or sub-contracting.
- Opportunities for business ownership by local residents.

Community Engagement:

- The form of community engagement used by the project, either through a Project Area Committee if the project is in a Redevelopment Area, or through another form of community engagement that is established by the entitlement process.
- If the entitlement process does not establish a form of community engagement, then some other process that is worked out between the developer and the community.
- Connection of the project to local, municipal, and regional economic development strategies.

Environmental Performance:

- Project's mixed-use and transit-orientation profile.
- Use of green building construction or retrofit measures, including an indication if the project is seeking or has obtained LEED Certification and, if so, at what level, platinum, gold, silver, or bronze.
- Brownfield clean-up involved in the project.
- Environmental standards for operation incorporated in the project and its tenants, including: energy conservation; solar, wind, and other alternative energy use; and waste reduction, recycling, and pollution prevention.

Strengthening the Second Bottom Line

When a project is being considered by a DBL Fund, the Fund Manager and the Fund Sponsor will not only assess the potential financial implications of the project, but also the potential Second Bottom Line impacts of the project.

At that point, the Second Bottom Line criteria and reporting categories serve as a scan for assessing the various Second Bottom Line impacts of the project to assist in making the decision as to whether or not to invest in the project.

When an investment is being made, it is important for the developer of the project to understand the Double Bottom Line nature of the DBL Fund and the fact that the Second Bottom Line reporting categories will be used in assessing the project's impact.

After an investment has been made, the Fund Manager and the Fund Sponsor work with the developer to enhance the Second Bottom Line profile of the project. They look at each of the Second Bottom Line categories in relation to the project and explore ways that are reasonable and cost effective to improve the project's Second Bottom Line performance.

At the same time, the Fund Manager and the Fund Sponsor collaborate in setting up a system for producing the information that will be used in the reporting process. Doing this ahead of time will make the reporting process immeasurably easier and more accurate.

However, it is important that the developer not see the process of Second Bottom Line involvement and reporting as just somewhat time consuming paperwork. According to the theory of Double Bottom Line investing, accomplishing each Bottom Line should, ultimately, enhance the other Bottom Line.

The Fund Sponsor receives a portion of the DBL Fund management fee and carried interest in order to establish a regional infrastructure to assist the DBL Fund and the projects the DBL Fund invests in to accomplish the Second Bottom Line. The Fund Sponsor builds relationships with the communities where the projects will take place to assist in community engagement, agreement on the community profile of the project, and community support for the project.

The Fund Sponsor also establishes connections to regional resources that can assist the developer to complete a project with a strong Second Bottom Line profile, including:

- Potential nonprofit or for-profit community development joint venture partners.
- Local, minority, and women contractors and sub-contractors.
- Green building construction resources.
- Transit oriented development resources.
- Brownfield clean-up technical and financial resources.
- Employment development and job training programs.

- First-time homebuyer programs.
- Energy conservation, alternative energy, and recycling programs, as well as overall environmental performance consultation programs.

Through the partnership of the Fund Manager, the Fund Sponsor/Special Member, the developer, and the community, strong projects can be created that provide outstanding returns for both Bottom Lines, producing significant economic, social, and environmental benefits for all of the stakeholders that are engaged with the project.

CHAPTER 3: PROFILES OF REGIONAL INVESTMENT INITIATIVES, FUNDS, AND DEALS

This section of The Double Bottom Line Handbook provides detailed profiles of Regional Double Bottom Line (DBL) Investment Initiatives and Funds. Each profile is organized according to the following five sections: Initiative and Fund Overview, Background and Origins, Model and Sponsorship, Fund Management, and Impact and Measurement.

Overview

Regional DBL Initiatives and Funds have taken root in a wide range of metropolitan regions throughout the country, most within in the last five years, some over a much longer time frame.

Regional DBL Initiatives and Funds on the West Coast are currently operating in the San Francisco Bay Area, Los Angeles, San Diego, Sacramento, and Seattle/Tacoma.

On the East Coast, Regional DBL Initiatives and Funds have developed in Maine, Massachusetts, Maryland, Greater Philadelphia, and New York City. Regional Initiatives and Funds are also at work in St. Louis, Northwest Louisiana, and Kentucky.

This new industry has grown rapidly because it fulfills market, economic, social, and environmental imperatives.

- First, by employing professional Fund Managers who capitalize on imperfections in low- and moderate-income (LMI) markets, DBL Funds have consistently produced market-rates of return.
- Second, DBL Funds have provided community stakeholders the opportunity to attract business and real estate ventures that create wealth, provide jobs for residents, and revitalize neighborhoods without displacing the people who live there.
- Third, DBL Funds are contributing to smarter, more efficient forms of regional growth and development by pursuing infill strategies that redeploy existing infrastructure in the urban core and locate jobs, retail and housing near existing transit hubs.

Because of these characteristics, DBL Funds present a rare opportunity to craft a social consensus leading to market-rate profitability and equitable and sustainable development.

This section of *The Double Bottom Line Handbook* provides profiles of nine Regional DBL Initiatives/Funds. Together, they have \$2.3 billion under management.

- *Genesis LA Family of Funds*
- *The Bay Area Family of Funds*
- *Massachusetts Life Initiative*
- *Coastal Enterprise Family of Funds*
- *The Nehemiah Sacramento Valley Fund*
- *The San Diego Capital Collaborative*
- *Maryland Community Development Family of Funds*
- *Northwest Louisiana Family of Funds*
- *Puget Sound Family of Funds*

It should be noted that the Portland Family of Funds is not profiled, although it has developed into a very strong regional initiative utilizing Historic Preservation Tax Credits and New Markets Tax Credits. This section of profiles is focused only on private-equity Double Bottom Line fund initiatives.

3.1 Genesis LA Economic Growth Corporation and Family of Funds

Initiative and Fund Focus:

Genesis LA works with businesses, developers and community groups to champion economic development, job creation and community growth through urban revitalization of Los Angeles' low-to-moderate income neighborhoods.

Initiative Sponsor:

Genesis LA Economic Growth Corporation – 501(c)(3).

Region/Geographic Area:

Genesis LA Economic Growth Corporation focuses on Los Angeles County.

Genesis LA Family of Funds invests throughout Southern California with a focus on Los Angeles County.

Investors:

National and local banks, insurance companies, private investment firms, foundations.

Funds	Size	Inception year	Fund Manager	Investments to date
Genesis LA Real Estate Fund I	\$85 m	2000	Shamrock Capital Advisors	100% invested in nine projects
Fulcrum Capital Growth Capital Fund	\$30 m	2003	Fulcrum Capital Group	\$10.7 m in five investments
Genesis Workforce Housing Fund	\$103 m	2004	Phoenix Realty Group	\$60.5 m in ten investments
Genesis Community Investment Fund	\$4 m	2004	Genesis LA Economic Growth Corp.	\$1.6 m in three investments
Genesis LA Real Estate Fund II	\$104 m	2005	Shamrock Capital Advisors	\$18.2 m in three investments
Genesis Workforce Housing Fund II	Up to \$150 m	2006-2007	Phoenix Realty Group	In Formation
Genesis LA New Market Tax Credit Program	\$130 m	2006	Genesis LA Economic Growth Corp.	\$19.2 m in two investments

I. Overview

Genesis LA Economic Growth Corporation (“Genesis LA”) is a 501(c)(3) nonprofit organization which works with businesses, developers, public agencies and communities to promote economic development, job creation and community growth through urban revitalization in low- and moderate-income (LMI) census tracts throughout the Los Angeles region. Towards that end, Genesis LA implements innovative methods to “bridge” the powerful resources of financial institutions, charitable foundations, government agencies and for-profit real estate funds into the areas, economies and people for whom these resources can make the greatest impact, with a particular focus on increasing jobs, housing and overall quality of life.

Genesis LA achieves its mission through several interrelated program areas: the Genesis LA Family of Funds – a growing collection of for-profit funds that channel institutional and corporate capital into challenging but rewarding urban investment opportunities; and the private, nonprofit Genesis LA, which creates additional sources of below market loans from its New Markets Tax Credit program and the Genesis Community Investment Fund. Supplementing these capital creating tools, Genesis LA offers consulting and technical services to those who have projects which meet the Genesis LA mission, but are in need of low cost, deferred cost and/or no cost consulting and skill building services.

The Genesis LA Family of Funds focuses on real estate, workforce housing, and growing businesses. Each Fund is managed by a professional fund manager identified through a competitive, national selection process:

- Genesis LA Real Estate Fund I – an \$85 million real estate fund that provides real estate financing to projects benefiting LMI neighborhoods located within Los Angeles County. The fund focuses on retail, industrial, commercial and selected mixed-use developments.
- Genesis LA Real Estate Fund II – a \$104 million real estate fund that replicates the strategy and focus of Fund I but expands the geographic footprint. Fund II will seek investment opportunities in the nine Southern California counties of Los Angeles, Orange, Riverside, Imperial, San Bernardino, San Diego, Kern, Venture and Santa Barbara.
- Genesis Workforce Housing Fund – a \$103 million fund that bridges institutional capital with community development by providing equity and mezzanine financing for the production of workforce housing for moderate-income residents in Los Angeles’ urban core communities.
- Genesis Workforce Housing Fund II (in formation) - a follow-on fund to Genesis Workforce Housing Fund that bridges institutional capital with community development by providing equity and mezzanine financing for the production of workforce housing for moderate-income residents in Los Angeles’ urban core communities.
- Fulcrum Capital Growth Fund – a \$30 million fund that channels expansion and acquisition capital to medium-sized, light manufacturing, communications and

commercial/consumer services companies owned or managed by minority entrepreneurs or located within Southern California's low- to moderate-income communities.

- Genesis Community Investment Fund – a \$1 million internally managed fund, capitalized by Washington Mutual that provides flexible, low-cost gap financing for community-based projects. This fund is planned to grow to \$15 million.

Genesis LA funds typically invest in projects that involve complex financing requirements, difficult site conditions, and challenging community dynamics. Genesis LA staff, with expertise in urban economic development, real estate and community relations, work closely with professional fund managers to insure that investments return significant economic, social and environmental benefits to investors and urban communities alike.

II. Background and Origins

Genesis LA grew out of the lackluster performance of Rebuild LA, a five-year civic effort designed to revitalize blighted inner city areas in the aftermath of the 1992 Los Angeles civil unrest. The civil unrest left 55 people dead, thousands injured, and more than 1,100 buildings damaged or destroyed.

Following the civil unrest, Rebuild LA was established to restore urban communities and spur investment in blighted areas of Los Angeles. Rebuild LA was a loose consortium of private and public interests initiated by Mayor Tom Bradley and led by former baseball commissioner and Olympics organizer Peter Ueberroth.

In the first two years, Rebuild LA pursued a top-down strategy soliciting outside investments from corporate and public investors to create prosperity and opportunity in urban core communities. The effort followed four strategies: job creation and local business ownership; job training; improved access to capital; and community pride. Rebuild LA secured nearly \$500 million in corporate commitments but investments were stalled by a recession, defense downsizing, the Northridge earthquake (which caused physical damage far beyond the civil unrest) and vague private sector promises.

In response to these challenges, a new CEO retooled the strategy to pursue a more grass roots approach to revitalization. Rebuild LA moved away from recruitment of major corporations to the urban core and focused instead on the redevelopment of vacant lots and expansion of existing businesses.

Rebuild LA could claim some accomplishment after five years (e.g. new job training programs, new supermarkets in target urban neighborhoods, and several new loan funds). But the effort failed to meet community expectations and program administration was blamed for being top-heavy, bureaucratic and overly process oriented.

Mayor Richard Riordan took office in 1993 in the midst of LA's civic turmoil. Though he served as a Board member of Rebuild LA, his business background led him to a different view of how urban renewal would succeed. Riordan believed that public/private partnerships were essential but that development had to be grounded in private sector discipline, not government subsidies or corporate

philanthropy. Riordan recognized that the only way to get private investors into the inner city was to make it profitable for them to be there. He sought to catalyze large-scale private capital investment in the urban core by providing market-rates of return to early investors. To this end, Riordan announced Genesis LA in March of 1999. Riordan tapped Deputy Mayor of economic development and former Rebuild LA staffer Rocky Delgadillo to spearhead the effort.

At the start, Genesis LA was composed of three closely related entities: (1) the public sector “Genesis LA” located in the Mayor’s Office of Economic Development; (2) the nonprofit fund sponsor “Genesis LA Economic Development Corporation;” and (3) the Genesis LA Real Estate Investment Fund. When Riordan left office in 2001, Genesis LA Economic Development Corporation became the umbrella organization and 501(c)(3) Sponsor of the Initiative and its growing family of targeted investment funds.

III. Initiative and Fund Model and Sponsorship

Genesis LA Economic Growth Corporation is the nonprofit sponsor of the Genesis LA Family of Funds. Genesis LA originated in Mayor Richard Riordan’s Office of Economic Development and was spun out as a freestanding 501(c)(3) in 2000. The nonprofit organization focuses its development and real estate expertise in the County of Los Angeles. The organization has a small, highly specialized staff of five with expertise in real estate, finance, community economic development and communications. Genesis LA is governed by a well-connected Board of Directors who bring the experience and expertise necessary to achieve the economic and community development goals of the organization.

As Fund Sponsor, Genesis LA conceives the Funds, identifies qualified Fund Managers, and works with Fund Managers to raise capital investment for each Fund. Funds are developed as a partnership between the nonprofit Genesis LA and the for-profit Fund Manager. In order to generate adequate deal flow, the Genesis LA Family of Funds has a larger geographic footprint than the nonprofit sponsor, investing across the nine counties that compose Southern California.

Genesis LA works as an advisor to each Fund in the following ways:

- Providing ongoing project development and deal flow assistance.
- Acting as liaison with municipal government, community groups, and developers.
- Building community support for initiatives.
- Monitoring and quantifying the social benefits of the projects.
- Undertaking a long-term vision for sustainable growth in Los Angeles region.

In exchange for the critical work Genesis LA brings to each Fund, the organization receives a share of the management fee and profit generated by each Fund. This financial arrangement provides the nonprofit with an ongoing source of revenue to maintain operations.

IV. Fund Management

Genesis LA Family of Funds contracts with professional Fund Managers to manage individual funds. Fund Managers are chosen by investors and the Genesis LA Economic Growth Corporation through a competitive, national selection process. Each Fund Manager is characterized by a strong track record of private equity market-rate of return on investments.

Genesis LA Family of Funds is structured to share a portion of the management fee (operating costs) and carried interest (profit) between the for-profit Fund Manager and the nonprofit Fund Sponsor. Shared fees reflect the important role played by Genesis LA Economic Growth Corporation in fund design, fund raising, deal sourcing, community relations and local politics. Genesis LA has a contract with its three Fund Managers to ensure that as long as the Fund Managers operate “Double Bottom Line” Funds in the footprint of the nonprofit sponsor, it will always be in partnership with the nonprofit Fund Sponsor and include a shared fee structure.

V. Genesis LA Real Estate Fund I

Genesis LA Real Estate Fund I was managed by Shamrock Capital Advisors based in Burbank, California. Shamrock Capital Advisors is an affiliate of Shamrock Holdings, the money management firm of the Roy Disney family. Shamrock’s real estate group was initially formed to manage the Disney Family’s personal real estate and assets and to provide the Disney family with an alternative investment strategy. Shamrock was selected to manage the Genesis LA Real Estate Fund because of its successful investment track record and its deep knowledge of, and commitment to, Southern California.

Genesis Real Estate Fund I closed in July 2000 at \$85 million. The Fund had a ten-year life span and all monies were invested within five years of Fund inception. Shamrock invested in the Fund, as did banks, foundations, nonprofit corporations, and holding companies.

Figure 3.1 Investment Criteria Genesis LA Real Estate Funds

Investment Criteria Genesis LA Real Estate Funds	
Investment Objective:	Superior market-rates of financial return from projects that will receive positive CRA consideration and stimulate economic growth in low-income communities
Project Type:	Retail, office, industrial, and mixed-use residential
Transaction Type:	Equity, preferred equity and mezzanine debt
Investment Size:	\$2 - \$25 million
Project Size:	\$6 - \$80 million
Geographic Focus:	Southern California
Time Horizon:	3 - 5 years

The fund provides equity, preferred equity and/or mezzanine financing to projects that qualify for Community Reinvestment Act (CRA) consideration and result in meaningful economic development for Southern California's low-income communities. Product types include retail, industrial, commercial and selected mixed-use developments. Investments range between \$2 and \$25 million per project.

Since closing in July 2000, Genesis LA Real Estate Fund I is fully invested, thus far producing the targeted market-rates of financial return while meeting the Fund's CRA and economic development objectives. Sample investments include creative office space rehab to house the Academy of Motion Picture film library in Hollywood, redevelopment of a substandard set of industrial buildings adjacent to the Van Nuys Airport, and conversion of a vacant former office building into 50 condominiums and ground floor retail space in downtown Los Angeles.

Deal Profile: Genesis L.A., Van Nuys Industrial Park

The Deal: In December 2001 Genesis LA Real Estate Fund provided \$5.5 million mezzanine debt financing to allow Nearon Enterprises and their local partner, Mark Ossala, to purchase 18 acres in Van Nuys, CA adjacent to the airport in order to build 330,000 square feet of industrial space in 8 buildings for lease and sale. This industrial sub-market is full of substandard Class B buildings. This has forced local business to move out of the area to satisfy expansion needs. The boom in small business lending for these types and sizes of businesses has led to sales prices well in excess of the Genesis pro forma. All buildings were either leased or sold prior to completion.

The Van Nuys Industrial Park has increased the square footage and quality of Class B buildings which has enabled small businesses to expand and stay in the area. This has increased the tax revenue for the city of Van Nuys and has led to the creation of roughly 400 jobs.

VI. Genesis LA Real Estate Fund II

Building on the success of the first Genesis LA Real Estate Fund, Shamrock Capital Advisers and Genesis LA Economic Growth Corporation undertook a second Fund in 2004. The Genesis LA Real Estate Fund II is pursuing the same Double Bottom Line investment objectives as its predecessor. The only difference is that Fund II will pursue a larger geographic area – i.e. the nine counties that compose Southern California. Fund II closed in December 2005 at \$104 million and is currently seeking investment opportunities.

VII. Fulcrum Capital Growth Fund

The Fulcrum Capital Growth Fund is managed by Fulcrum Capital Group, LLC, located in Culver City, California. Fulcrum is a private equity investment manager with three funds under management totaling approximately \$40 million. Fulcrum provides expansion and acquisition capital to light manufacturing, communications, and commercial/consumer services companies with a specific focus on growing companies owned or managed by minority entrepreneurs.

The Fulcrum Capital Growth Fund is a \$27 million Fund with a dual niche investment focus. The Fund focuses on making investments to businesses owned or managed by minority entrepreneurs or businesses located in, employing from or serving California's underserved urban communities. The Fund's investments are targeted at buyouts and expansion financing or business growth through internal/external initiatives including operating improvements, product extensions, geographic expansion, market expansion or strategic acquisitions.

The Fund's first investment was a \$2 million investment in Senor Snacks, a Latino-owned food processing company in East Los Angeles. The \$2 million in funding will be used to expand sales to Northern California, throughout Texas and within the greater Phoenix metropolitan area of Arizona.

VIII. Workforce Housing Fund

The Genesis LA Workforce Housing Fund is managed by Phoenix Realty Group, a real estate investment company with offices in Los Angeles and New York. Phoenix provides financial solutions for the creation and revitalization of affordable and workforce housing. Phoenix was selected by the Genesis LA Board of Directors through a national search.

The Genesis Workforce Housing Fund closed at \$103 million in May 2005. The Fund supports the development of "workforce housing" – i.e. housing affordable to moderate-income, working families. The goal of the fund is to increase for-sale urban infill housing stock for a core sector of the workforce, thereby strengthening urban communities, decreasing the jobs-housing mismatch, and promoting employee and employer retention alike in the urban core. The Fund provides financing to support the development of housing affordable to families making 60%-200% of average median income including teachers, government workers, firefighters and police officers, middle managers and skilled laborers in various manufacturing sectors.

Figure 3.2 Genesis LA Workforce Housing Fund

Genesis LA Workforce Housing Fund

Focused on LMI census tracts and redevelopment areas that have seen a lack of for-sale housing supply affordable to moderate-income families who work in urban areas and want to be close to family, friends and jobs.

Fund Goals:

- Increase for-sale urban in-fill housing stock
- Create wealth for low- and moderate-income families through home ownership
- Strengthen urban communities
- Lessen jobs-housing mismatch and commutes
- Retain employees and employers in urban core

IX. New Market Tax Credits

Genesis LA is a successful New Markets Tax Credit (NMTC) recipient for the 2006 (\$80 million) and 2007 (\$50 million) allocations. These funds permit Genesis LA to make long term, very patient low interest loans to projects in census tracts that qualify as highly distressed. At the end of the seven year investment period, the funds are returned to Genesis LA to be used for other low cost, high risk loans or investments which create jobs, housing and improve overall quality of life of those living in our underserved communities.

Figure 3.3 Investment Criteria Genesis LA New Market Tax Credit Fund

**Investment Criteria
Genesis LA New Market Tax Credit Fund**

Investment Objective:	The Genesis LA CDE New Market Tax Credit (NMTC) Fund provides below-market rate capital, critical to the success of socially beneficial, job-creating real estate projects in low-income neighborhoods of Los Angeles County.
Project Type:	Retail, office, industrial, and mixed-use residential
Transaction Type:	Senior and mezzanine debt
Investment Size:	\$2 - \$30 million
Project Size:	\$10 - \$150 million
Geographic Focus:	Los Angeles County
Time Horizon:	7 years

The Fund provides flexible financing and enhances deal capacity of developers seeking to build housing without utilizing low-income housing tax credits. Approximately 70% of investment will be

targeted to for-sale housing. Equity capital contributions to the Fund will be used principally for investment in equity and debt investments. Early investors in the Fund include large, national banks and insurance companies as well as local banks serving the Los Angeles region.

3.2 The Bay Area Family of Funds

Initiative/Fund Focus:

The Bay Area of Family Funds is a regional effort to attract private investment into low- and moderate-income (LMI) neighborhoods (census tracts with median incomes at or below 80% of area median income (AMI) in the San Francisco Bay Area. The Bay Area Family of Funds was launched by the Bay Area Council to reduce poverty, build community wealth, and promote smart growth through investments in real estate developments, businesses, and the environmental clean-up. The Bay Area Council initiated the Bay Area Family of Funds in association with the Community Capital Investment Initiative and the Bay Area Alliance for Sustainable Communities.

Initiative Sponsors:

The Bay Area Family of Funds: Bay Area Council

Individual Fund Sponsors:

Bay Area Smart Growth Fund I: Bay Area Council

Bay Area Smart Growth Fund II: Bay Area Council

Bay Area Equity Fund: A Double Bottom Line Fund: Bay Area Council and Alliance for Community Development

California Environmental Reinvestment Fund (CERF): Bay Area Council, San Francisco Federal Reserve Bank, Los Angeles Chamber of Commerce

Region/Geographic Area:

Nine-county San Francisco Bay Area.

Investors:

Banks, insurance companies, foundations, pension funds, corporations, and high net-worth individuals.

Funds	Size	Inception year	Fund Manager	Investments to date
Bay Area Smart Growth Fund I (real estate, 10-year life)	\$66 m	2001	Pacific Coast Capital Partners	\$78 m in 14 investments (higher than total commitments due to reinvestment pursuant to terms of the Fund)
California Environmental Redevelopment Fund (CERF) (Brownfield clean-up, evergreen fund)	\$34.4 m	2001	In-house fund management	\$50 m in 16 investments, \$13 m in 6 investments in the Bay Area
Bay Area Equity Fund (a Double Bottom Line fund, business equity, 10-year life)	\$75 m	2003	JP Morgan H&Q	\$32.3 m in ten investments

I. Overview

The Bay Area Family of Funds is a regional effort to attract private investment into low- and moderate-income neighborhoods in the San Francisco Bay Area.

The Bay Area Family of Funds has three primary objectives:

- 1) Offer market-rates of financial return to investors.
- 2) Produce high quality jobs, economic revitalization, and promote community wealth creation while avoiding displacement and mitigating adverse impacts.
- 3) Encourage smart growth and decrease pressure to develop at the region's edge.

The Bay Area Family of Funds was initiated by the Bay Area Council – the region's premier CEO-led public policy organization – in 2000 in association with the Bay Area Alliance for Sustainable Communities and the Community Capital Investment Initiative.

The Bay Area Family of Funds is composed of four distinct but related funds. Three of the four funds (Bay Area Smart Growth Funds I & II and the Bay Area Equity Fund) are managed by professional Fund Managers identified through competitive, national selection processes. The fourth fund (the California Environmental Redevelopment Fund) has in-house investment management.

- 1) Bay Area Smart Growth Fund I – a \$65.5 million real estate equity fund focusing on mixed-income, mixed-use, transit oriented developments, taking the form of commercial, industrial and housing projects designed to make a significant impact in the revitalization of LMI neighborhoods.
- 2) Bay Area Smart Growth Fund II – in formation, projected to be a \$100 million to \$125 million real estate equity fund, which will likewise focus on mixed-income, mixed-use, transit oriented developments that take the form of commercial, industrial and housing projects designed to make a significant impact in the revitalization of LMI neighborhoods.
- 3) Bay Area Equity Fund: *A Double Bottom Line Fund* – a \$75 million business equity fund designed to invest in rapidly growing DBL Businesses that are located or will locate in or near LMI neighborhoods and that can generate high quality jobs and wealth for current residents.
- 4) California Environmental Redevelopment Fund (CERF) – a \$34.4 million statewide environmental clean-up fund with 25% of investments targeted for the Bay Area.

The three Funds and 25% of the fourth Fund have a common service area and share common goals. Together, the Funds currently have Fund commitments of \$175 million of capital under management, with another \$100 million expected, and are projected to leverage \$1 billion of investment in LMI neighborhoods over the next decade.

II. Background and Origins

Along with unprecedented economic growth, the Bay Area confronted large-scale regional challenges in the 1990's. The economic engine of information technology led to the creation of hundreds of new companies and products that generated billions of dollars into the regional economy. But with this remarkable economic growth came problems. The cost of living soared across the region as housing prices outpaced the salaries of most residents. The disparity between rich and poor accelerated dramatically. And traffic, congestion, and sprawl grew at unprecedented rates as population increased and residents moved further and further out in search of affordable housing. By the mid-1990's business, civic and community leaders recognized that the region's patterns of growth and development were not sustainable.

The region's challenges were spelled out dramatically in a 1996 report commissioned by the Bay Area Council. The report, entitled *The Bay Area: Leading the Transition to a Knowledge-Based Economy*, documented how the Bay Area's knowledge-based industries led the region out of the recession of the early 1990s and into a period of tremendous economic growth. While lauding the region's economic success, the report also warned of weaknesses that could undermine continued prosperity and quality of life if not addressed. In particular, the report highlighted the following problems confronting the region:

- High housing costs, lack of affordable housing, and a jobs/housing imbalance.
- Traffic congestion and weak transportation infrastructure.
- Declining environmental quality.
- Poor and deteriorating K-12 public education.
- Increasing levels of poverty in LMI neighborhoods.

These findings attracted the attention of business, civic and community leaders throughout the Bay Area. Business leaders were concerned that the high cost of housing and increased traffic congestion would thwart their ability to attract skilled labor to the region. Social equity groups were concerned about the growing disparity between the region's "haves and have-nots." And environmental groups were concerned about suburban sprawl and freeway congestion, leading to environmental decline.

All of these concerns contributed to important dialogue among regional leaders about sustainable development and "smart growth." This dialogue laid the groundwork for the formation of a multi-sector regional organization known as the Bay Area Alliance for Sustainable Communities.¹¹

The Bay Area Alliance for Sustainable Communities formulated *The Compact for a Sustainable Bay Area*, which is a framework for regional and local planning and decision-making that has been adopted by most of the 101 civic jurisdictions in the nine county Bay Area. *The Compact for a Sustainable Bay Area* included 10 strategic commitments to action, with the Sixth Commitment to Action being to

¹¹ For details on the Bay Area Alliance for Sustainable Communities see www.bayareaalliance.org

"Focus investment to preserve and revitalize neighborhoods." This led to the Community Capital Investment Initiative (CCII), organized by the Bay Area Council, Urban Habitat, National Economic Development and Law Center, and Policy Link.

III. Initiative and Fund Model and Sponsorship

The Bay Area Council initiated the Bay Area Family of Funds in association with CCII. The Bay Area Family of Funds was launched as a Double Bottom Line Initiative to produce:

- Market-rate financial returns for investors (the First Bottom Line).
- Significant economic, social, and environmental returns for LMI neighborhoods (the Second Bottom Line).

The Bay Area Council is the sponsor of the Bay Area Family of Funds and maintains overall responsibility for implementation. The Managing Director of the Bay Area Family of Funds is Executive Vice President of the Bay Area Council.

The Bay Area Council is sole Fund Sponsor for the Bay Area Smart Growth Fund I & II; a joint Fund Sponsor, with the Alliance for Community Development, for the Bay Area Equity Fund: *A Double Bottom Line Fund*; and a joint Fund Sponsor of the California Environmental Redevelopment Fund (CERF) with the Federal Reserve Bank of San Francisco and the L.A. Chamber of Commerce.

The roles of the Bay Area Council and its Co-Fund Sponsors are to: design and structure the Funds; assist with capital raising; source potential deals; assist in strengthening Second Bottom Line performance of the Funds; provide assistance in establishing positive relationships with local communities; and monitor and evaluate Fund performance.

IV. Fund Management

In the cases of Bay Area Smart Growth Fund I & II and Bay Area Equity Fund, the Fund Sponsor(s) contract with professional Fund Managers to manage individual funds. The Fund Managers are chosen by the Fund Sponsor(s) and investors through a competitive, national selection process. Each Fund Manager has a strong track record of private equity fund management producing market-rates of financial return.

Each of these three Funds is structured to share a portion of the management fee (operating costs) and carried interest (profit) between the for-profit Fund Manager and the nonprofit Fund Sponsor. Shared fees reflect the important role played by the Fund Sponsor in Fund design, capital raising, deal sourcing, strengthening Second Bottom Line performance, building good relations with LMI communities, and monitoring and evaluating.

Fund Managers operate within contractual boundaries established for each fund including Second Bottom Line criteria. Within these boundaries, the Fund Manager is protected by a "firewall" and has the autonomy to make investment decisions.

In the case of CERF, the Fund is managed by an in-house Fund Management Team, the members of which are employees of CERF.

V. Bay Area Smart Growth Fund I

The \$65.5 million Bay Area Smart Growth Fund I is managed by San Francisco and Los Angeles based Pacific Coast Capital Partners (PCCP) and organized as a limited liability corporation (LLC). The Bay Area Council (the nonprofit Fund Sponsor) is a Special Member of the LLC. PCCP was well known to lead investors in the Bay Area Smart Growth Fund because the four principals had previously been leaders in the real estate investment practice for Wells Fargo Bank and, since going independent, had amassed a substantial real estate portfolio throughout California. Before beginning to invest in domestic emerging markets through a “smart growth” strategy, PCCP had created an investment portfolio of more than \$2 billion and had generated outstanding financial returns.

Smart Growth Fund I is focused on mixed-income, mixed-use transit-oriented commercial, industrial and housing projects developed to make a significant impact on the revitalization of LMI neighborhoods.

Deal Profile: Bay Area Smart Growth Fund I, Vallejo Plaza

The Deal: Bay Area Smart Growth Fund I invested \$5.2 million in a seven-acre parcel of land in Vallejo, California containing a struggling 267,500 sq. ft. shopping center. Household median income for the census tract was 39% of AMI.

Based on the changing demographics of this area, the project repositioned the shopping center to serve the needs of the growing local Filipino American and Asian American community, bringing in a full service Asian grocery store, a Mercado, and a banquet facility. The investment led to full occupancy of shopping center and increased traffic and sales for the local proprietors who constitute 60% of the tenants of Vallejo Plaza. The Vallejo Plaza investment created approximately 75 new jobs and retained approximately 250 jobs. This mixed-use project sold a portion of the property for the development of 200 units of mixed income housing.

Vallejo Plaza is located at an intersection of transit routes. Green construction procedures were used in the reconstruction. Vallejo Plaza offers 10,000 sq. ft. of space at significantly below market rent (\$3,600 vs. a market rate of \$10,000 per year) to the Vallejo Community Arts Foundation, the Vallejo Music Theater, the Vallejo Symphony, and other organizations. As Vallejo Plaza has succeeded, it has stimulated ancillary economic development in the neighborhood.

The Vallejo Plaza project has realized the neighborhood objective of obtaining a grocery store and neighborhood serving retail and the housing and retail policies of the City of Vallejo. It is an excellent example of investment in a domestic emerging market through adaptive reuse that accomplishes the full range of Second Bottom Line criteria.

Bay Area Smart Growth Fund I exited this deal in 2004 through a sale of the project, making better than the mid- to high-teens financial returns projected for the Fund.

To date, Bay Area Smart Growth Fund I has invested \$78 million (higher than Fund commitments due to reinvestment pursuant to terms of the Fund) in 14 deals, with investments ranging from \$2.7 - \$10 million. The Bay Area Smart Growth Fund portfolio includes four retail shopping center projects, two office/light industrial projects, seven affordable home ownership developments, and one mixed-use retail and housing development.

VI. Bay Area Equity Fund: A Double Bottom Line Fund

The \$75 million Bay Area Equity Fund: *A Double Bottom Line Fund* (Bay Area Equity Fund) is managed by JP Morgan H&Q and is organized as a limited partnership. The Bay Area Council and the Alliance for Community Development (the nonprofit Fund Co-Sponsors) are Special Limited Partners of the limited partnership.

JPMorgan H&Q, now a subsidiary of JP Morgan Chase, was originally Hambrecht and Quist, one of the premiere venture capital and boutique investment banks in the Bay Area. Hambrecht and Quist played a key role in founding Silicon Valley and funded some of the region's earliest technology and life science start up companies.

The Bay Area Equity Fund looks for growth-oriented companies with experienced entrepreneurial teams in the Bay Area that can produce market-rates of financial return and are committed to implementing a Second Bottom Line strategy.

The Bay Area Equity Fund is structured in two tiers. The first tier, *Emerging Growth*, invests in companies that typically need \$3 - \$5 million in equity investments. Emerging Growth represents 90% of the Fund and is focused on companies in technology, health care, specialty consumer, and clean tech/green tech products. The second tier, *Strategic Equity*, represents 10% of the Fund invests up to \$1 million in smaller companies that have strong community connections.

Deal Profile: Bay Area Equity Fund, Elephant Pharmacy

The Deal: In May 2004, the Bay Area Equity Fund made its first investment in Elephant Pharmacy, a natural health retailer focusing on natural and organic body care products. Elephant was created to 1) meet the growing needs of educated, health conscious people seeking a better shopping experience and 2) tap national trends that are accelerating adoption and consumption of organic and health related products. Elephant seeks to distinguish itself from traditional retail pharmacies by providing high levels of customer service, education, and non-prescription, higher margin products including supplements, natural body care and cosmetics.

The \$2.1 million investment by the Bay Area Equity Fund will help finance Elephant's expansion strategy. Elephant's headquarters and first store are both located in Berkeley. A second store is under development in San Rafael and a third store is under development in Los Altos. In addition, Elephant has established an in-house boutique program with Saks Inc., and is extending its private label business. Elephant's Berkeley, San Rafael, and Los Altos stores are all in proximity to LMI neighborhoods.

Elephant is committed to hiring LMI residents through local employment programs and provides livable wages (ranging from \$11-16 an hour) to entry-level employees. Approximately 50 of the 70 new jobs created by each store are entry-level. Elephant also provides full health care benefits to employees working 30 hours per week or more. Elephant provides a wide range of free health related classes, as well as free consultations from health professionals. Elephant was recently certified as a green business by the Alameda Green Business Program.

To date, the Bay Area Equity Fund has invested over \$32.3 million in 16 companies that meet the DBL Criteria. The companies are in the areas of biotechnology, high-tech manufacturing, nutraceutical manufacturing, software, solar power, specialty photo wholesale, natural health pharmacy, electric car manufacturing, day spa, healthful school lunches, personalized television, and personalized radio.

Figure 3.3 Investment Criteria Bay Area Equity Fund

**INVESTMENT CRITERIA
BAY AREA EQUITY FUND: A Double Bottom Line Fund**

Eligible companies should demonstrate the following general characteristics:

- Location in or near an LMI neighborhood.
- Compelling plan and capacity to achieve rapid sales growth consistent with venture capital returns.
- Achieved \$1 million or more in annual sales.
- Can provide jobs for LMI residents.
- Management team prepared to develop and implement a DBL Strategy.

VII. California Environmental Redevelopment Fund (CERF)

The California Environmental Redevelopment Fund (CERF) is professionally managed by an in-house Fund Management Team. CERF is a private, for-profit limited liability corporation with a public purpose designed to finance the cleanup of contaminated sites anywhere in the state of California. CERF's headquarters are located in Sacramento, California. An estimated 38% of CERF's investments are located in the nine-county Bay Area.

CERF provides a variety of loan, mezzanine loan, and equity products as well as credit enhancements depending upon the requirements of the project financed and the needs of the clients. CERF has identified three general categories of likely borrowers: 1) operating businesses seeking to acquire or cleanup a site for continuing operations, expansion, or sale; 2) for-profit and nonprofit real estate developers that own or seek to acquire sites that need of remediation for development, resale, or rehab; and 3) public entities such as regional development agencies, municipalities, or community development corporations who seek remediation for similar purposes.

To date, CERF has made debt and equity investments totaling \$50 million in 16 remediation projects in California. (Since CERF is an evergreen fund, capital is invested in new loans when previous loans are paid back.) Six of the 16 are projects in the Bay Area involving remediation of contaminated sites in preparation for affordable housing developments.

VIII. Impact and Measurement of Investments

The Bay Area Smart Growth Fund I, the Bay Area Equity Fund, and CERF issue regular reports monitoring the Second Bottom Line impact of the funds.

At the end of 2005, the Smart Growth Fund had invested \$78 Million in 14 investments and exited from five investments. The portfolio is producing better than the projected mid- to high-teen financial returns and significant economic, social, and environmental results in and near neighborhoods that are at 80% or less of Area Median Income, including:

- 134 permanent new jobs created, 2,200 permanent new jobs projected, and 1,010 jobs preserved for a total of 3,344 jobs created, projected, and preserved, which is one job created, projected, or preserved for every \$23,325 invested.
- 870 units of for-sale homes built or renovated, affordable to households earning from 68% to 135% of Area Median Income.
- 1,271,554 sq. ft. of new or upgraded retail development.
- 577,000 sq. ft. of new or upgraded office/light industrial development.
- 11 of the 12 projects involving new construction or rehabilitation utilized green construction measures.

As of its last Second Bottom Line Report at the end of the third quarter of 2006, the Bay Area Equity Fund has invested in 15 companies with total employment of 1008 employees. The companies

produced 748 new permanent jobs, of which 508 were LMI jobs. In addition, the companies have produced Second Bottom Line results as follows:

- 100% have employer paid health care.
- 58% have retirement plans.
- 76% have employee stock ownership plans.
- 92% use local contractors.
- 92% have community engagement programs.
- 92% have recycling and pollution prevention.

The Bay Area Equity Fund has also:

- Joined with a portfolio company to convene meeting of 12 corporate, government, and nonprofit entities to coordinate community engagement initiatives in Mission Bay.
- Convened a semi-annual Double Bottom Line Round Table with all of the portfolio companies to present and discuss best practices for implementing Second Bottom Line strategies.

3.3 The Massachusetts Life Insurance Community Investment Initiative (“The Life Initiative”)

Initiative and Fund Focus:

The Life Initiative focuses investments in affordable housing, business development and community services in low- and moderate-income (LMI) communities throughout the state of Massachusetts.

Initiative Sponsor:

The Life Initiative (created through an Act of the Massachusetts legislature in 1998).

Region/Geographic Area:

LMI communities throughout Massachusetts.

Investors:

11 Massachusetts-based life insurance companies.

Funds	Size	Inception year	Fund Manager	Investments to date
The Life Initiative	\$100 m	1998	The Life Initiative	\$167 m invested in 87 projects (58% housing, 19% business development, 24% community services)

I. Overview

In 1998 the Massachusetts Legislature passed “An Act Insuring Community Investment and the Equitable Taxation of Insurance Companies in Massachusetts.” The Act created a new community investment fund called The Life Initiative. Capitalized at \$100 million in 1998, the Life Initiative invests in affordable housing projects, business loans, childcare facilities and health care centers in LMI communities throughout the state of Massachusetts.

- Affordable Housing – both home ownership and rental housing that is available to households below 80% of area median income. Investments range from predevelopment, acquisition and construction financing to purchase of soft second mortgages.

- Economic Development – businesses that provide jobs to LMI employees or are located in an Economic Target Area. Investments include capitalizing existing loan funds as well as direct loans to businesses for growth capital or capital expenditures.
- Community Services – facilities that provide important services to LMI communities such as health care or childcare centers.

Most of the Life Initiative funds are committed in the form of loans though the Initiative has also made equity investments in business with growth potential. The Initiative lends directly and works through financial intermediaries – i.e. loan funds – that typically loan the money to community development corporations for specific deals that meet Life Initiative criteria.

II. Background and Origins

Massachusetts' community advocacy groups began to place pressure on the insurance industry for their failure to invest in LMI communities in the mid-1990s. Advocates argued that banks had been required by law to direct resources to LMI communities since 1977 with the passage of the Community Reinvestment Act and that the insurance industry should be required to do the same.

Through a sophisticated research and advocacy campaign, community organizations raised awareness among Massachusetts' legislators of the insurance industry's systematic failure to invest in LMI communities throughout the state. First, community advocates revealed that insurance companies consistently failed to underwrite homeowners' insurance in certain urban neighborhoods. This led to the passage of a new bill in 1996 granting financial incentives to insurance companies for writing policies in under-served communities and penalties for failure to do so. The bill also required public disclosure of geographic identification (by zip code) of the locations served by the 25 largest insurance companies.

Second, community advocates demonstrated that LMI households in Massachusetts paid up to 40% of the industry's annual premiums, but that only 5% of life insurance companies in the state invested in any of the 12 major financial intermediaries used to fund community development within Massachusetts. Third, community organizations released a report in 1997 that identified over \$620 million in investment opportunities through which insurance companies could finance community development efforts. The report included only profitable investment opportunities that were appropriate for insurance companies.

During this same period, the insurance industry was seeking major tax relief legislation. Tax relief legislation had been pending in the legislature for several years but had not been passed. It quickly became apparent to legislators that the two efforts could be combined. Furthermore there was a precedent for such a combination in the form of the Massachusetts Capital Resource Company (MCRC). MCRC was created and funded by the insurance industry in 1977 in exchange for major tax relief. For nearly 30 years, MCRC has provided risk capital for small and expanding companies throughout the state.

In 1998, the legislature passed “An Act Insuring Community Investment and the Equitable Taxation of Insurance Companies in Massachusetts.” The Act created two separate \$100 million investment pools: the Massachusetts Life Insurance Community Investment Initiative (The Life Initiative), and the Massachusetts Property and Casualty Community Investment Initiative (P&C Initiative). In exchange for investing in the fund, insurance companies benefited from state tax cuts that phased in over a five-year period from fund inception.

III. Initiative and Fund Model Sponsorship

The Life Initiative simultaneously sponsors and manages the fund. Operations are lean and efficient. Two staff are responsible for running the Life Initiative on a day-to-day basis, sourcing deals and making investments. An investment committee meets once a month to review prospective deals. Eight insurance company representatives sit on the committee along with two community development corporation managers. At monthly meetings, Life Initiative staff present prospective investments to committee members and a vote is taken. To date, the committee has never turned down a deal recommended by staff.

In total, the Life Initiative is composed of 11 limited partners, four general partners and two staff. All partners meet once a year to review progress and make important decisions.

The Life Initiative is housed in the same office as the Massachusetts Capital Resource Company in downtown Boston. The two initiatives share several insurance companies as limited partners but are entirely separate in terms of operations and staff.

IV. Fund Management

Deals and investments are sourced by Life Initiative staff – individuals with deep financial experience and strong ties to community economic development networks throughout Massachusetts.

The Life Initiative is the largest community loan fund in the state. It works both directly and through smaller, experienced and geographically focused loan funds that provide money directly to community development corporations. Life Initiative Fund Managers do not have an application form. Instead, they prefer to meet with loan fund representatives and borrowers to gauge their understanding of each deal. If Life Initiative staff is confident that the deal is solid and the borrower demonstrates a sophisticated understanding of the deal, they will complete underwriting and present the deal to the Investment Committee for review.

Community development corporations are the principle developers in the Life Initiative model. CDCs such as Dorchester Bay EDC, Allston-Brighton CDC and Lowell Development and Finance Corporation utilize the fund to create affordable housing units, finance small, minority-owned businesses and invest in community facilities.

Since its inception in 1999, the Life Initiative has invested \$167 million in 87 deals. Investments range from approximately \$200,000 - \$5 million. Fifty-five percent of deals have created housing affordable

to households below 80% of area median income. The focus on affordable housing has been particularly important as housing prices soared upward in Massachusetts beginning in the mid-1990s.

The investment rate of the fund averages \$15 - \$20 million per year. To date the fund has experienced no losses. To this end, Fund Managers reserve the right to pull back loan commitments and have done so on several occasions when a deal is not meeting deadlines or fails to develop a strategy for returning money to the fund.

Deal Profile: The Life Initiative, Brian J. Honan Apartments

The Deal: In recent years the cost of housing within Boston has skyrocketed forcing many economically disadvantaged residents to find affordable housing outside the city. In an effort to increase the amount of affordable housing within the Allston Brighton community, the Allston Brighton Community Development Corporation (ABCDC) developed a plan to purchase available buildings that could be converted to affordable housing units. In the summer of 2002, with the help of the late Boston City Councilor, Brian J. Honan, the ABCDC purchased the former Legal Sea Foods Company Headquarters/Warehouse on 33 Everett Street in Allston.

The Life Initiative played a key role in providing acquisition financing to ABCDC. The Life Initiative provided ABCDC with \$1.9 million of the \$2.6 million total needed to acquire the abandoned warehouse. In late 2003 the old industrial building was demolished clearing the way for the construction of 50 new affordable housing units for the households with limited incomes. Construction was completed in the Summer of 2005 and they had the ribbon cutting ceremony in September. The new development provides a mix of one, two, and three bedroom apartments within nine buildings in an attractive, well- landscaped setting that includes designated parking and many amenities.

V. Impact and Measurement of Investments

For insurance companies, the Life Initiative is an extremely efficient civic undertaking. Through the Life Initiative, insurance companies are able to meet corporate citizenship and community investment goals through a single, coordinated effort. The Life Initiative provides a reliable and consistent mechanism for insurance companies to demonstrate their support for LMI communities. This eliminates the need for insurance companies to respond to specific community requests, the response to which is time consuming and costly. At the same time, insurance companies get tax relief and a solid return on their investment.

From a community perspective, the Life Initiative is “making the water safe for other funds.” The Life Initiative is making investments in communities that other private investors have historically avoided. By demonstrating that profitable deals can be done in LMI communities in Massachusetts, the Life

Initiative paves the way for further capital investment. Finally, by increasing the flow of available capital to Massachusetts' CDCs, the Life Initiative has helped to develop the state's CDC infrastructure and contributed to the growth of a network of highly sophisticated community developers and deal-makers. According to Chuck Grigsby, Senior Vice President of the Life Initiative, *"Massachusetts CDCs have become very sophisticated developers not only of affordably housing but also mixed-use and commercial projects. They are doing complex deals that no one else would do."*

The Life Initiative does not measure Second Bottom Line outcomes. Life Initiative staff and partners believe that the focus of the fund itself ensures that positive community developments are resulting from the fund. According to Grigsby, the fund is looking for deal closings, period. *"If you are closing deals you are getting results"* said Grigsby. *"We let the local developers do the counting in terms of jobs, housing and community impact."*

3.4 Coastal Enterprises Inc.

Initiative and Fund Focus:

Coastal Enterprises Inc (CEI) pursues a 3E business investment strategy to balance Economic return, Equity for disadvantaged groups, and Environmental responsibility. CEI and its subsidiaries operate in primarily rural markets where financial returns are not always sufficient to attract traditional investment but where CEI's goals of achieving economic, social and environmental benefits can be satisfied.

Initiative Sponsor:

Coastal Enterprises Inc.

Region/Geographic Area:

Coastal Enterprises Inc. serves all of Maine as well as areas in Northern New England and upstate New York.

Investors:

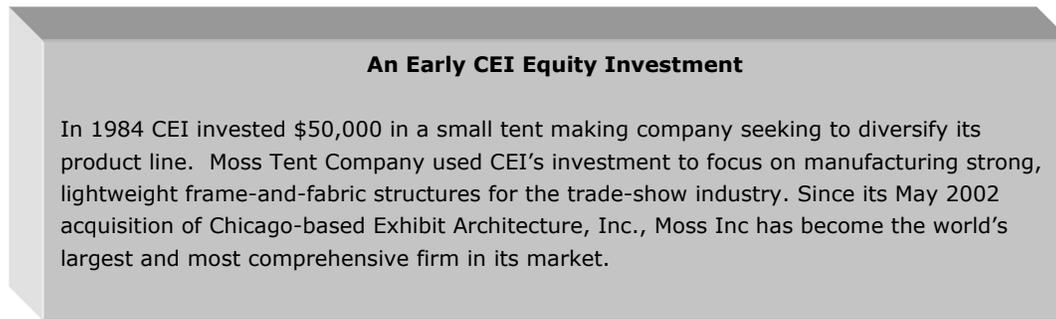
National and local banks, insurance companies, private investment firms, foundations.

Funds	Size	Inception year	Fund Manager	Investments to date
CEI Coastal Ventures Limited Partnership (business equity)	\$5.5 m	1994	CEI Ventures, Inc.	Fully invested in 20 companies
CEI Coastal Ventures II LLC (business equity)	\$20 m	2001	CEI Ventures, Inc.	\$7 m invested in 13 companies
CEI Capital Management LLC (New Markets Tax Credit)	\$129 m	2001	New Market Tax Credit program	\$106 m in tax credits allocated though eight high-impact projects (as of August 2005)
CEI Community Ventures (business equity)	\$10 m	2003	CEI Community Ventures, Inc.	Investments in two companies (no dollar amounts available)

I. Background and Origins

Coastal Enterprises, Inc. (CEI) was founded in 1977 to address the employment and quality of life issues of Maine's low-income residents. Initially, CEI was devoted to developing natural resource sectors such as clamming, fishing, farming, and forestry. Soon CEI began financing and providing technical assistance to manufacturing and small businesses as well. CEI pursued an incremental approach to equity investing in its early years, making several small, but successful, equity investments in Maine companies.

Figure 3.4 *An Early CEI Equity Investment*¹²



By the time CEI created CEI Ventures in 1993, the organization had 16 equity investments under its belt. CEI's proposal to form a venture capital subsidiary at this time had credibility for three key reasons: 1) CEI had developed cumulative venture investing experience; 2) CEI now had strong fund managers with outstanding track records; and 3) Maine had widespread and unmet equity needs.¹³

CEI Ventures closed its first fund – Coastal Ventures Limited Partnership – in 1996. CEI invested in the fund as did banks, financial institutions, foundations, government, NGO's, and private individuals. Throughout the fund raising process, the management team emphasized to potential investors the important experience and reputation it gained in managing CEI's original equity portfolio of 16 investments. To date the 16 initial investments have yielded an IRR of 17%.

Since the formation of CEI Ventures in 1993, two additional funds have been established through CEI subsidiaries. CEI Ventures established a second fund – Coastal Ventures II LLC – in 2001. This fund closed in 2004 with over \$20 million under management. In 2003, CEI formed a new venture capital subsidiary called CEI Community Ventures. CEI Community Ventures has \$10 million under management and also operates a \$3 million technical assistance fund.

Based on its experience in equity investing for social and community impact, CEI played a key role in the initial conceptualization and development of the New Markets Tax Credit – a program established by Congress in 2000 that gives individuals and corporate tax payers the opportunity to receive a credit against income taxes by investing in qualified investment entities. In 2001, CEI was approved as an NMTC program sponsor and granted a \$129 million tax credit allocation. A third for-profit subsidiary, CEI Capital Management LLC, was created to manage the NMTC allocation.

II. Initiative and Fund -- Model and Sponsorship

CEI Ventures, CEI Community Ventures, and CEI Capital Management are wholly owned subsidiaries of their sponsor – CEI Enterprises, Inc. Each fund carries on the parent company's

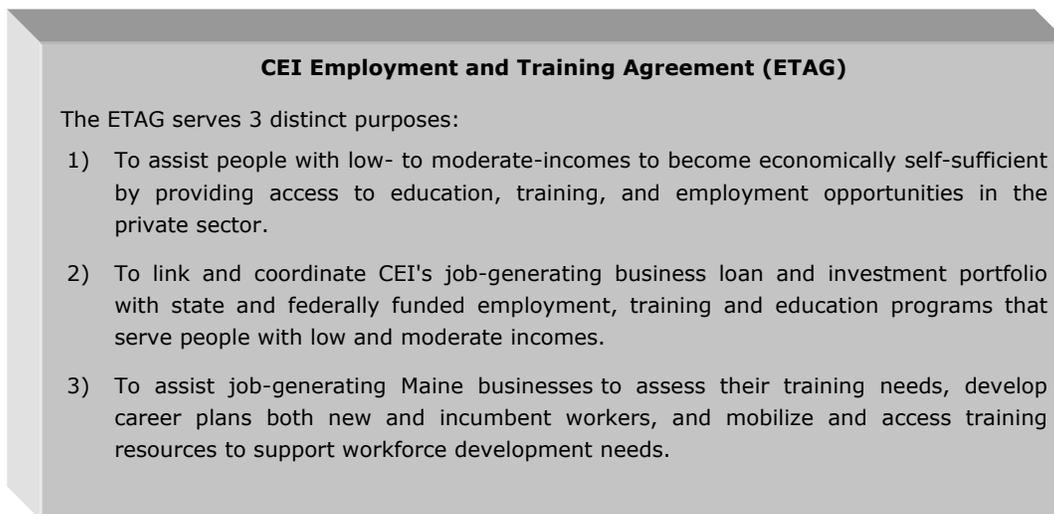
¹² Figure 3.4 *An Early Equity Investment* is drawn from Keith Bisson, "Netting Venture Capital from a Fishing Village." *Communities and Banking*, a Federal Reserve Bank of Boston publication (Summer 2002):5

mission of profitable and socially responsible investment. In this regard, the funds act as an extension of CEI's mission, goals, accumulated experience and financial tools.

The interaction between CEI and the funds is extensive and continuous. Because CEI reviews thousands of investment opportunities each year in the context of its business development, business lending and targeted loan fund work, it is able to funnel attractive opportunities to Fund Managers. Conversely, the risk capital under management by the venture funds complements CEI's micro business loans, subordinated term loans to small business, and housing financial loans by providing equity to grow enterprises that have emerged through the Coastal Enterprise Network.

A similar dynamic is at play regarding human capital. A central goal of CEI is to insure that people with low- and moderate-incomes get access to good jobs. To fulfill this goal, CEI acts as a workforce intermediary for CEI-financed businesses. CEI employment and training staff develop an Employment and Training Agreement (ETAG) and provide human resource support to private companies that receive equity investment through CEI venture funds. The companies, in turn, commit to hiring qualified, low-income individuals identified through the CEI network.

Figure 3.5 CEI Employment and Training Agreement (ETAG)



III. Fund Management

CEI venture funds are managed by professional, for-profit venture capital management firms – CEI Ventures, Inc. and CEI Community Ventures, Inc. Both firms are for-profit subsidiaries of CEI. The New Market Tax Credit program is managed by CEI Capital Management LLC, also a for-profit subsidiary of CEI.

CEI Ventures, Inc.

CEI Ventures is a for-profit venture capital firm managing two venture capital funds with total commitments of \$25.4 million. CEI Ventures employs four investment professionals who make

equity investments in companies exhibiting the potential to grow profitably and provide attractive financial returns.

CEI Venture's first fund, now fully invested, closed in 1996 at \$5.5 million. A second fund closed in 2004 at \$20 million. To date, the second fund has invested over \$7 million in 13 companies. An average investment is \$1 million.

CEI Ventures seeks investment in companies led by a strong management team with significant competitive advantages. In addition, it seeks companies that produce socially beneficial products and services, create opportunities for women and minorities, engage in environmentally friendly business practices, and enrich distressed rural communities. CEI Ventures currently has an active portfolio of 24 companies including biotechnology firms, consumer product and services firms, business product and services firm, IT firms, and media and entertainment firms.

Figure 3.6 CEI Ventures Investment Criteria

CEI Ventures Investment Criteria	
▪ Quality Management Team	with relevant experience, visionary leadership, deep commitment and cohesive approach
▪ Prospects for Attractive Return	with an appealing market opportunity, realistic projections, appropriate valuation and pragmatic exit plan
▪ Competitive Advantage	through proprietary interest in technology, intellectual property, distribution system or other unique situation
▪ Social Benefit	including quality training opportunities – each portfolio company is required to sign an Employment and Training Agreement (ETAG), securing a commitment to hire individuals with low income backgrounds

CEI Ventures builds strong relationships with each portfolio company. In addition to investment capital, CEI Ventures provides assistance through involvement in strategic planning and capitalization planning. CEI Ventures also assists with human resources through CEI's ETAG effort. Each company CEI Ventures invests in is required to sign an Employment and Training Agreement that commits the company to hiring low-income individuals.

CEI Community Ventures, Inc.

CCVI manages a \$10 million venture capital fund licensed under the Small Business Administration's New Markets Venture Capital (NMVC) program. The SBA NMVC program is designed to drive capital into underserved and distressed communities in the United States. CCVI is one of only six

such entities in the United States and the only SBA-approved entity serving the New England region. The geographic focus of the fund is Maine, New Hampshire and Vermont.

In conjunction with the equity fund, CCVI also operates a \$3 million operational assistance (OA) fund. The OA fund provides critical pre- and post-investment resources to companies including assistance with business plans, legal counsel, marketing/strategic consulting and other professional services designed to help companies become equity ready and/or achieve their business plan. CCVI and SBA co-funded both the \$10 million equity fund and the \$3 million OA fund.

CCVI's mission is to realize a "Triple Bottom Line" by supporting companies that can demonstrate an ability to meet or exceed CCVI financial, social and environmental goals. CCVI is led by a management team with extensive operating, investing, and consulting experience. CCVI Fund Managers work closely with companies to connect them with banks, other equity funds, the business community and economic development agencies. Investments range in size from \$100,000 - \$500,000 but CCVI will work to coordinate and/or lead larger financings (up to \$5 million) with investors that share a similar philosophy.

CEI Capital Management LLC

CEI Capital Management LLC attracts capital to low-income areas through the New Markets Tax Credit program. CCML was awarded a total of \$129 million in tax credit authority under the program in 2003 and 2004. As of July 2005, CCML had utilized \$106 million of this capacity in eight, high-impact projects. According to CEI, the credits triggered private capital investment in low-income communities of over \$400 million. CEI has a national service area under the NMTC program with an emphasis on rural areas and a core market of Maine, New Hampshire, Vermont, upstate New York and Western Massachusetts.

The CCML management team brings a mission-oriented perspective to underwriting proposed NMTC transactions. Fund managers approach each deal holistically, utilizing CEI's "Triple Bottom Line" criteria for investment.

The following investment themes inform CCML NMTC transactions:

- **Natural Resource-based Development Investments** – investments in operating companies utilizing sustainably managed natural resources as key assets in their business.
- **Major Business and Real Estate Investments** – investments over \$2 million in operating companies and real estate development with compelling Triple Bottom Line features.
- **Small and Medium Enterprises** – investments under \$2 million in Small and Medium Enterprises that provide employment opportunity in rural areas.
- **Community Development Entity Partnership Investments** – investments in noteworthy projects made in partnership with community development financial institutions and other community development organizations.

Deal Profile: CEI New Markets Tax Credit Program, Fraio Plastech Manufacturing

The Deal: Fraio Plastech Manufacturing, LLC is an early-stage “high-tech” plastic septic tank manufacturing company that makes engineered septic tanks using state-of-the-art proprietary technology. Fraio was able to use CEI New Markets Tax Credits to attract \$6 million in affordable capital to finance the acquisition of the world’s largest plastic blow-molding machine, which will position the company for growth.

On the environmental side, Fraio renovated an underused industrial site in Syracuse, NY to create a zero-emissions manufacturing plant that uses primarily recycled plastic materials in its consumer products. Fraio also created 50 new, well-paying jobs and has been able to hire its new employees from some of the most economically disadvantaged parts of the local community.

Source: CEI website (www.ceimaine.org)

Several of the eight projects utilizing NMTC have a strong environmental bent. For example, three of the eight projects receiving tax credits support large-scale, sustainable forestry efforts in Maine, New York and New Hampshire. Another project provides long-term debt financing for a major new recreational tourism/working forest to be operated by the Appalachian Mountain Club.

IV. Impact and Measurement

CEI Ventures Inc.

CEI Ventures Inc. (CVI) created the CVI Social Index to ensure that each portfolio company stays on track to meet financial and social goals. The Social Index tracks 45 indicators ranging from financial to social measures. CEI Ventures works with each portfolio company’s management to set annual projections against which performance is evaluated. The Social Index collects information in five specific categories: investment, employment, compensation, other benefits, financial.

A recent case study on CEI Ventures examined impact across several dimensions including income, health, education, participation and environment. The case study concluded that CEI Venture’s impact on poverty in the state of Maine and neighboring states has been positive. *CEI Ventures has provided an attractive financial return to its investors and, at the same time, been effective in its mission to create over 500 new jobs in the region, including 144 jobs for individuals who are threatened by poverty or come from disadvantaged backgrounds.*¹⁴

¹⁴ See Jon Daigle et. al. Case 1: Community Development Venture Capital CEI Ventures, Inc. in *Case Studies of Community Investing and Social Venture Capital: Report to World Bank Institute*, School of International and Public Affairs, Columbia University. May, 2002.

CEI Capital Management LLC

CEI estimates the following impact resulting from allocation of \$106 million in NMTC tax credits:

- \$106 million of CEI NMTC investment capacity (plus \$68 million from others) has resulted in the commitment of an additional \$262 million of capital creating \$407 million of total new private capital investment in low-income areas. This is a leverage ratio of \$2.34 of total private capital for every \$1.00 of NMTC capacity utilized.
- Over 1,780,000 acres of northern timberlands committed to sustainable forestry practices and retained as working forests for traditional mill supply purposes and additional economic development in recreational tourism and other industries.
- Over 4,000 direct jobs preserved or created, with an additional 1,500 projected jobs. Indirectly, thousands of additional jobs are involved in the fishing, paper and wood products, recreational tourism, and related manufacturing, transportation, and service industries.

3.5 Nehemiah Sacramento Valley Fund

Initiative and Fund Focus:

The Nehemiah Sacramento Valley Fund is a real estate equity fund created to invest in mixed-use development projects in low- and moderate-income (LMI) communities.

Initiative Sponsor:

Nehemiah Community Reinvestment Fund and Nehemiah Community Foundation.

Region/Geographic Area:

Six-county Sacramento Valley Region as well as the cities of Lodi, Modesto, and Stockton, California.

Investors:

Institutional Investors.

Funds	Size	Inception year	Fund Manager	Investments to date
Nehemiah Sacramento Valley Fund	\$29.2 m	2000	Pacific Coast Capital Partners, LLC	\$29.2 m in first round financing

The Nehemiah Sacramento Valley Fund (NSVF) is a \$29.2 million real estate equity fund created by the Nehemiah Corporation of California, one of the nation's leading providers of down payment gift assistance. Co-sponsored by the Nehemiah Community Investment Fund and Nehemiah Community Foundation, NSVF is focused on making investments in mixed-use development projects in low- and moderate-income communities across the six-county Sacramento Valley and in the cities of Lodi, Modesto, and Stockton, California. NSVF provides financing to for-profit and nonprofit developers dedicated to building mixed-use affordable housing and other commercial facilities in underserved communities. The investment areas are limited to census tracts whose median income is less than 80% of the area median income.

I. Overview

The Nehemiah Sacramento Valley Fund (NSVF) is a \$29.2 million real estate equity fund created by the Nehemiah Corporation of California, one of the nation's leading providers of down payment assistance. Co-sponsored by the Nehemiah Community Investment Fund and Nehemiah Community Foundation, NSVF is focused on making investments in mixed-use development projects in LMI communities across the six-county Sacramento Valley and in the cities of Lodi, Modesto, and

Stockton, California. NSVF provides financing to for-profit and nonprofit developers dedicated to building mixed-use affordable housing and other commercial facilities in underserved communities. The investment areas are limited to census tracts whose median income is less than 80% of the area median income.

II. Background and Origins

One of the driving forces that led to the creation of the NSVF was the rapid growth and urban sprawl of the Sacramento Valley. In recent years, the Sacramento Valley region has experienced an increase in population growth, which has resulted in a need for more residential, commercial, and business developments. The steady increase in population and development has helped diversify the regional economy and increase the number of high quality jobs in the area.

However, a number of challenges have arisen due to this growth. The Sacramento Valley region, which was once a predominately agricultural area, is now experiencing air quality issues, traffic congestion, and the loss of open space. Moreover, the rapid growth in population, jobs, and development has led to increased suburbanization and urban sprawl within the region. As a consequence, more investment dollars are being directed towards newer suburban communities, which in recent years have become more desirable places to live than the older inner-ring suburban communities and urban neighborhoods, which have not experienced the same level of investment and economic growth.

The unequal investment in the greater Sacramento Valley became an issue for the region's leaders. These leaders understood that in order for the Sacramento Valley region to improve its economic competitiveness and overall quality of life, they had to do something to overturn the unintended effects of the region's rapid growth. In 2000, the Nehemiah Community Reinvestment Fund began developing NSVF to raise millions of dollars that could be used to invest in LMI communities throughout the Sacramento Valley region. Specifically, the fund set out to "*invest in the development of high quality, urban scale, mixed-use and mixed-income housing, commercial, and industrial projects.*"¹⁵

III. Initiative and Fund Model Sponsorship

The NSVF was initiated by the Nehemiah Corporation of California, a Sacramento-based nonprofit organization focused on increasing homeownership and building affordable housing and providing support to faith-based and community-based organizations. In addition, the Nehemiah Corporation of California has also created other programs focused on revitalizing urban areas including the Nehemiah Community Reinvestment Fund, Nehemiah Urban Land Trust, Nehemiah Urban Ministries, and Nehemiah Community Foundation. To date, the Nehemiah Corporation of California has provided more than \$480 million in down payment assistance, which has resulted in over \$15.2 billion in real estate transactions and has helped nearly 135,000 families.

¹⁵ Nehemiah Sacramento Valley Fund. 2005. www.sacvalleyfund.com

Deal Profile: Nehemiah Sacramento Valley Fund, Truckee Union Pacific Project

The Deal: In 2004, the Nehemiah Sacramento Valley Fund (NSVF) closed on a \$6.064 million investment with a local developer of residential and mixed-use retail real estate, for the development of 300 affordable high-density town homes and approximately 100,000 square feet of retail space in the downtown of Truckee, California. The Truckee Union Pacific Project will receive investment capital funding over a period of three years with \$1.8 million of the investment provided upfront. The Truckee Union Pacific Project was underwritten for the town homes to be affordable to households earning 88% of area median income.

NSVF is co-sponsored by the Nehemiah Community Reinvestment Fund (NCRF), a nonprofit community development financial institution dedicated to providing capital and resources to revitalize low-income and underserved communities, and the Nehemiah Community Foundation, a nonprofit organization that supports faith-based and community-based organizations and to encourage individual achievement and self-sufficiency. NCRF has invested more than \$25 million in local community development projects and programs.

IV. Fund Management

Pacific Coast Capital Partners (PCCP), a real estate investment firm, is the fund manager of NSVF. PCCP's principals bring extensive experience to each deal. The principals of PCCP have an average of 15 years of real estate experience. PCCP is also the manager of the Bay Area Smart Growth Fund I, the fund after which NSVF is modeled.

Deals are sourced by PCCP and their goal is to provide Double Bottom Line results in each deal. In other words, each deal is structured so that the outcomes of the investment promotes both economic prosperity and generates favorable rates of financial return for the NSVF investors.

V. Impact and Measurement of Investments

The NSVF's targeted investment area covers the counties of the Sacramento Valley – El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba – as well as the cities of Lodi, Stockton and Modesto. NSVF is determining the success of its investments by determining how well their investment dollars lead to developments, renovations, and leasing upgrades that add market value and increase economic activity within the targeted neighborhoods.

3.6 The San Diego Capital Collaborative

Initiative and Fund Focus:

The San Diego Capital Collaborative focuses investments in commercial and industrial projects and mixed-income housing within low- and moderate-income communities throughout the City and County of San Diego.

Initiative Sponsor:

The San Diego Capital Collaborative was chartered by the San Diego City-County Reinvestment Task Force.

Region/Geographic Area:

LMI neighborhoods throughout the City and County of San Diego.

Investors:

Banks, Insurance Companies, Pension Funds, and Private Investors.

Funds	Size	Inception year	Fund Manager	Investments to date
San Diego Smart Growth Fund	\$90 m	2003	Phoenix Realty Group LLC	\$27 m

I. Overview

The San Diego Capital Collaborative (SDCC) is a nonprofit, tax-exempt umbrella organization, chartered by the San Diego City-County Reinvestment Task Force in October 2003. SDCC is the sponsor of a Family of Funds aimed at targeting public and private investments in low- and moderate-income neighborhoods. The first fund, a \$90 million for-profit San Diego Smart Growth Fund, will make investments towards pre-development, site acquisition, and the development of new construction and repositioning of existing structures to create for-sale and rental housing. The mission of SDCC is to facilitate private and public investment in emerging and underserved neighborhoods that:

- 1) Produce market-rates of return to investors.
- 2) Promote stable, economically and socially diverse communities.

SDCC has adopted a collaborative model of development that requires the organization to work in partnership with communities, investors, and government agencies. SDCC Smart Growth Fund makes equity, equity-related, and debt investments of \$1 - \$20 million for the development of the following types of property:

- For-sale housing.
- Rental housing.
- Single-family homes and mid-rise developments.
- New construction and rehabilitation.
- Mixed-use with residential component as cornerstone of project.
- Community revitalizing commercial properties.

In order to receive financing from SDCC's Smart Growth Fund, the total cost of developments must be from \$3 million - \$100 million and be located within the Greater San Diego Area.

II. Background and Origins

The San Diego Capital Collaborative was created by the San Diego City-County Reinvestment Task Force (RTF). The RTF, established in 1977 as a joint City and County quasi-public entity, is charged with monitoring banking practices in the region under the Community Reinvestment Act and with developing strategies for reinvestment in partnership with public, community, and private lending institutions.¹⁶ The idea for the San Diego Capital Collaborative began with the RTF, which monitors the investments of financial institutions in low- and moderate-income communities. The task force was able to receive \$200,000 in seed money from banks to study how an equity fund for affordable housing could be developed for San Diego County. This study led to the creation of SDCC. The formation of SDCC was officially endorsed by a resolution passed in 2004 by the county Board of Supervisors and the San Diego City Council.

SDCC has been able to gain wide support among the community and city and county governments of San Diego because the organization's focus is on making investments in LMI communities. SDCC's mission is timely because San Diego County has experienced a rapid increase in the cost of living, especially for housing. The cost of buying a home has continued to rise since the 1990s, which has forced many civil servants such as teachers, firefighters, and law enforcement officers to purchase less expensive homes outside of San Diego. In addition, LMI families are struggling to purchase single-family homes. As a result, a significant portion of SDCC's Smart Growth Fund is focused on creating rental and for-sale units affordable to families with annual incomes between \$45,000 and \$100,000.

¹⁶ San Diego City and County Reinvestment Task Force. 2005.

III. Initiative and Fund Model Sponsorship

The San Diego City and County Reinvestment Task Force is responsible for the management and oversight of SDCC. SDCC is the sponsor of the Smart Growth Fund, the first of a Family of Investment Funds, which will make targeted investments in LMI communities. The day-to-day operations of SDCC are carried out by two full-time staff members and a seven-member board of directors.

The Smart Growth Fund is managed by the Phoenix Realty Group LLC, a national financial services company. During a national search, Phoenix was selected to manage the Smart Growth Fund by a selection committee comprised of investors, the SDCC Board, community interest groups and RTF. Phoenix has several responsibilities as manager of the Smart Growth Fund. In addition to serving as Fund Manager, Phoenix will also be the syndicator, joint-venture developer and/or advisor during the process of creating and revitalizing affordable/workforce housing throughout the greater San Diego area.

IV. Fund Management

The San Diego Smart Growth Fund's deals and investments are sourced by the Phoenix Realty Group. The principals of Phoenix Realty Group have extensive experience in managing and creating private equity real estate funds. Over the past 20 years, the principals have created and managed 24 institutional capital funds. During this time, they have raised and invested \$4.7 billion in over 1,000 properties nationwide valued at \$10 billion.

V. Impact and Measurement of Investments

The primary goal of SDCC's Smart Growth Fund is to help developers build affordable workforce housing throughout San Diego County. The hope is that the \$90 million investment fund will be able to leverage more than \$500 million worth of housing and commercial development in the county. It is estimated that the fund will generate enough money to build as many as 2,000 rental and for-sale housing within emerging market communities over the next five years.¹⁷

Plans for the smart growth fund call for the money to be invested in smaller urban projects affordable to households earning between 80%-200% of median income, the equivalent of \$49,600 to \$124,000 a year for a family of four. Although developments will include a combination of residential and commercial uses, the focus will be on for-sale housing starting in the low \$300,000s, with prices maxing out in the \$500,000 range.¹⁸

SDCC plans to ensure that the Smart Growth Fund is able to accomplish Double Bottom Line, economic and social impact in LMI communities by:

- First, measuring and reporting publicly on the success of the Smart Growth Fund in producing returns for investors and for communities.

¹⁷ Weisberg, Lori and Emmet Pierce. "Fund Could Boost Local Housing Stock." San Diego Union Tribune. May 15, 2005.

¹⁸ Ibid 2.

- Second, by working in collaboration with the developers, public agencies, and community groups, to originate model deal flow and advocate for supportive public policies.

3.7 Puget Sound Family of Funds

Initiative and Fund Focus:

The first member of the Puget Sound Family of Funds, Puget Sound Real Estate Fund I, is an all-purpose real estate fund that will attract private investment into LMI neighborhoods within the five counties of Puget Sound - King, Kitsap, Pierce, Snohomish and Thurston. The Fund will make a special impact on community revitalization through large-scale mixed-income and mixed-use community development, retail, housing, industrial and office projects.

Initiative Sponsor:

Martin Luther King Housing Development Association (MLKHDA).

Individual Fund Sponsor

Nonprofit organization currently being developed by MLKHDA.

Region/Geographic Area:

State of Washington with a special focus on Puget Sound and Tacoma.

Investors:

Banks, insurance companies, foundations, pension funds, high-net-worth individuals.

Funds	Size	Inception year	Fund Manager	Investments to date
Puget Sound Real Estate Fund I	\$60 m - \$90 m	2006	Kennedy Wilson	Fund is being capitalized.

I. Overview

The Puget Sound Family of Funds is an effort to target investments to distressed communities within the LMI census tracts of the five-county Puget Sound region, with the ability to invest throughout the state of Washington. Martin Luther King Housing Development Association (MLKHDA) is working closely with regional leaders in business, the policy arena, and real estate finance in order to facilitate community economic development effectively in Puget Sound.

The long-term vision of this effort is to re-integrate the LMI communities into the vital regional economies of Puget Sound and to grow the employment and housing opportunities available to these residents.

The Puget Sound Real Estate Fund I will be capitalized in 2007. Fund I is expected to be capitalized at \$60 - \$90 million and leverage an additional \$180 - \$270 million for real estate projects in Puget Sound. Subsequent funds will follow.

II. Background and Origins

Many communities in Puget Sound have faced economic hardship in the recent past. In some areas unemployment rates have been double the national average. Investors and developers have largely ignored these distressed neighborhoods, instead choosing to invest in more affluent areas. In the late 1980s, the city of Tacoma, particularly the “Hilltop” area, was considered one of the most dangerous areas in the country. At one point, the community had more than 200 Crips gang members move up from Los Angeles. There were 350 murders and more than 400 boarded-up homes in a 160 block area. During this time, the community was classified as the murder capital of the nation. To its further “distinction,” Tacoma’s Hilltop was “highlighted” on the television program “60 Minutes,” for these extreme conditions. Residents were afraid, even in daylight hours, to leave their homes.

In response to these conditions, the Martin Luther King Housing Development Association (MLKHDA) formed in 1988 with a mission of taking back the community for the community, using real estate development as the vehicle to do so. It aggressively undertook this challenging task by purchasing and rehabilitating 300 homes, creating new homeownership opportunities for 109 low-income families in these renovated homes. In addition, it purchased and redeveloped the Crips’ gang headquarters, transforming it into a disabled veteran’s residential project. Since MLKHDA’s founding, it has raised and invested more than \$26.4 million in real estate projects in the Tacoma area. Through its development activity between 1990 and 2004, it directly employed 469 workers, and indirectly created 1,052 jobs, bringing much-needed wages to the community. It has also created new long-term job opportunities by developing more than 40,000 square feet of commercial space in communities in and around Upper Tacoma.

Despite MLKHDA’s dramatic impact in Hilltop, Upper Tacoma and throughout Pierce County, the need for affordable low-income rental housing remains strong due to the rapidly changing demographics of the neighborhoods. The housing market in Hilltop and Upper Tacoma has changed considerably over the past 10 years. Vacancy rates have declined and homeownership rates have increased. Property tax valuations and assessments have increased as well. Nevertheless, actual assessed values of houses in the community remain some of the lowest in the area at an average of \$85,000 in 2000.

The rising cost of acquiring existing housing is making projects more expensive and difficult to target for low-income renters or buyers. Vacant land is disappearing as residential new construction continues to grow. The threat of displacement of low-income renters has become real due to ongoing gentrification of the neighborhood. Although Pierce County has increased the resources it devotes to low-income housing, a majority of low-income households in Tacoma and, in particular, Upper Tacoma pay unaffordable housing costs and an alarming number experience episodes of homelessness.

Problems in the Hilltop area of Upper Tacoma and other low-income areas of Pierce County are now found all over the five county Puget Sound region. Low-income families and individuals face significant challenges in the region's booming housing market. Many pay unaffordable housing costs, live in overcrowded conditions, or even experience periods of homelessness.

The dynamism and prosperity of the Puget Sound region is double-edged for its low-income residents. The dynamism, on the one hand, creates new economic opportunities for its residents. But the region's growth and high-income levels, on the other hand, has also put pressure on the housing market, exacerbating the challenges that low-income households face. Federal funding for housing subsidies falls far short of meeting needs.

In order to continue to connect these distressed communities into the larger regional economies within Puget Sound, MLKHDA looked to more powerful tools to draw investment into communities. The Puget Sound Family of Funds Initiative is a way to mobilize DBL Private Equity Capital from large institutional investors and then invest this capital into targeted low- and moderate-income neighborhoods to meet the specific needs of the community. The Puget Sound Family of Funds is the first instance of an African-American community-based nonprofit corporation creating a DBL Family of Funds. In doing so, MLKHDA will move away from its current dependence on public and foundation grants, allowing for greater independence.

A market analysis of the Puget Sound market between 2005 and 2015 found significant demand for a Puget Sound Family of Funds. Just under \$800 million in equity demand was identified, fully supporting a \$60 - \$90 million fund. Additionally, developers in Puget Sound have emphasized the value of such a fund in providing much-needed equity funding for development projects.

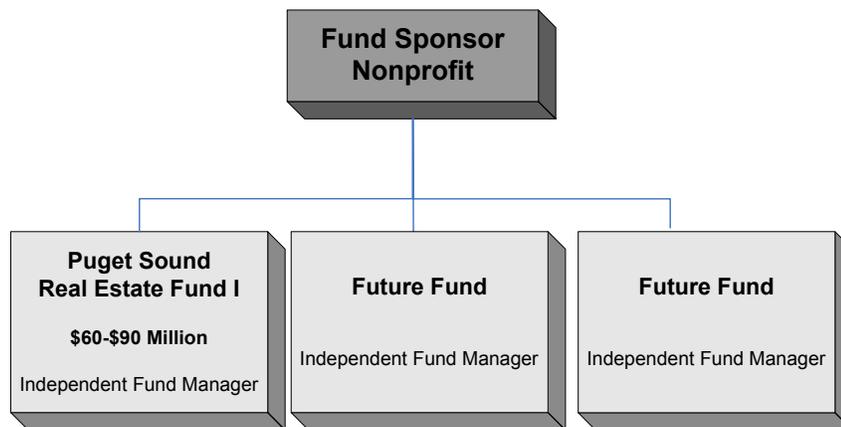
MLKHDA is, as noted, a unique fund sponsor in that it is the first community-based organization in the nation to spearhead the creation of a DBL fund as a keystone of its community economic development mission and strategy. MLKHDA is unusual among community-based development organizations in a number of ways: it ranks as among the top 100 nonprofit community-based organizations in the nation involved in large-scale housing development, among the top 25 CDCs involved in large-scale commercial development, and one of the very few, if not the only one, nationally to build its own houses with its own construction company. Finally, MLKHDA is rare as a community-based housing and commercial development organization in that it also operates a 110 bed facility for the homeless – thus covering the full spectrum of housing development from shelters for the homeless, to low-income rental and for-sale housing, workforce housing and mixed-income housing, as well as mixed-use commercial and industrial development.

III. Initiative and Fund Model and Sponsorship

The Martin Luther King Housing Development Association is the leading Civic Stakeholder in the Puget Sound Family of Funds initiative. At this time, MLKHDA and the Fund Development Team are in the process of developing the Fund Sponsor, Fund Sponsor Business Plan and Advisory Board for the Family of Funds.

MLKDHA will play a unique role in the Fund Sponsor creation, as it has spearheaded the creation of the funds, and provided all of the funding to date. The Fund Sponsor will serve to manage and develop the Family of Funds, monitoring the operation and performance of each fund. It will contribute to the deal flow and provide capacity to smaller local developers.

Figure 3.7 Puget Sound Family of Funds



IV. Fund Management

The Puget Sound Family of Funds has contracted with Kennedy Wilson to be the Fund Manager for Puget Sound Real Estate Fund I. Kennedy Wilson was chosen according to the following criteria:

- Ability to handle deals for a wide range of property types, including mixed-income housing and mixed-use commercial and industrial development.
- Ability to attract institutional investors.
- Track record of investing in communities similar to the Fund's scope.
- Experience in low- and moderate-income communities.
- Experience or presence in the Puget Sound Area.
- Experience with a wide range of financing tools as well as public subsidies.
- Ability to bring additional nonprofit resources to the transaction.
- Possession of passion and interest for the Second Bottom Line.

The Puget Sound Real Estate Fund I

The \$60 - \$90 million Puget Sound Smart Growth Fund I is expected to be in operation early in 2007. The Fund will focus on large-scale, mixed-income and mixed-use commercial, industrial and housing projects developed to make a large-scale impact on community revitalization. The Fund's specific goals are to:

- Strengthen the region’s economic vitality and livability.
- Expand the Puget Sound housing market core by financing mixed-income housing.
- Create mixed-use developments in low- and moderate-income neighborhoods.
- Give priority to developments focused on urban infill, brownfield redevelopment and transit-oriented or walkable employment centers.
- Reduce poverty, increase household income and avoid displacement.
- Create Puget Sound leadership in private, public and nonprofit sectors to stimulate redevelopment.
- Generate private equity to produce a risk-adjusted market-rate of return for investors.
- Mobilize tiers of capital for site assembly, bridge finance, gap financing and infrastructure finance, as well as mixed-income and mixed-use development.

V. Impact and Measurement of Investments

The Puget Sound Family of Funds will issue regular reports monitoring the Second Bottom Line impact of the Funds. This will include information on the number of jobs created by investments of the Funds, units of housing built or upgraded, square feet of commercial and industrial space constructed or upgraded, brownfield cleanup costs, tax revenue generated, and other quantitative measures of the economic, social and environmental impacts of projects.

3.8 Maryland Regional Workforce Housing Fund

Initiative and Fund Focus:

The Maryland Regional Workforce Housing Fund will focus on creating workforce housing to address the overwhelming need in Maryland for workforce housing for people who cannot afford to live in the cities and counties in which they work. This Fund will fill this important niche, making more projects economically viable and thus bolstering workforce housing development. The Fund will focus on workforce housing, transit-oriented housing development, mixed-income development in all income neighborhoods, inclusionary housing in middle-income neighborhoods, and other balanced community development objectives.

Initiative Sponsors:

Enterprise Maryland.

Region/Geographic Area:

The Fund will focus on the core region of Maryland, Washington and Northern Virginia.

Investors:

Banks, insurance companies, foundations, pension funds, high net-worth individuals.

Funds	Size	Inception year	Fund Manager	Investments to date
Maryland Regional Workforce Housing Fund I	\$60 m - \$90 m	2004	Enterprise Community Investment, Inc.	The Fund is still in the development stage

I. Overview

The Maryland Regional Workforce Housing Fund (Workforce Housing Fund) provides an innovative approach to creating a market-driven investment fund, which targets funding to developers that will undertake workforce housing. The funding, which may be a blend of private sector and other lower-interest bearing money, will provide a lower cost of capital to developers, thus making the economics of projects more attractive. Importantly, this funding is complementary to other housing funding vehicles already in existence.

The Workforce Housing Fund will seek out the market niche not currently being met by other government-supported affordable housing funds, or other government, private, nonprofit funding sources. By blending different funding sources, higher rates of return than those typically attained

through tax-credit or affordable housing, will be sought. The Workforce Housing Fund will be one more, yet significant, financing “tool” available to developers faced with the very high cost of making needed projects viable in Maryland’s urban areas.

The increase in median home prices in many urban areas has far outstripped the increases of average median incomes, thus making housing less affordable. In areas where critical nursing or teachers shortages are seen, such as in the ring suburban counties of Washington, DC in both Maryland and Northern Virginia, one of the first reasons cited by these professionals is that they chose other areas because they could not afford to own a home near their job.

II. Background and Origins

Maryland Has Led the Smart Growth Movement

For more than a decade, Maryland has followed a conscious public policy of trying to reverse land use and real estate market imperfections, so much so that it is considered by many to be the birthplace of smart growth in the U.S. The enactment of the Maryland Economic Growth, Resource Protection, and Planning Act in 1992 laid the foundation for subsequent smart growth policy and legislation in the state.

In 1997, the General Assembly passed five pieces of legislation specifically geared toward fostering smart growth in Maryland - Priority Funding Areas, Brownfields, Live Near Your Work, Job Creation Tax Credits, and Rural Legacy-known collectively as "Smart Growth."

As a result of these policy initiatives over more than a decade, the State of Maryland today has over 80 programs that help to further Smart Growth.

Recommendations of the Governor’s Commission on Housing Policy

In March 2004, Governor Robert L. Ehrlich Jr., created via Executive Order 01.01.2003.10, a Governor’s Commission on Housing Policy. Governor Ehrlich appointed Victor L. Hoskins, the Secretary of the Department of Housing and Community Development to chair the 21-member, bi-partisan Commission. The Commission’s purpose was to make recommendations to the Governor for specific and measurable actions that can be taken to increase and preserve quality workforce/affordable housing in all Maryland communities to meet the needs, as well as dreams, of working families, individuals with disabilities, the homeless and the elderly. A final report entitled, *Innovative Housing and Community Revitalization in Maryland: Solutions for a Positive Change*, was submitted to the Governor on December 29, 2004 which included eight recommendations focused on utilizing existing resources more efficiently, without new state funds to further workforce/affordable housing and community revitalization efforts throughout Maryland.

Through this report, the Commission specifically recognized that the creation of an equity Family of Funds could serve to attract significant private investments in communities throughout the State.

MDHCD Supports Maryland Equity Fund

The Maryland Department of Housing and Community Development (MDHCD) is a cabinet level agency created in 1987, whose mission is to improve the quality of life in Maryland by working with its partners to revitalize communities, expand homeownership and workforce/affordable housing opportunities, and preserve historic sites and traditions. During the last five years, on average, MDHCD annually financed 4,400 workforce/affordable housing units for families, individuals with disabilities and senior citizens in Maryland (2,700 rental housing units and 1,700 homeownership units).

MDHCD will be a strong partner in the workforce housing and community revitalization projects financed by the Maryland Family of Funds.

III. Initiative and Fund Model and Sponsorship

In the absence of a clear and unambiguous candidate for Fund Sponsor, the private sector funders of the *Phase I Market Assessment and Investment Strategy* joined the Steering Committee of the Project in asking Enterprise Community Partners (See Section IV below) to organize a Fund Sponsor committee composed of key Phase I Funders and other prominent leaders who, under Enterprise Community Partners oversight, would oversee the creation and implementation of the Maryland Community Development Family of Funds. This resulted in the creation of Enterprise Maryland (“EM”) to sponsor the Maryland Family of Funds.

The mission of EM is “to see to it that all LMI people in the Maryland area live in fit and affordable housing and have an opportunity to move up and out of poverty.”

EM combines the long-standing work that Enterprise has had underway in the Maryland area, using its offices in Baltimore, Washington, DC, and Columbia and creates one organization equipped to work throughout the area. EM is governed by a board of nine distinguished Maryland leaders, five of whom are appointed by the Chairman of Enterprise Community Partners, and four of whom are elected by the five appointees. EM works closely with the Fund Manager to see to it that the transactions financed by the Maryland Fund serve the second bottom line—providing high quality workforce housing to Maryland residents in need. EM supplements the work of the Fund Manager to create opportunities for Fund investments. EM does not participate in any investment decisions.

IV. Fund Management

The \$60 - 90 million Maryland Regional Workforce Housing Fund is managed by Enterprise Community Investment, Inc. (formerly the Enterprise Social Investment Corporation, ESIC Realty Partners and Enterprise Mortgage Investments). Enterprise Community Investment is a socially motivated for-profit subsidiary of Enterprise Community Partners. Enterprise provides debt and equity financing for catalytic real estate projects in emerging and underserved markets. The Enterprise Community Investment syndication group manages more than \$5 billion in equity through over 90 investment funds.

Enterprise Community Partners (formerly the Enterprise Foundation) is the nonprofit umbrella organization overseeing all of the affiliates which make up Enterprise. It is a national leader in building and financing affordable housing and working towards community revitalization. Enterprise provides loans, grants and technical assistance to nonprofit organizations that are building and revitalizing local neighborhoods.

Since its founding in 1982, Enterprise has raised over \$6 billion of capital in over 85 funds to provide community development capital for affordable housing and commercial development. Enterprise has helped to provide homes for over 175,000 low-/moderate-income individuals and families in 45 states, the District of Columbia, and Puerto Rico. Enterprise is one of the largest Low- Income Housing Tax Credit (LIHTC) syndicators in the country; the second largest recipient of New Markets Tax Credits (NMTC, more than \$310 million); and a national leader in Historic Tax Credit equity (HTC). Enterprise has more than 4,000 affordable homes completed or under construction.

Enterprise, which itself is a “sponsor-driven” nonprofit Double Bottom Line partner with its for-profit fund manager, has already demonstrated the extensive resources it is capable of bringing to Maryland.

V. Impact and Measurement of Investments

The \$60 - 90 million Maryland Regional Workforce Housing Fund I will be designed to accomplish the following goals in low- and moderate-income neighborhoods throughout the core region of Maryland, Washington and Northern Virginia:

- Expand the housing market in the Maryland core by financing mixed-income housing, including affordable housing, workforce housing, and market-rate housing in mixed-income and mixed-use development.
- Strengthen the economic vitality and livability of low and moderate neighborhoods throughout the state of Maryland, including those within Baltimore City, Anne Arundel County, Baltimore County, Howard County, Montgomery County, Prince George’s County, and the balance of the State of Maryland.
- Integrate low- and moderate-income neighborhoods with mixed-income workforce housing and job-creating mixed uses including retail, commercial and light industrial development.
- Integrate middle- and upper-income neighborhoods where possible with inclusionary mixed-income workforce housing, as well as transit-oriented mixed-income and mixed-use development.
- Give priority to urban infill, brownfield and transit-oriented or walkable employment center developments in these low- and moderate-income neighborhoods.
- Reduce poverty, increase household income and avoid displacement.

- Create a concerted Maryland private, public and nonprofit leadership effort to stimulate the redevelopment of low-income neighborhoods throughout Maryland.
- Forge collaborative ongoing partnerships with the Maryland Department of Housing and Community Development and key Maryland-based nonprofit institutions to implement streamlined underwriting criteria that wholesale private, public and nonprofit capital to build large-scale, mixed-income and mixed-use development projects in low-income neighborhoods.

3.9 Northwest Louisiana Community Development Fund

Initiative and Fund Focus:

The Northwest Louisiana Community Development Fund is the keystone in a major regional initiative to integrate LMI neighborhoods of Shreveport and Bossier City, as well as a number of rural areas, into the growing and diverse regional economy of the ten parishes (counties) of Northwest Louisiana. The Fund will invest in profitable affordable and mixed-income housing, and mixed-use commercial, industrial and housing developments in the inner city and rural LMI census tracts within the ten-parish region.

Initiative Sponsor:

Northwest Louisiana Strategic Action Council (SAC)/Community Development Committee (CDC).

Region/Geographic Area:

Inner city and rural LMI areas of the ten-parish (county) region of Northwest Louisiana (Bienville, Bossier, Caddo, Claiborne, DeSoto, Lincoln, Natchitoches, Red River, Sabine and Webster parishes).

Investors:

Banks, insurance companies, foundations, pension funds, and a locally organized and managed investor group that will make it possible for smaller community and family foundations, churches and individuals from both the Anglo-American and African-American communities.

Funds	Size	Inception year	Fund Manager	Investments to date
Northwest Louisiana Community Development Fund I (NWLA CDF I) (real estate)	\$20 m - \$40 m	2007	Kennedy Wilson	N/A

I. Overview

The \$20 - \$40 million Northwest Louisiana Community Development Fund I (the "Fund") is a key initiative of the Northwest Louisiana Strategic Action Council (SAC) and its Community Development Committee (CDC). The Fund is now being capitalized to invest in a broad range of real estate, including mixed-income housing, and mixed-use commercial and industrial projects in the low - to moderate-income neighborhoods of the Shreveport-Bossier metropolitan area and the ten-parish region of Northwest Louisiana.

The Fund is designed to engage the most disadvantaged communities of Northwest Louisiana in capitalizing their underutilized workforce, land, and resources in ways that create wealth for residents and contribute to continued regional health and well being of the entire region.

SAC, a highly respected bi-racial business and civic leadership group serving the entire ten-parish region, was created in the fall of 2003 to implement the Analysis and Actions summarized in the “*Finding the High Common Ground*” Report. SAC is undertaking major initiatives addressing regional problems in K-12 primary and secondary education; regional healthcare for the poor (especially women and children); workforce education and training; entrepreneurship; and the development of an integrated, private-sector-led regional economic development initiative that will ensure that Northwest Louisiana has all the tools necessary to compete effectively in the global technological economy of the 21st Century.

A market analysis, completed in November 2004, found an estimated \$50 million private equity capital demand that could generate more than \$200 million of community developments that have the capacity to improve the quality of life and make a measurable impact in the economic revitalization of the target neighborhoods, while producing market rates of return for investors. The market analysis was the product of 90 interviews with private and public sector leaders, developers, bankers and other community stakeholders, and established a deal flow of 20 projects for consideration by Fund Managers when the Fund closes.

Although this is the first DBL Fund in the true South and is in a smaller market than many existing DBL funds in other markets, the market analysis found that unusually strong institutional leadership and the interest of key national investors gives special promise for a successful Fund. In addition, the use of New Markets Tax Credits could assist in providing substantial support in financing projects.

II. Background and Origins

In 2002, seven leading business and civic organizations, including the Chambers of Commerce of Greater Shreveport, Bossier City and Minden-South Webster, the Committee of One Hundred, the United Way of Northwest Louisiana, the Louisiana State University at Shreveport Foundation, and the Northwest Louisiana Partnership for Economic Development, undertook to support a major two volume Analysis and Action Plan for the 10 parish Northwest Louisiana region. This Study was a follow on to a similar study undertaken 20 years before that had led to significant innovations in the Northwest Louisiana economy.

The September 9, 2003 Study, *Finding the High Common Ground*, determined that Northwest Louisiana was generally a strong and diverse region with many positive attributes for competing in the global technological economy of the 21st Century, but the deep poverty at the region’s core—18 LMI neighborhoods of the twin cities of Shreveport and Bossier, as well as a number of isolated rural poverty areas—constituted a danger to the region as a whole if not immediately addressed in a sustained and concerted fashion by regional civic, business and community leadership.

Finding the High Common Ground, found that today there are two Shreveport-Bossier Cities in Northwest Louisiana – one that enjoys a relatively high quality of life in this relatively low-cost region of the country, and one that is characterized by dilapidated housing, few job opportunities, inadequate transportation and day care and, often, failing schools.

In creating SAC in the Fall of 2003, the seven founding civic and business leadership organizations assigned SAC and the Northwest Louisiana Community Development Fund the responsibility to

- 1) accomplish job, income and wealth creation goals for residents of the target neighborhoods, and
- 2) see that this revitalization is carried out in a Northwest Louisiana context that benefits the entire region – poor and rich, black and white.

III. Initiative and Fund Model and Sponsorship

SAC takes a broad and open view of its responsibilities in implementing the recommendations of the Strategic Action Platform of the *Finding the High Common Ground*, study, seeking to encourage as much initiative as possible within the civic leadership of Northwest Louisiana. Some of these initiatives are developed within SAC and some are initiated by well-established outside organizations that volunteer to undertake key recommendations proposed in *Finding the High Common Ground*.

SAC established a Community Development Committee to implement the first recommendation of the Strategic Action Platform, the creation of the Northwest Louisiana Community Development Fund I, and to ensure that all of the regional initiatives undertaken by SAC do, in fact, pay off for low-income residents in the poorest neighborhoods.

The overarching mission of SAC and its Community Development Committee is to create opportunity where there is now dislocation, create jobs and wealth where there is now dependence, create community health where there is now disease, and transform economic and social costs (now borne mostly by the poor, but also placing a hidden tax on the wealthy) into productive market opportunities for all.

IV. Fund Management

In the summer and fall of 2005, SAC and its Community Development Committee initiated a national search to select a Fund Manager. Kennedy Wilson was selected based on their possession of a unique set of skills: both the ability to attract national institutional investors, as well as the sensitivity and resources to operate in a market that was quite different from the much larger and more buoyant regional markets of the Atlantic, Gulf and Pacific coasts.

Kennedy Wilson was selected based on their:

- Ability to handle deals for a wide range of property types, including mixed-income housing and mixed-use commercial and industrial development
- Ability to attract institutional investors
- Track record of investing in communities similar to the Fund's scope

- Experience in low- and moderate-income communities
- Experience or presence in the Southeastern US or Northwest Louisiana areas
- Experience with a wide range of financing tools as well as public subsidies
- Ability to bring additional nonprofit resources to the transaction
- Demonstrated passion and interest in producing the Second Bottom Line

V. Impact and Measurement of Investments

The \$20 to \$40 million Northwest Louisiana Community Development Fund I will invest in profitable community development projects designed to accomplish the following goals in low- and moderate-income neighborhoods throughout the region:

- Strengthen the economic vitality and livability of low and moderate neighborhoods in Shreveport, Bossier and the 10 parishes of the region, by reducing poverty, increasing household income, and avoiding displacement.
- Expand the housing market in the region by financing mixed-income housing developments, including market-rate, low-income and affordable housing.
- Create mixed-use developments in low-income neighborhoods that combine mixed-income housing with job-creating commercial and industrial development.
- Give priority to commercial and industrial developments that employ local residents, are located on transit lines that access the workforces in low-income communities, regardless of the income of the community in which the site is located.
- Undertake urban infill, brownfield, transit-oriented or walkable employment center developments in these low- and moderate-income neighborhoods.
- Create a concerted Northwest Louisiana private, public and nonprofit leadership effort led by the Strategic Action Council to stimulate the redevelopment of low-income neighborhoods throughout the region.
- Forge collaborative ongoing partnerships with public sector and key nonprofit development institutions to implement streamlined underwriting criteria that wholesale private, public and nonprofit capital to build large-scale, mixed-income and mixed-use development projects in low-income neighborhoods.
- Generate a competitive internal rate of return (IRR) in the mid-to-high teens for this first Fund; drive the deal making process; mobilize tiers of capital for pre-development costs, site assembly, construction costs, bridge finance, gap financing, and infrastructure finance and leverage other capital.

The results of these actions must be measurable and reportable as:

- A stronger regional economy, with stronger, healthier and more productive low-income neighborhoods.
- More consumers with more disposable income for regional enterprises.
- A more experienced and productive workforce and a more attractive community for prospective employers.

SAC has commissioned the Business and Economic Research Center of the Louisiana State University at Shreveport to develop a set of Second Bottom Line measures that draw from national experience in the DBL Funds described in this *Double Bottom Line Handbook*, while at the same time being true to the special needs and requirements of Northwest Louisiana.

CHAPTER 4:

THE THEORY OF DBL INVESTING

*The theory of the Double Bottom Line (DBL), as the concept is used in *The Double Bottom Line Handbook*, grows out of a set of five distinct but related theoretical frameworks: Domestic Emerging Markets, Smart Growth, Sustainable Development, Socially Responsible Investment, and Community Investment. The Theory Chapter of the Handbook begins with the presentation of a DBL Theory of Change and then briefly addresses each of the five theoretical frameworks.*

Introduction and Overview

The last line in a company's profit and loss statement indicates whether the company made money or lost money. Historically, this number has represented a company's "bottom line." Over the last 30 years, however, a number of fields and movements have converged to suggest that this single financial bottom line is a necessary but insufficient measure of business success.

Businesses have substantial impacts on all of their stakeholders—customers, workers, management, owners, the communities where they are located, and the larger environment. Some of these impacts can be internalized and monetized, thereby contributing to the financial bottom line. However, many of these impacts resist monetization. This has led to the formulation that businesses need to guide their actions according to a Double Bottom Line – the First Bottom Line being the financial bottom line and the Second Bottom Line being the economic, social, and environmental impacts of the businesses that require other forms of measurement.

The concept of the Double Bottom Line has proved useful in a variety of contexts. In the *Double Bottom Line Handbook*, the concept is applied to private equity investment and the real estate developments and businesses that receive that investment.

The Theory Chapter of *The Double Bottom Line Handbook* explores the theoretical basis for the emerging paradigm of DBL Private Equity Investing. The Theory Chapter is presented in two Sections:

- 1) **A Double Bottom Line Theory of Change** – an easy-to-follow explication of the key concepts involved in Double Bottom Line Investing and how they can have a positive impact for inner-city and inner-ring suburban economic development.

2) **Theoretical Frameworks Informing the Double Bottom Line** – an overview of five different theoretical frameworks that establish the context and conceptual framework for private equity Double Bottom Line Investing:

- Domestic Emerging Markets.
- Smart Growth.
- Sustainable Development.
- Socially Responsible Investing.
- Community Investment.

4.1 A DBL THEORY OF CHANGE

A Double Bottom Line (DBL) Theory of Change for urban and suburban economic development emphasizes the central importance of engaging and guiding market forces to accomplish poverty reduction, wealth creation and smart growth in neighborhoods with high levels of poverty.

The DBL Theory of Change presented succinctly below draws on concepts discussed throughout The Double Bottom Line Handbook.

Domestic Emerging Markets

According to the Theory of Change underlying Double Bottom Line Investing, inner city and inner ring suburban neighborhoods can be seen as domestic emerging markets with significant but often hidden assets, including accessible transportation infrastructure, capable underutilized workforce, affordable space, and significant purchasing power. Thus these neighborhoods offer opportunities for Double Bottom Line Investing.

At the same time many inner city and inner ring suburban low- and moderate-income (LMI) neighborhoods have relatively high levels of poverty, which means not only that many of the residents of these neighborhoods suffer the effects of poverty, but also that these neighborhoods are not making an optimal contribution to the regional economy. They tend to be a drag on regional prosperity not only because of their relative lack of contribution to the regional economy but also because of the higher social costs resulting from high levels of poverty.

Private Capital

Under current economic conditions, government, foundation, and nonprofit resources are inadequate to accomplish optimal poverty reduction and community revitalization in domestic emerging markets. Therefore private capital needs to be engaged in order to access the levels of capital and expertise necessary to accomplish revitalization.

It is possible to engage private capital because domestic emerging markets offer opportunities to undertake infill real estate and business development deals that can provide market rates of financial return. However, because of market imperfections—due to inadequate information and market prejudice—the private capital markets may not be fully engaged in doing many of the infill real estate and business development deals that are available.

Smart Growth

In addition to poverty reduction, the need for Smart Growth is another reason for infill development. Smart Growth means that real estate and business development needs to be focused in inner city and inner ring suburbs, generating infill mixed-use, mixed-income, transit-oriented neighborhoods.

Without smart growth, farmland and open space may continue to be consumed at the edge of regions, traffic and air quality may worsen, and the continued prosperity of the region may be degraded.

Double Bottom Line

If infill real estate and business developments are not to produce displacement of current residents and acrimonious disputes over development, these real estate and business developments should pursue a Double Bottom Line. The real estate developments and businesses need to provide market rates of financial return for the investors (the First Bottom Line) and substantial economic, social, and environmental benefits for the local stakeholders (the Second Bottom Line) in ways in which the two bottom lines reinforce and strengthen each other.

Double Bottom Line development can transform the current residents of the neighborhoods where the development takes place into stakeholders in the development. As stakeholders, neighborhood residents can become supporters rather than opponents of development, leading to significant reduction in conflict and significant savings in time and money. A portion of the money saved can fund community benefits.

Without Double Bottom Line real estate and business development in domestic emerging markets, residents will tend to remain in poverty, with the attendant social costs, and regional prosperity and strategic advantage will be adversely affected. Through Double Bottom Line real estate and business development, market forces can be guided to achieve market-rates of financial return and measurable, explicit economic, social, and environmental objectives in these domestic emerging markets.

Getting to Scale

To encourage capital to engage with infill development in LMI neighborhoods, it is important to utilize a deal focused, transaction-driven process that gets to scale, in order to create larger developments and businesses with greater neighborhood and regional impact.

Double Bottom Line keystone developments – defined as large-scale mixed-use, mixed-income, transit oriented developments – and growth-oriented businesses can reconnect LMI neighborhoods to regional, national and global economic activity in ways that create large numbers of jobs, increase community wealth, and promote smart growth.

Getting to scale will also benefit from forming joint ventures between not-for profit community development corporations and for-profit developers to increase the development capacity of the nonprofit developers and the community benefits delivery capacity of for-profit developers.

Double Bottom Line Private Equity Funds

Double Bottom Line (DBL) Private Equity Funds offer an important way to engage the capital markets in urban and suburban domestic emerging markets. DBL Funds take an ownership interest in real estate developments and business ventures and, as owners, provide guidance in assisting the

developments and ventures to succeed. DBL Funds assist the developments and ventures to succeed along both Bottom Lines.

In the type of DBL Funds addressed by the *Double Bottom Line Handbook* – Regional Sponsor-Driven DBL Funds – the DBL Funds are managed by for-profit Fund Managers with strong track records in producing market-rates of financial return and sponsored by nonprofit Fund Sponsors. The Fund Sponsors have with responsibilities for assisting in identifying DBL Deals and in strengthening the Second Bottom Line of the DBL Deals that receive investment.

The for-profit Fund Managers and the nonprofit Fund Sponsors/Special Members share in the management fees and the carried interest of the funds, making these undertakings self-supporting and, thereby, sustainable.

Collaborative Approach

When local stakeholders are not a part of the deals being attempted in LMI domestic emerging markets, community, economic, and political leaders often use their socio/political capital to stop development. It is important to bring local stakeholders into the development process from the beginning through a collaborative approach.

In order to maximize the potential for utilizing market forces to achieve the economic prosperity, social equity, and environmental quality objectives of Double Bottom Line real estate and business development, a specific collaborative regional infrastructure often needs to be organized. This collaborative regional infrastructure can assist developments and businesses to accomplish the Second Bottom Line, including livable wage jobs and wealth creation opportunities for current residents, while also benefiting local communities and the environment as well as the region. A collaborative methodology, establishing partnerships among business, community, and government leaders, is important in creating to create a collaborative regional infrastructure.

The collaborative approach may tend to out-perform the single approaches of the past (business only, community only, or government only), producing results that can be greater than the sum of their business, community, or government parts.

Multi-Stakeholder Alliances

The market imperfections of domestic emerging markets offer outstanding opportunities for DBL Investment, but this requires understanding of the ways these markets work and skill at building the multi-stakeholder alliances that may be required to be successful.

Such regional and local multi-stakeholder alliances are possible, because it is in the long-term interest of all of the regional and local stakeholders to collaborate to encourage DBL Investment and development that produces poverty reduction, wealth creation for local residents, and Smart Growth.

Regional Double Bottom Line Initiatives

Regional DBL Initiatives are multi-stakeholder alliances that utilize the collaborative approach. Typically they include one or more DBL Private Equity Funds. Through their regional/local stakeholder alliances they can assist in providing the information necessary to create/identify “nuggets” of opportunity that, in addition to financial benefits to investors, generate jobs and other community and environmental benefits. In addition to providing the context of operations for DBL Funds, the DBL Initiatives can also organize Regional Community Investment Networks that include the full range of regional investment resources, including banks, Community Development Finance Institutions, loan funds, venture funds, angel investment networks, and investment intermediaries. These networks can serve as leveraging vehicles for investments made by the DBL Funds as well as sources of investment for good deals that, for some reason, don't fit the criteria of the DBL Funds.

Regional DBL Initiatives also can play the role of Community Development Catalysts, undertaking the "pre-care" necessary to assist a deal to become fundable and establishing capacity building and joint venture programs to assist community developers to become more effective and bring forward fundable deals.

Monitoring and Evaluation

It is important for DBL Initiatives/Funds to monitor and evaluate both their First and Second Bottom Line results. The First Bottom Line is key because real estate developments and businesses that fail financially produce no financial returns for investors and no Second Bottom Line accomplishments. Investment funds that do not meet their return objectives do not produce follow-on funds.

The Second Bottom Line objectives also need to be evaluated to make sure that the DBL Initiatives/Funds are accomplishing the purposes for which they were organized and to guide mid-course corrections as necessary. Location, economic impact, community impact, wealth creation, community engagement, and environmental performance all are information categories that may be used to assess the Second Bottom Line impact of DBL Initiatives/Funds.

Double Bottom Line Results

DBL real estate developments and business ventures, utilizing a collaborative approach, can be more sustainable over time. If fully successful, DBL Investing can produce:

- Higher financial returns.
- Better relationships with communities.
- Better relationships with customers, employees, and suppliers.
- More positive environmental impact.

Investments in the priority neighborhoods can also have an impact on the neighborhood institutions, helping to transform those institutions in positive ways leading to better education, jobs,

transportation, child care, etc. The results of Regional DBL Initiatives/Funds can be more prosperous neighborhood economies, more livable neighborhood environments, and greater equity for neighborhood residents, leading to wealth creation, Smart Growth, and greater choice.

Residents who stay in the neighborhoods may be able to lead richer and better lives. Residents who leave may be able to advance rather than just being displaced. The regions will tend not to have neighborhoods that are a drag on regional prosperity, but rather tend to have diverse neighborhoods that take care of their own residents, contribute to the regional economy, and assist the region to attain global strategic advantage.

4.2 FIVE THEORETICAL FRAMEWORKS

The idea of the Double Bottom Line (DBL) is embedded in and grows out of the intersection of a set of five different but related theoretical frameworks – domestic emerging markets, smart growth, sustainable development, socially responsible investing, and community investment. Section 2 of the Theory Chapter looks at the Double Bottom Line from each of these perspectives in turn.

I. Domestic Emerging Markets

DBL Funds Profit by Correcting Market Failures in Domestic Emerging Markets

Successful market-rate DBL Private Equity Funds turn the conventional wisdom of “disadvantaged neighborhoods” upside down. The DBL Funds, and their Fund Sponsors and Fund Managers, view these neighborhoods as “domestic emerging markets” with under-appreciated assets that have real market potential to add economic value to revitalize low- and moderate-income (LMI) neighborhoods while, at the same time, contributing to the increased vitality of their surrounding regional economy. These under-appreciated assets of domestic emerging markets include:

- An available workforce (in periods of high growth, often, the only available workforce in the region) to fuel further regional growth.
- An under-served consumer base that provides an untapped market for local and regional goods and services.
- Under-appreciated real estate that creates opportunities for mixed-use commercial and industrial development, and mixed-income housing development.
- Significant market opportunities to build quality affordable and workforce housing close to transit sites.
- Substantial under-utilized infrastructure that could be more profitably employed for the “smart growth” benefit of the entire region.

Systematic economic research has identified five consistent market barriers that help explain why capital does not easily flow to these low-income neighborhoods. These include:

- 1) Insufficient risk pricing, pooling and spreading mechanisms.
- 2) High information and transaction costs.
- 3) Market prejudice.
- 4) Insufficient market competition.
- 5) Market-distorting government policies.

In all of these cases, it is the strong Fund Manager that manages the risk of investing the money to recognize and seize these unrealized opportunities. What the Fund Managers for DBL Funds consistently do is engage with these market barriers to the benefit of the DBL Fund. DBL Fund Managers systematically uncover hidden opportunities in which the conventional market has consistently overlooked profitable investment possibilities because of one or more of five market barriers or imperfections. They then seize the opportunity to make a higher than expected return as they profit from perfecting (i.e., eliminating) the market imperfection.

DBL Fund Managers employ the five-part matrix of market imperfection to make profitable investment decisions for community revitalization in LMI neighborhoods. A brief summary of how this works follows, including:

- How each of these market imperfections negatively impacts low-income neighborhoods.
- How these market imperfections create profitable opportunities for DBL Funds and their Fund Managers simultaneously in relation to both Bottom Lines.

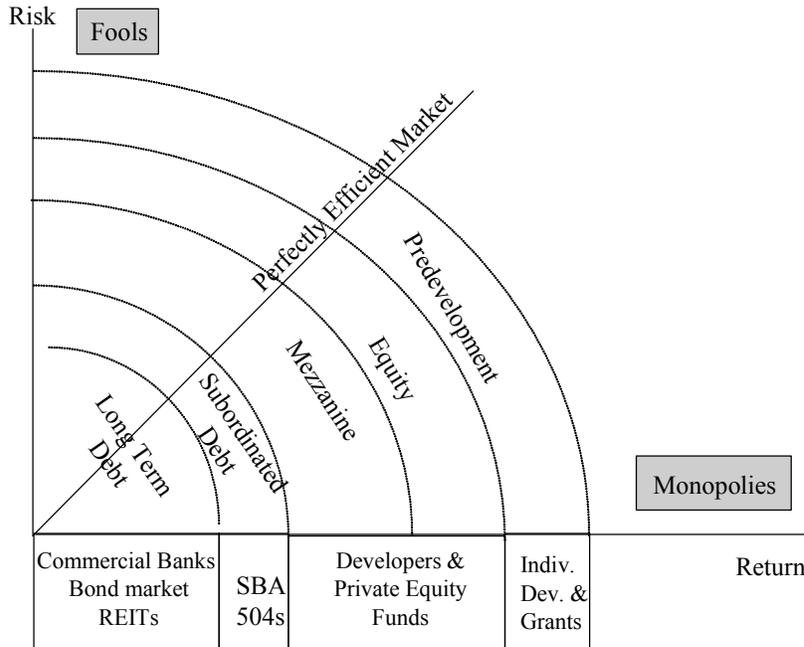
This analytic matrix applies to all forms of investment in under-appreciated domestic emerging markets in inner cities, older suburbs and rural areas. Although it equally applies to venture capital investment in business enterprise as well as private equity investment in real estate, generally this discussion will refer to inner city real estate investment for simplicity.

Insufficient Risk Pricing

Insufficient risk pricing occurs when financial markets do not perform efficiently. Financial markets operate at their best when capital flows from all available suppliers to all demanders at a cost and under terms that most completely reflect the relative risk of an investment. That is, a market rate of financial return varies on the basis of risk.

In order for DBL Funds to be successful in financing developments which are capable of realizing the current disorganized market potential of domestic emerging markets, these DBL Funds need to meet the same rigorous tests of creating confidence in investors that any successful venture or private equity fund does in any area. In recent DBL Real Estate Funds, differences are already apparent in the capacity of Fund Managers to assess risk, seek out entrepreneurial activities, and uncover “diamond-in-the-rough” opportunities in emerging LMI Areas.

Figure 4.1: DBL Private Equity Funds Profit By Correcting Market Failure in Real Estate Markets



Source: Economic Innovation International, Inc.

The most vivid way to graph an efficient real estate market is by means of this risk-return Figure 4.1. The “Fools” have high risk/low return; the Monopolists have low risk/high return. The most successful DBL Fund Managers split the middle where the risk and return are in balance on the private equity high wire.

In the private equity world, being average is not good enough. Strong Fund Managers ought to be in the upper quartile of their industry to attract sophisticated investors. Strong DBL Fund Managers must be even better than their plain vanilla counterparts.

Figure 4.1 tells us a lot:

- As noted, an efficient capital market splits the middle between Risk and Return, between “fools” and “monopolists.”
- The earlier the stage of development, the higher the financial risk. Predevelopment finance is vastly riskier than equity real estate investment. Equity capital is riskier than mezzanine capital. All forms of risk capital are generally riskier than all forms of debt, including subordinated debt and long term senior real estate lending.
- In each of these stages of development, there is a great risk of being very “foolish.” That is, making investments that are high risk and low return. The collapse of the dot.com initial public offering (IPO) market in 2001 and the telecommunications and fiber optics cable markets in 2002 are recent cases in point, as has been true of the real estate market at many times, such as the late 1980s.

- Private equity or venture capital is still a young industry with little more than 50 years of history. In the early days, many venture capitalists had near monopolies in their local markets that allowed them to skim low risk, high return deals. Today, the private equity industry has become phenomenally competitive on a global basis.¹⁹ Nevertheless, the emergence of private equity funds focused only on equity real estate investments is still a new and relatively rare phenomenon. The small number of private equity real estate funds, and the even smaller number of DBL Funds, means that there are still real market imperfections in this highly specialized market.

In the end, it is this quality of risk management by the Fund Managers which will determine whether or not potential unrealized LMI opportunity is fully appreciated in a DBL Fund so that it can provide a market rate of return for investors while accomplishing the Second Bottom Line goals of community stakeholders. It is this same capacity for risk management that allows the truly outstanding Fund Managers to negotiate their way through and around a real estate bubble market (just like the best Venture Capitalists did in 1997-2000).

Figure 4.2: Risk Management

Risk Management

Risk management requires proper pricing and risk pooling and spreading. High risk requires high return, or the deal is not done.

Risk Pricing

The risk of potential investments is evaluated. The fund determines what return is necessary to cover the risk and if the deal can support the return.

Risk Pooling/Spreading

The risk associated with an investment or group of investments is spread among a number of individual investors to ensure that the risky investment is only a small portion of each individual investor's overall investment portfolio.

One key to successful private equity fund management is risk management. On the upside of risk, Fund Managers must be willing to price up to risk (as opposed to bankers, whose response to high risk is, not inappropriately, to reject the deal). With two exceptions, risk and reward need to match: either (1) one has a monopoly market (in which case one can charge at will), or (2) one plays the fool.

On the downside of risk, all private equity funds, including these new Double Bottom Line Private Equity Funds, must constantly manage their exposure to risk. This is typically done through risk pooling and risk spreading. Successful DBL Funds pool many somewhat higher risk LMI Area real estate deals.

Risk spreading further reduces the risk by dividing risky investments among many investors who invest in the DBL Funds, thus spreading each investor's individual risk in the

pooled portfolio. The combination of risk spreading and risk pooling creates a much more balanced fund for each individual investor. This allows for higher risk in the portfolio, which, in turn, calls for higher return—which good investments can support, good Fund Managers choose to do, and investors appreciate.

In the plain vanilla private equity and venture capital world, the Fund Manager simply manages the risk, and pools and spreads the risk for the investors.

¹⁹ PriceWaterhouseCoopers official website, <http://www.pwcmoneytree.com>.

In the new paradigm of Regional DBL Funds supported by a mutual partnership of both a nonprofit Fund Sponsor and a for-profit Fund Manager, more is at stake. There is also the risk of failure for LMI residents who are stakeholders in developments that are seeking to produce economic, social, and environmental returns, in addition to market rate financial returns.

In the new paradigm of Regional DBL Funds, the Fund Sponsor and the Fund Manager together serve as the acceptable risk manager and broker of this new layer of risk between private institutional investors, federal, state and municipal programs, and neighborhood stakeholders. Together their task, for value received, is to broker and build trust among key players, identify and package profitable deals (often the more difficult and expensive ones in the short run, but the deals with larger, longer term payoff), and oversee the implementation of the DBL Fund(s) to ensure that there is measurable payoff along the Second Bottom Line for low-income residents and community revitalization.

Together, the nonprofit Fund Sponsor and the for-profit Fund Manager will (1) manage, price, pool and spread risk; (2) reduce high information and transaction costs for themselves and their partners; (3) reduce the current market prejudice which thinks there are no good deals to be done in these neighborhoods (nothing removes that prejudice faster than seeing others make money that one might have made if it were not for the prejudice), (4) create new layers of competition between and among investors, bankers, developers and entrepreneurs, and (5) work with private, civic and governmental leaders to help correct public policies in support of a targeted investment strategy of for-profit, nonprofit, and public resources according to the same of similar underwriting standards. Each of these five market-corrections counter balances the corresponding market failure.

High Information and Transaction Costs

High Information and Transaction Costs are equally severe barriers to investment in domestic emerging markets. They are the principal reason that banks and developers avoid LMI areas—it costs too much time and expense to find out who is who and what is where. It is much easier to just generally lump everything into “low-income” or “minority” or “high crime” and move on without any exploration for what the specific reality in fact is.

These high information and transaction costs in domestic emerging markets are mitigated by specialized DBL Funds and their specialized Fund Management teams. These Fund Management teams are capable of looking at highly specialized kinds of deals. Their accumulated skills and scars and their familiarity with specific entrepreneurs, developers, costs, and neighborhoods allow them to lower the individual information and transaction costs necessary to identify, evaluate, approve and track investments in targeted LMI domestic emerging market neighborhoods.

One of the useful by-products of a DBL Fund is that the banks will have a trusted ally to vet and package deals for them. The DBL Fund will absorb these high information and transaction costs for the bankers of the region, take the higher risk, and then the bankers can piggyback with the senior, less risky debt.

Clearly, high information costs are the flip side of market prejudice. It takes time and expense to get past the pre-judgment that a neighborhood is too risky to operate in or a kind of transaction is too risky to do, with little opportunity for return.

Market Prejudice

Market Prejudice is a definable market barrier, as well as a social reality. Market prejudice is a pre-judgment by potential investors about particular cultures, geographic neighborhoods, industries or other key features of demanders, based on a shorthand assessment of only a very few factors (i.e., see the census tract, know to avoid it). Market prejudice is caused by inadequate information and an unwillingness to invest the funds necessary to obtain adequate information. Such market pre-judgments avoid the high information cost of making individual resource allocation decisions by arbitrarily ruling out whole classes of potential demanders.

A strong DBL Fund Manager and a properly structured DBL Fund can overcome these kinds of market prejudice through specialization and the accumulated experience that generates proprietary information and reduces transaction costs. Properly structured DBL Funds overcome market prejudice and market imperfections to realize under appreciated value for their investors and host economies, and thus change the nature of market prejudices. The mere fact of a new class of significant numbers of DBL Funds and Fund Managers will bring highly regarded Fund Managers and national investors to invest in LMI neighborhoods, which will, by itself, change attitudes.

Insufficient Market Competition

Insufficient Market Competition can lead to monopoly. Monopoly can lead to skimming because the few suppliers in the market can generate a high return while taking only low risk. Thus, often in domestic emerging LMI neighborhoods characterized by a scarcity of providers of equity capital for real estate development, developers have two choices:

- They can pay the monopoly price—which also may provide them with the wrong kinds of terms (short term debt when longer term debt is required, or debt where equity is more appropriate); or,
- They may simply choose not to pursue otherwise profitable development—opportunities that would add to local economic development and job creation.

In 2000, there were no DBL Real Estate Equity Funds doing business in Southern California. Today, six of the nation's top upper quartile Fund Managers are in competition in this market—offering real choice and competitive pricing for community developers. The same is true in the Boston market, and is now spreading across the country.

The presence of the new DBL Funds will simply create new layers of competition among investors, bankers, developers and entrepreneurs, and success will bring new competitive sources of DBL Fund Managers, Fund Sponsors and Investors into the market to compete in doing deals. Success breeds competition and more success.

Market-Distorting Public Policies

Market-Distorting Public Policies often have dramatic and unintended effects on economies, and especially so in emerging, underdeveloped markets. Inadvertent tax and regulatory policies, and transportation and infrastructure policies can have the unintended consequence of lowering the cost of Greenfield development to developers, and placing a hidden cost on older LMI neighborhoods. Some jurisdictions—Maryland, the San Francisco Bay Area and San Diego, for example, are forging public policy and legislation to encourage sustainable development and smart growth strategies that support and complement DBL Funds.

In summary, market barriers such as (1) insufficient risk pricing, pooling and spreading mechanisms; (2) high information and transaction costs; (3) market prejudice; (4) insufficient market competition, and (5) market-distorting government policies simultaneously distort both real estate and financial markets in LMI neighborhoods, and create real opportunities for properly structured DBL Funds to make market-rates of financial return for investors while revitalizing these LMI neighborhoods for community residents and stakeholders—“doing well while doing good.”

II. Smart Growth

DBL Private Equity Funds and the Regional DBL Investment Initiatives of which they are a part are both informed by and support the rapidly growing Smart Growth movement. In recent years, the Smart Growth movement has accelerated dramatically in metropolitan regions across the country. The Smart Growth movement is a reaction to sprawling development patterns that increasingly characterize the metropolitan landscape.²⁰ Sprawl is recognized as the unintended consequence of development patterns in which land use, transportation, and economic development policy proceed in an uncoordinated fashion. The result – as environmentalists, community activists, and business and civic leaders now recognize – is low-density growth that is inefficient, inequitable and environmentally unsustainable.

Today, there is growing recognition from all sectors of society that sprawling development patterns are detrimental to quality of life and regional prosperity. As a recent report entitled, “Smart Growth is Smart Business,” states:

“As people and business move further out from the urban center, they abandon cities and older suburbs, and shift investments to the metropolitan fringe. Improvements to our nation’s air quality have been undermined because sprawling development patterns create and increase vehicle travel and associated air pollution...The inherent inefficiency of sprawl threatens the fiscal health of cities, suburbs, and the private sector alike. Schools, firehouses, and police stations need to be constructed

²⁰ While there is no single definition of “sprawl” it generally refers to low-density residential and commercial development outside or on the fringe of city limits. The National Trust for Historic Preservation, Rural Heritage Program defines sprawl as: “dispersed, low-density development that is generally located at the fringe of an existing settlement and over large areas of previously rural landscape. It is characterized by segregated land uses and dominated by the automobile.”

*and personnel need to be hired. Sprawling growth also requires costly expansion of infrastructure and utilities into new area which depletes resources for maintaining aging, existing systems.*²¹

The Smart Growth movement represents many different efforts to address sprawling development patterns. As with sprawl, there is no single definition of Smart Growth. However, most Smart Growth advocacy groups share common goals and common areas of focus. The Smart Growth Network has established a set of generally accepted Smart Growth Principles.²²

²¹ *Smart Growth is Smart Business: Boosting the Bottom Line and Community Prosperity*, National Association of Local Government Environmental Professionals and the Smart Growth Leadership Institute, pg. 5, 2004.

²² In 1996, the U.S. Environmental Protection Agency joined with several nonprofit and government organizations to form the Smart Growth Network (SGN). The Network was formed in response to increasing community concerns about the need for new ways to grow that boost the economy, protect the environment, and enhance community vitality. The Network's partners include environmental groups, historic preservation organizations, professional organizations, developers, real estate interests and local and state government entities. See <http://www.smartgrowth.org>.

Figure 4.3: Principles of Smart Growth

Principles of Smart Growth

- *Facilitate Mixed Land Uses:* Smart Growth supports the integration of mixed-land uses into communities as a critical component of achieving better places to live.
- *Take Advantage of Compact Building Design:* Smart Growth provides a means for communities to incorporate more compact building design as an alternative to conventional, land consumptive development.
- *Create a Range of Housing Opportunities and Choices:* Providing quality housing for people of all income levels is an integral component in any Smart Growth strategy.
- *Create Walkable Neighborhoods:* Walkable communities are desirable places to live, work, learn, worship and play, and therefore a key component of Smart Growth.
- *Foster Distinctive, Attractive Communities with a Strong Sense of Place:* Smart Growth encourages communities to craft a vision and set standards for development and construction which respond to community values of architectural beauty and distinctiveness, as well as expanded choices in housing and transportation
- *Preserve Open Space, Farmland, Natural Beauty and Critical Environmental Areas:* Open space preservation supports smart growth goals by bolstering local economies, preserving critical environmental areas, improving our communities quality of life, and guiding new growth into existing communities.
- *Strengthen and Direct Development Toward Existing Communities:* Smart Growth directs development toward existing communities already served by infrastructure, seeking to utilize the resources that existing neighborhoods offer, and conserve open space and irreplaceable natural resources on the urban fringe.
- *Provide A Variety of Transportation Choices:* Providing people with more choices in housing, shopping, communities, and transportation is a key aim of smart growth.
- *Make Development Decisions Predictable, Fair and Cost Effective:* For a community to be successful in implementing Smart Growth, it must be embraced by the private sector.
- *Encourage Community and Stakeholder Collaboration:* Growth can create great places to live, work and play – if it responds to a community’s own sense of how and where it wants to grow.

Source: *Smart Growth Network*, <http://www.smartgrowth.org>

DBL Funds and Smart Growth

The emergence of market-rate DBL Funds across the country in the past decade has paralleled the evolution of a smart growth policy framework in many metropolitan regions. DBL Funds fulfill many of the Smart Growth Principles outlined above as they redirect investment toward existing

urban core and inner ring suburbs. These communities have existing, underutilized infrastructure that can support industrial, commercial, and residential development at a lower cost than Greenfield locations.

By directing capital investment toward existing urban core and inner ring suburban communities, DBL Funds support regional efforts to reduce urban fringe development.

By pursuing an “urban in-fill” agenda, DBL Funds also help reduce auto dependency and the jobs-housing mismatch which arises when people are forced to live further and further from where they work in the search for affordable housing.

Increasingly, Regional DBL Investment Initiatives and Funds are a key component of metropolitan level Smart Growth frameworks. In the San Francisco Bay Area, for example, the Community Capital Investment Initiative and the Bay Area Family of Funds are one of 10 action items ratified by in the Bay Area Compact for Sustainable Communities, the Bay Area's Smart Growth framework.

III. Sustainable Development and the Three Forms of Capital (Economic, Social, and Environmental)

Sustainable development means "meeting the needs of the present without compromising the ability of future generations to meet their own needs." (This is the definition adopted by the United Nations Commission on Environment and Development.)

The concept of sustainable development was formulated originally to deal with the conflict between:

- The legitimate need for economic development by the regions of the world with a high percentage of poverty and unemployment – particularly in the Southern Hemisphere and inner cities in the Northern Hemisphere.
- The legitimate need to protect the environment from the adverse impacts of industrial development - most apparent in the Northern Hemisphere – and of the extractive industries and industrialized areas in the Southern Hemisphere.

Sustainable development seeks to resolve the dichotomy that sets job creation against the environmental protection by proposing a new model of development that seeks to produce job creation and the environmental protection. In fact this new model suggests that it is possible to have more jobs through an effective relationship with the environment.

Support for Sustainable Development

There is strong support for sustainable development because sustainable development is one of the few economic principles that can be the basis for a broad, worldwide consensus.

One of the reasons for this emerging consensus is that primary support for sustainable development comes from three widely diverse constituencies:

- The business-centered perspective – composed of business people who recognize that resource efficiency and the multi-stakeholder approach are the basis of a better, more profitable kind of business.
- The ecology-centered perspective – made up of environmentalists intent on protecting and restoring the natural environment by encouraging resource efficiency and preventing pollution and ecological disruption.
- The people-centered perspective – comprised of community development advocates seeking high quality jobs and revitalized communities through the pollution prevention industries of the 21st Century rather than the pollution intensive industries of the 20th Century.

Economic, Social, and Environmental Capital

All good business people, economists, and community activists all over the world know that businesses, economies, and communities need to live off of current income. A business, an economy, or a community that systematically lives off of its capital will eventually go bankrupt. (e.g. the family that sells its house to produce monthly living expenses, without providing for other living arrangements, will wind up homeless as will the family that burns successive pieces of its house for firewood.) This is well understood in relation to economic capital but this is just as true for social and environmental capital.

To a significant degree, the industrial economy of the 20th Century has been based on producing economic income and generating economic capital at the expense of social and environmental capital. This industrial economy has left many people economically disenfranchised and the environment damaged in many ways.

It is axiomatic that the human economy is based on the participation of people. In fact, the purpose of the human economy is to provide an economic foundation for a secure, healthy, prosperous society. An economy that systematically debilitates or destroys the people who participate in it – its social capital – will eventually destroy itself.

It is also axiomatic that the human economy exists within the natural environment that establishes the essential conditions for the survival of the human economy. A human economy that systematically destroys key aspects of the natural ecology – its environmental capital including abundant and clean air/water/soil, climate stability, biological diversity, and ecological integrity – will eventually destroy itself.

A sustainable economy that can survive over extended periods of time needs to build rather than deplete not only its economic capital but also its social and environmental capital.

This suggests that true economic progress must be linked with social equity and environmental quality.

From this perspective, sustainable development can be recognized by evaluating proposed actions on the basis of whether they produce what the US President's Council on Sustainable Development and the Bay Area Alliance for Sustainable Communities have called the "three Es" – a prosperous Economy, social Equity, and a quality Environment. The three Es are mutually reinforcing. Sustainable development is like a platform held up by these three legs. If any one of the legs is missing, the platform will fall over.

Enterprises oriented only toward financial return, one dimension of the first E of economic prosperity, have become extremely powerful. They have been the organizational vehicles of the industrial revolution, reaping its benefits. In so doing they have also caused much of the world's economic, social, and environmental dislocation, leading to the decline of essentially all living systems on Earth. However, as Paul Hawken has discussed in the Ecology of Commerce, the wealth and power of business enterprise can also play a leading role in a new economic revolution that moves the Earth away from collapse and toward sustainability and restoration.

Enterprises Moving Toward Sustainability

Of course, enterprises have to succeed financially and be profitable. That is the traditional "bottom line." However, sustainable development is based on enterprises that also recognize the importance of a Second Bottom Line – broad economic prosperity, social equity, and environmental quality. Such enterprises seek to establish positive relationships with all of their stakeholders, including: shareholders, management, workforce, customers, suppliers, the community, and the environment.

There is increasing evidence that some of the strongest enterprises are the ones that measure up along both bottom lines. Double Bottom Line profitability is being re-defined to include economic, social, and environmental factors, as well as financial factors, thereby building all three kinds of capital.

This makes good sense intuitively. Businesses ought to do better financially if they are well run fiscally, while producing a high quality product or service, treating their workers and customers well, and benefiting their communities and the environment.

Businesses ought to do less well financially if they produce poor products/services, exploit their customers and workers, do damage to their communities, and pollute the environment.

And, as will be seen in the discussion of Socially Responsible Investing below, there is significant evidence from publicly traded companies that substantiates this hypothesis and the early financial returns from DBL Private Equity Funds is also providing evidence that substantiates this hypothesis.

Note: It is being increasingly suggested that enterprises leading to sustainable development should be evaluated according to a "Triple Bottom Line" correlating one Bottom Line to each of the three Es of a prosperous Economy, social Equity, and Environmental quality. For investors and the other stakeholders in LMI domestic emerging markets, this approach can lead to confusion, because the traditional financial bottom line and economic impact are treated as the same.

However, it is clear that the economic impact of a development or an investment is not captured in the bottom line of the financial statement of the development or the Fund making the investment. For example a DBL real estate development may stimulate significant ancillary economic activity in the form of businesses locating in the development and in the surrounding area, as well as in the form of other related real estate developments in the area. However these economic impacts do not appear on the financial statement of the particular DBL real estate development or the DBL Fund that invests in it.

Therefore, the Double Bottom Line Handbook consistently refers to a Double Bottom Line, where the First Bottom Line is the traditional Bottom Line that appears on a financial statement and the Second Bottom Line includes economic, social, and environmental impact measured in terms of value of additional economic activity, jobs created, green building measures utilized, etc.

IV. Socially Responsible Investing

The concept of the "Double Bottom Line" comes originally from the field of socially responsible investing. Socially responsible investors seek to make money (the First Bottom Line) without harming and, hopefully, helping the economy, society, and the environment (the Second Bottom Line).

Socially responsible investors recognize that profits without responsibility contain hidden liabilities and costs that are eventually passed along to investors, consumers, workers, communities, and the environment.

Therefore, socially responsible investors tend to be selective investors. They avoid companies that violate environmental, worker, and product safety laws and companies that produce unsafe products such as tobacco and nuclear power. They seek to invest in companies that benefit society and the environment or, at the least, have neutral or minimal impact.

Types of Socially Responsible Investing

There are three primary types of socially responsible investing:

- Social Screening to apply economic, social, and environmental criteria in the selection of publicly traded companies.
- Shareholder advocacy whereby the owners of shares of publicly traded companies use shareholder meetings to propose shareholder resolutions directing company management to modify corporate practices so that they will have a more positive economic, social, or environmental impact.
- Community investment to encourage private equity investment to reduce poverty and promote community wealth creation in inner cities and rural poverty areas.

Two good websites that address socially responsible investing are: www.socialinvest.org and www.communityinvest.org.

Social Screens

Socially responsible investors use social screening, as a deeper form of fundamental analysis, to assess a company's performance in relation to a company's economic, social and environmental impact. Social screens function as information 'nets,' to identify companies whose policies, behavior, and products conform to clients' social objectives. The most frequently requested social screens include: environment, employee relations, tobacco, alcohol, gambling, nuclear weapons and nuclear power, quality of products and services, and community relations.

Negative screens sort out companies that have negative impacts. Conversely, positive screens identify companies that have positive impacts.

Growth of Socially Responsible Investing

Socially responsible investing is a large and rapidly growing aspect of the financial services industry. According to the Social Investment Forum, trade association for socially responsible investment professionals, 2005 Report on Socially Responsible Investing Trends in the United States, there are over \$2.29 trillion in total assets under management using one or more of the three core socially responsible investing strategies – social screening, shareholder advocacy, and community investing.

Nearly one out of every 10 dollars under professional management in the U.S. today – 9.4% of the \$24.4 trillion in total assets under management tracked in Nelson Information's Directory of Investment Managers – is involved in socially responsible investing.

Socially screened separate accounts include \$1.5 trillion in assets. Socially responsible mutual funds, with 201 funds, have assets of \$179 billion, up from \$151 billion in 2003. Over the past 10 years, mutual funds have been the fastest growing segment of socially responsible investment, with assets increasing from \$12 billion in 1995 to today's \$179 billion.

While Paul Hawken and the National Capital Institute have raised serious questions about some of the social screening practices of some socially responsible mutual funds, it is clear that a large number of investors are using mutual funds to engage their economic, social, and environmental values in their investment decisions.

A national Gallup Poll in May 2000 found that 28% of all investors had heard of socially responsible investing and 11% of all investors had made one or more socially responsible investments.

Socially Responsible Investing and Financial Return

One of the reasons that socially responsible investing is growing rapidly is that there is evidence that socially screened portfolios, using comparable portfolio management strategies, may tend to outperform non-socially screened portfolios financially. For example, since inception in 1990 through May 31, 2005, the Domini 400 Social Index has outperformed the comparable S&P 500 Index. Over that period, the Domini Index has increased 461.71% whereas the S&P 500 has increased 397.22%.

The Social Investment Forum tracks the financial performance of the 21 socially screened mutual funds that have \$100 million or more in assets. They report: "Of the 21 screened funds tracked by the Social Investment Forum, 15 received top performance marks from one or both of the tracking firms through 2003. A full 62% (33 funds) of the total universe of 53 socially screened funds tracked by Lipper and Morningstar received top marks from one or both of the firms. Over 37% of the screened funds tracked by the Forum received four or five stars from Morningstar versus 32.5% of the general mutual fund universe."

In Jeffery Hollender's book, *What Matters Most*, he quotes Lynn Sharp Payne, of the Harvard Business School who reviewed 95 academic studies of *"the relationship between corporate financial and social performance."* She says, *"Although there is much to question about these studies, it is worth noting that only 4 of the 95 studies found a negative relationship between social and financial performance. Fifty-five studies found a positive correlation between better financial performance and better social performance. Twenty-two found no relationship between the two; and 18 found a mixed relationship."*

The Social Investment Forum awarded its 2004 Moskowitz Prize to *Corporate Social and Financial Performance: A Meta Analysis*, which analyzed 52 studies and came to the conclusion that *"Across studies, Corporate Social Performance is positively correlated with Corporate Financial Performance...the relationship tends to be bi-directional and simultaneous."*

V. Community Investing

There is a substantial disparity between economically rich and poor communities. For example, in *The Double Bottom Line: Investing in California's Emerging Markets*, California State Treasurer Phillip Angelides, sketched the story of two Californias: *"Despite all its successes, California has the greatest gap between rich and poor of all but four states and the gap widened during the last decade. The level of poverty, particularly among children, remains stubbornly high.... In the 1990s, the poorest 20% in California saw their real incomes drop by 10% to just over \$12,000 per year."* The field of community investing attempts to reduce this gap between rich and poor throughout the U.S.

History

Community investing began to take shape in the late 1960s with the War on Poverty. Through the 1970s and 1980s, the field grew incrementally, typically seeking to supplement the market with relatively small funds (under \$15 million) offering investments at below-market cost to clients and below-market financial returns to investors.

Low-Income Housing Tax Credits

In 1986, the U.S. Congress passed the Low Income Housing Tax Credit, which gives States the equivalent of nearly \$5 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. According to the Low Income Housing Tax Credit Database, 22,000 projects have placed more than 1,141,000 housing units placed in service between 1987 and 2002.

Community Development Finance Institutions

In 1994, President Bill Clinton's Administration created the Community Development Finance Institution (CDFI) Fund as a bipartisan initiative to promote economic revitalization and community development through investment in and assistance to CDFIs.

According to the CDFI Fund, it promotes access to capital and local economic growth by:

- 1) Directly investing in, supporting and training CDFIs that provide loans, investments, financial services and technical assistance to underserved populations and communities.
- 2) Providing New Markets Tax Credits to community development entities, which enable them to attract investment from the private sector and reinvest these amounts in low-income communities.
- 3) Using its Bank Enterprise Award Program to offer incentives to banks to invest in their communities and in other CDFIs.
- 4) Engaging its Native Initiatives to provide financial assistance, technical assistance, and training to Native CDFIs.

Since its creation, the CDFI Fund has certified over 700 CDFIs and made \$771 million in awards to CDFI community development organizations and financial institutions, and provided allocations of New Markets Tax Credits that will attract private-sector investments totaling \$8 billion.

Scale of Community Investing and Types of Investments

According to the 2005 Report on Socially Responsible Investment Trends in the U.S., produced by the Social Investment Forum, trade association for socially responsible investment professionals, the assets in community investment institutions in the U.S. totaled \$19.6 billion, up from \$13.7 billion in 2003. The SRI Trends Report indicates that there are four primary types of Community investment options:

- 1) Community Development Banks – 54 banks holding \$10.1 billion in assets – offer the same types of services available at conventional banks, including savings and checking accounts. Like their conventional counterparts, they are federally insured. They provide capital to rebuild economically distressed communities through targeted lending and investment.
- 2) Community Development Credit Unions – with 275 credit unions holding \$5.1 billion in assets – are membership-owned and controlled nonprofit financial institutions that promote savings and provide affordable credit and retail financial services to low-income people, with special outreach to minority communities. Members receive all the services available at conventional credit unions and are covered under the National Credit Union Share Insurance Fund.
- 3) Community Development Loan Funds – with 180 funds and \$3.4 billion in assets – lend capital, often from individual and institutional social investors, often at below-market

- rates, primarily to nonprofit and for-profit housing and business developers in economically distressed urban and rural communities.
- 4) Community Development Venture Capital Funds – with over 60 funds with assets of \$870 million – use the tools of venture capital to provide equity and debt with equity features for community real estate and medium-sized business projects. Their goal is to create good jobs, entrepreneurial capacity, and wealth to improve the livelihoods of low-income individuals and the economies of distressed communities.

1% or More for Community Campaign

In 2001, The Social Investment Forum and Coop America launched the “1% or More in Community Campaign” to encourage socially responsible investments to put at least 1% of their assets into community investments. The campaign, which operates the Community Investing Center (www.communityinvest.org), has led to more than \$1billion in net new community investments.

Calvert Community Investment Notes

The Calvert Foundation created Calvert Community Investment Notes as a national intermediary to invest in community investment organizations. Using Calvert Community Investment Notes, 2,000 investors have invested \$250 million in more than 210 different community investment organizations. Investors receive between 1% and 3% financial return and the funds are loaned at a below market to the community investment organizations. Calvert Community Investment Notes have financed over 100,000 jobs for low-income individuals, 6,000 new or rehabilitated affordable homes and close to 5,000 nonprofit facilities.

Second Generation of Community Investing

While it is the case that the market will always need to be subsidized by below market community investments, many leaders in the field of community investing are now recognizing the limitations of the below market/subsidy approach of the first generation of community investments. Because below market capital and subsidies are limited and shrinking, many community investment leaders appreciate the need for a second-generation approach that increasingly attempts to guide the marketplace by utilizing large-scale market rate capital.

Opportunity Finance Network

For example, the National Community Capital Association has changed its name to the Opportunity Finance Network. With 167 member financial institutions, the Opportunity Finance Network seeks to find and finance:

"Opportunities that others overlook. We are CDFIs and other opportunity finance institutions who work just outside the margins of conventional finance to bring those markets into the economic mainstream and to help the economic mainstream flow into those markets."

Through fiscal year-end 2004, members of the Opportunity Finance Network had loaned and invested \$9.6 billion to create economic opportunities for women-owned, minority-owned, and other small businesses; quality, affordable housing; and essential community facilities and services. That financing has generated or maintained 141,000 jobs and 28,900 businesses, 317,000 housing units, and 4,700 community facility projects in urban and rural neighborhoods in all 50 states."

Community Development Venture Capital Alliance

The Community Development Venture Capital Alliance (CDVCA) is the trade association for community development venture funds. CDVCA has 100 members who have invested more than \$870 million. According to CDVCA,

"Community development venture funds are mission driven entities that invest in for profit businesses. Growth of these businesses delivers financial returns for the fund and its investors and social returns for the communities in which they are located. This focus on financial and social returns is sometimes referred to as the Double Bottom Line."

Regional Double Bottom Line Private Equity Funds

The Regional Double Bottom Line Private Equity Funds featured in this *Double Bottom Line Handbook* are leaders in this emerging second generation of community investing. They are among the largest of the second-generation funds, utilize no or little subsidy, and typically are managed by professional investment managers who manage a variety of funds and demonstrate risk-adjusted market-rates of return.

The First and Second Generations Working Together

Both the first and second generations of community investing are important. The market does not always work to address important social needs. It will always need to be supplemented with grants, below market investments, and government subsidies. However these pools of capital are inherently limited.

The second generation of community investing in general and the Regional DBL Private Equity Funds in particular, are now succeeding in guiding the market to recognize the strategic advantages of inner cities and inner ring suburban domestic emerging markets. As investors receive market-rates of financial return and communities experience poverty reduction, wealth creation, and smart growth, the vast assets of the mainstream capital markets will increasingly become engaged, bringing to bear the scale of capital necessary to address the opportunities and challenges of these unique markets.

Taken together, the first and second generations of community investing can both supplement and guide the market to assist in meeting the needs of LMI neighborhoods and the regions in which they exist.

APPENDIX A: GLOSSARY OF KEY TERMS

Area Median Income (AMI)

The median income for an area, typically a county. Often a particular census tract is compared with the area median income (AMI) to determine whether or not the census tract is a “low- and moderate-income” (LMI) neighborhood. Typically, an LMI neighborhood is a neighborhood where the median income for the census tract is at 80% or less of AMI.

Capacity Building

In the case of Double Bottom Line (DBL) Real Estate Funds, the technical assistance and management support provided to smaller local developers that do not yet have the staff capabilities of larger developers, especially with regard to creating project proformas, structuring deals, negotiating contracts, managing development, keeping high quality financial records etc.

This ‘pre-development’ work has been recognized by DBL Fund Sponsors and Fund Managers as a real need that must be met by the Fund Sponsor and Fund Manager. Best practices for Fund Sponsors now include the provision of these capacity building services to smaller local developers supported by the fees that are shared by the Fund Manager with the Fund Sponsor specifically to increase deal flow and strengthen Second Bottom Line performance.

Carried Interest

Sometimes called “the carry,” the carried interest is the Fund Manager’s incentive profit.

In the typical private equity fund, the relationship between the general partner (or managing member in an LLC) who manages the fund, and the limited partners (or investment members in the LLC) who put up the capital, is spelled out in great legal detail in the partnership agreement (or operating agreement in the LLC). This generally provides for returns on an investment to be split roughly 80% to the limited partners and 20% to the general partner, who is the Fund Manager. The carried interest, like the management fee and all other particulars of the Fund, are negotiated between the Fund Sponsor, the Lead Investors and the Fund Manager.

In the case of a DBL Fund, the initial terms are agreed to between the Fund Sponsor and the Fund Manager immediately upon the selection of the Fund Manager and they are then subject to further

negotiation as the DBL Fund is presented to potential investors. The Fund Manager only receives the carried interest after the initial investment capital has been fully paid back to the limited partners, and sometimes after a “hurdle rate” (an initial threshold profit paid to the investors before any to the Fund Manager).

In the case of a DBL Fund, the Fund Sponsor usually receives a portion of the carried interest along with the Fund Manager. A typical breakdown is 79% return to investors, 19% carried interest to the Fund Manager, and 2% carried interest to the Fund Sponsor.

Community Development Catalyst

A role that is sometimes played by the nonprofit Sponsor of a DBL Fund. A Community Development Catalyst identifies an opportunity site, brings in a developer or a development joint venture, structures or assists in structuring the deal, and assists in accessing investment capital to initiate a deal. Sometimes the Community Development Catalyst also provides technical assistance to the development, particularly if the developer is a relatively new nonprofit developer.

Debt

The loan “owed to” a lender (as opposed to equity which is an “ownership in” a development) by the real estate development. Debt financing has first recourse on the specific real estate project (senior to equity or mezzanine capital), and is thus less risky and therefore less expensive financing. Debt can typically only cover up to 65% to 75% of the project.

Double Bottom Line (DBL) Private equity Fund

A Double Bottom Line (DBL) Funds produces two bottom lines:

- The First Bottom Line is a market-rate of return for institutional investors. If the First Bottom Line is not met, there will be no Second Bottom Line. In the field of private equity investing, average is not good enough. Investors will only invest in those DBL Funds and Fund Managers that give them confidence that they will produce returns in the “upper quartile” of the asset class.
- The Second Bottom Line includes positive economic, social and environmental benefits produced by an investment, such as measurable job and wealth creation and community revitalization as determined by the nonprofit Sponsor for a DBL Fund or Family of Funds.

Double Bottom Line (DBL) Initiative

A Double Bottom Line (DBL) Initiative is driven by the recognition among business civic organizations, community development organizations, and other regional leadership groups that neighborhoods with high levels of poverty have a powerfully adverse impact on regional prosperity. This recognition has led regional leaders to establish Regional DBL Initiatives with the related goals of poverty reduction, community wealth creation, and smart growth.

Regional DBL Initiatives include the DBL Funds but go beyond them to provide a robust network of shared understanding, connections to local and regional leadership, and access to financial and non-financial resources. The DBL Initiatives surround real estate developments and/or businesses that receive investment from the DBL Funds with the full range of non-financial resources, assistance, and support needed to optimize the success of the investments.

The DBL Initiatives are also leveraging vehicles, maximizing the Second Bottom Line (the positive, economic, social, and environmental impacts of DBL Fund investment) and increasing overall financial investment from sources other than the DBL Funds in the priority neighborhoods.

Equity

“Ownership in” a real estate development, rather than a loan “owed to” a financier of a real estate development. This investment typically involves both a higher risk with a potentially higher ‘reward’ than debt/loans, as it is subordinated and shares in the profit or loss on the project. The equity requirement for most DBL Real Estate Investments is 25% to 35% of the project funding. This must be ownership equity upon which the 65% to 75% debt financing will be generated. The DBL Fund, in fact, often becomes an equity (or mezzanine capital) partner with the developer in the deal.

Fund Advisory Committee

An Advisory Committee composed of some or all of the investors in a fund. In the case of DBL Funds, this also includes a representative of the nonprofit Sponsor, which is generally recognized as a Special Limited Partner or a Special Member.

The role of the Advisory Committee is truly advisory, as all investors, as Limited Partners or Investor Members, are protected from liability by a firewall and have no formal voice in investment decisions, which are made by the Fund Manager.

Fund Champion

DBL Funds have found fundraising easier in their target jurisdictions if a leading private-sector figure (or figures) with high standing among investors agrees to become the Fund Champion and take a leadership role in fundraising.

Fund Development Team

The Fund Development Team (or Fund Building Team) is a team that takes responsibility for building the fund, typically including production of a market assessment and feasibility study, development of a Term Sheet, coordination of the search for a Fund Manager, and collaboration with the Fund Sponsor and the Fund Manager in capital raising from institutional investors and accredited individual investors.

Fund Manager

The Fund Manager is the professional team fully and solely responsible for making all investment decisions in a DBL Fund. The Fund Manager makes all investment decisions within the confines of the Partnership (LP) or Limited Liability Company (LLC) agreement, and operates behind a secure firewall that protects investors and the Fund Sponsor from liability for losses beyond the extent of each individual investment.

Fund Sponsor

The Fund Sponsor is a nonprofit business civic or community organization that sponsors a DBL Fund or Family of Funds. In DBL Funds, the Fund Sponsor typically shares in fees (and sometimes the “carried interest”) with the Fund Manager for contributing to deal flow, strengthening the Second Bottom Line profile of developments that receive investment, facilitating the interaction between developments receiving investment and the communities where they are located, and ensuring that there is a post-audit of the Second Bottom Line economic, social, and environmental benefits produced by the DBL Fund.

General Partner

The legal term for the Fund Manager when the legal form of a Limited Partnership is used to create a DBL Fund (Managing Member in an LLC).

Hurdle Rate or Preferred Return

This is the threshold return on the committed capital, which is returned to the investors (in addition to the principal, fees and expenses) before the Fund Manager receives their portion of the carried interest or profit. Typically, the hurdle rate or preferred return is 6% - 9%.

Initiative Building Team

The Initiative Building Team is the professional team that takes responsibility for assisting the nonprofit Sponsor of a DBL Initiative/Fund to prepare to play its roles in the creation and operation of a DBL Initiative/Fund, including activities directly related to the DBL Fund as well as activities involved in undertaking a variety of ancillary activities to contribute to the overall community revitalization goals of the effort.

Institutional Investors

Institutional Investors are large investors with well established standards and procedures for investing in and following investments in private equity funds. These include pension funds of all sorts, including: corporate, public, religious and Taft-Hartley union pension funds; university endowments; foundations; insurance companies; commercial banks and sometimes corporations. Each of these institutional investors has become regular and repeat investors in DBL Private Equity Funds.

Limited (Investment) Member

A Limited Member of a DBL Fund is an investor in the Fund. A Limited Member is the equivalent in a Limited Liability Company (LLC) legal form of a limited partner in the Limited Partnership legal form, sometimes called a “non-managing member.”

Lead Investors

Those early, and often relatively large, investors who by their early involvement and size often play a significant role in defining the terms of a DBL Fund.

Limited Partnership (LP) or Limited Liability Company (LLC)

Private equity Real Estate Funds are generally 10-year, limited-life Funds classically structured as either Limited Partnerships (LPs) or Limited Liability Companies (LLCs), depending on the preference of the Fund Manager and the Lead Investors (for the general purposes of this glossary, the legal differences are not material).

Table A.1 – Legal Forms – Limited Partnership or Limited Liability Company

Function	Limited Partnership (LP)	Limited Liability Company (LLC)
Fund Manager	General Partner	Managing Member
Investors	Limited Partner	Non-managing Member
Fund Sponsor	Special Limited Partner	Special Member

Investors put up capital to establish a Fund in which they share a proportional amount of the risk and return while remaining at arm’s length from the Fund Management. Legal claims are limited to the assets invested by the limited partner in the partnership, or the member’s share of the LLC. Either structure gives total freedom to the Fund Manager (within the context established by the fund's organizational documents) to make investment decisions.

Low- and Moderate-Income (LMI)

Low- and Moderate-Income (LMI) census tracts are typically defined as census tracts that have 80% or less of Area Median Income (AMI), (where the area is typically a county). Investments in LMI census tracts typically qualify commercial bank loans and investments to receive Community Reinvestment Act (CRA) credit. LMI neighborhoods (defined as 80% or less of AMI) are now widely used a standard for determining the appropriate neighborhoods in which DBL Private Equity Funds may invest.

Low-Income

Census tracts are Low-Income if the household median income is below 50% of AMI.

Low-Income Housing Tax Credit (LIHTC)

Federal tax credit to encourage the construction and development of housing that is generally affordable for families making up to 60% of AMI, adjusted for family size.

Management Fee

A small portion of the invested capital is used to cover operating costs, including management compensation. The Management Fee is a small percentage of the Fund – typically about 2%–3% – that the Fund Manager receives annually as compensation for managing the fund. However, the Management Fee, like the carried interest and all other particulars of the Term Sheet, are negotiated between the Fund Sponsor, the Investors and the Fund Manager. The initial terms are agreed upon immediately after the Fund Sponsor selects the Fund Manager, and are then subject to further negotiation as the Fund is presented to potential investors.

Medium Income

Census tracts are Medium-Income if household median income is between 80% and 120% of AMI.

Mezzanine Capital

This is a very important instrument in real estate finance, because it is a debt instrument that is structured to look like equity—thus, the name, Mezzanine Capital, because it is half way between debt and equity. If one is looking at it from the debt side, it looks like equity; if one is looking at it from the equity side, it looks like debt—and it is simultaneously parts of both, and yet not exactly either. From the standpoint of the senior bank lender on 65% to 75% of the deal, it looks like equity. From the standpoint of the Fund Manager, the Fund is protected on front-end downside as a subordinated loan that is considerably less risky than equity, and has a defined interest rate to be paid on the project in the beginning. If the project is in fact as successful as the Fund Manager expects, the Fund will then be able to convert its loan into a backend upside on the project that is just like equity.

Moderate Income

Census tracts are Moderate-Income if household median income is between 50% and 80% of AMI.

New Markets Tax Credit (NMTTC)

A relatively new federal tax credit program designed to attract investment capital to Low-Income Communities (“LICs”). The total program is expected to allocate up to \$15 billion of directed capital over seven years. Investors who participate in the program receive a federal income tax credit equal to 39% of the amount of investments they make in Community Development Entities (“CDEs”). Tax credits are taken over a seven-year period (5% in years one to three, 6% in years four to seven) beginning with the year of investment. CDEs must invest proceeds in businesses that are located in Low-Income Communities (“LICs”) within a pre-specified time period.

Organizational Expenses

These are the costs associated with organizing and developing a Fund. Primarily, these expenses are initially borne by the Fund Manager and the Fund Sponsor and are associated with the travel, accounting, marketing, consulting, and legal costs to organize the fund. Salaries and personnel costs are not counted in this amount. The organizational expenses, including the Seed Capital utilized by the Fund Sponsor to support its activities in organizing a Fund, are often reimbursed by the investors at the close, or capitalization, of a Fund.

Offering Memorandum (LLC) / Private Placement Memorandum (LP)

These documents are based on the Term Sheet, and outline in greater legal detail the private equity investment, how it is managed, what it invests in and all other relative components relative to the Fund, its management, its costs and the order in which capital is returned to investors, the Fund Sponsor and the Fund Manager. Most importantly, it is the document that clearly defines the investment opportunity for potential investors in the Fund.

Preferred Return

See Hurdle Rate.

Private Equity

A private placement ownership stake in a young, privately held company (in the case of venture capital) or in a real estate development (in the case of real estate private equity investment). The stake is “equity” or ownership, as opposed to debt. The private placement “equity” is illiquid, as opposed to easily saleable stock in a publicly traded stock market. The “takeout” that leads to future profit or loss is by means of public offering of stock or acquisition by a larger company in the case of venture capital or resale or refinancing in the case of real estate private equity.

Private Equity Fund

Private equity Funds are Funds that provide investment opportunities for institutional investors and high-net-worth individuals in an “alternative asset class” that includes seed capital, early stage venture capital, later stage venture capital, mezzanine capital and buy-out or restructuring capital for business enterprises, and private equity or mezzanine capital for real estate development.

Return

A term with many meanings, and is easily misconstrued or abused if not used precisely:

- **Deal Return:** This is the return at the real estate investment project level.
- **Fund Return:** This is the return, back to the Fund, from the proceeds from each of the individual deals (net of the expenses relative to the specific real estate projects).

- **Investor Return:** This is the true cash-on-cash return to the Investor, net of all fees, carried interest, expenses paid to the Fund Manager.

Seed Capital

A term with many meanings in different contexts. In the context of the creation of DBL Initiatives/Funds, Seed Capital is the original funding necessary to spearhead the creation of a DBL Initiative/Fund. Usually, this capital is some combination of foundation, government and corporate contributions. In many DBL funds, this capital is recovered at closing, i.e. the initial capitalization, of a Fund, and then is used to support the initial development of the Fund Sponsor and its Double Bottom Line Mission.

Smart Growth

A policy movement that has gained momentum nationally in response to the fiscal pressures precipitated by urban sprawl. Smart Growth is based on the recognition that there was underutilized infrastructure in the urban core and older suburbs that could be redeployed, and in so doing would appreciate under-appreciated real estate assets, address the increasing job-housing disparity, and employ an often-underemployed inner city workforce. This has, in turn, led to profitable in-fill, transit oriented, mixed-use and mixed-income developments, which have been capitalized by DBL Private Equity Funds.

Special Member (for an LLC), Special Limited Partner (for an LP)

In some best practice models, the Fund Sponsor is recognized in the Term Sheet and the legal documentation as a Special Member (for an LLC)/Special Limited Partner (for an LP) for the Fund Sponsor's active role in ensuring that the DBL objectives are met by the Family of Funds. This special standing is fully protected from liability by the firewall surrounding the Fund Manager, but for specific value received, the Fund Sponsor participates in a portion of the Management Fee, and possibly, the carried interest.

Term Sheet

The summary document that defines the legal framework and architecture for a Private Equity Fund within which a successful investment strategy will be implemented, and upon which the legal documentation in the Offering Memorandum (for an LLC) or the Private Placement Memorandum (for an LP) will be based. The Term Sheet will detail every legal aspect of a DBL Fund, including: the targeted communities, the investment strategy, the Second Bottom Line Criteria, the targeted projects or enterprises, the exit strategy, the expected returns, management fees, carried interest, schedule of drawdown and the respective roles and responsibilities of the Fund Manager, the Fund Sponsor and the Lead Investors. In describing these legal terms, the Term Sheet will:

- Embed the goals of the Fund in the legal Operating Agreement.
- Protect the final investment decisions of the Fund Manager behind a firewall.

- Structure the Fund to support the nonprofit Fund Sponsor with an income stream to produce measurable job and wealth creation that is then post-audited for value received.

The Term Sheet is initially negotiated between the Fund Sponsor, the Lead Investors and the Fund Manager, and is then subject to further negotiation as the Fund is presented to potential investors.

The “Three Es”

The Three Es refer to 1) a prosperous Economy, 2) social Equity, and 3) a quality Environment. The three Es contribute to mutually reinforcing sustainable development. The Three Es are a conceptual framework that has reconciled smart growth with social equity. The three Es have been used by Fund Sponsors to define the Second Bottom Line in DBL Private Equity Funds.

Workforce Housing

A relatively new term of art that provides for housing in jurisdictions for such important civil servants as policeman, fireman, school teachers and other public sector workers who are often forced to live great distances from their work site because of the lack of affordable housing for them. Workforce housing anticipates census tract household median income of 80% to 120%, and sometimes 150% of Area Median Income (AMI), as opposed to 80% or below of AMI for low- and moderate-income (LMI) housing. Flexibility is the key in determining the ground rules for Workforce Housing, and some of the most successful mixed-income projects are ones that have configured internal subsidies within the overall project to allow higher-income units to cover some of the costs of lower-income units.

APPENDIX B:

MANAGER-DRIVEN DBL FUNDS

The basic purpose of *The Double Bottom Line Handbook* is to provide an overview of best practices for Regional Sponsor-Driven Double Bottom Line (DBL) Funds. However, *The Double Bottom Line Handbook* would be incomplete without addressing the class of closely-related ‘sister’ funds that have been referred to throughout the *Handbook* as Manager-Driven DBL Funds. Manager-Driven and Sponsor-Driven DBL Funds have developed in parallel and make up the DBL Industry. Of the estimated \$6.3 billion DBL Industry, more than half – roughly \$3.6 consists of Manager-Driven DBL Funds. This compares to the roughly \$2.7 billion of Sponsor-Driven Funds that exist today or are in the process of being created.

This parallel class of Funds is created and driven or spearheaded by the Fund Manager. In contrast to Sponsor-Driven Funds, which lie at the heart of Regional DBL Initiatives, Manager-Driven Funds are created exclusively by Fund Managers and are not accountable to a nonprofit, regional Sponsor. Manager-Driven DBL Funds can be regional or national in scale. Typically, however, Manager-Driven DBL Funds that pursue a regional strategy cover a larger geography than Sponsor-Driven DBL Funds – e.g. Southern California, California as a whole, Northeastern U.S., or Mid-Atlantic region.

The foundation for Manager-Driven DBL Funds is the Fund Manager’s ability to:

- 1) Undertake projects in low- and moderate-income (LMI) communities.
- 2) Target a region or national scope for investment.
- 3) Deploy capital successfully and achieve appropriate market returns on investment.

Similarities and differences between Manager-Driven and Sponsor-Driven DBL Funds are outlined below.

Similarities between Manager-Driven and Sponsor-Driven DBL Funds

Manager-Driven and Sponsor-Driven DBL Funds share many key features regarding operations and capital deployment:

- Fund Managers are of the highest caliber, thus providing investors with the confidence they need to make investments.

- Funds invest in LMI communities.
- Revitalization of LMI communities is usually a strong focus.
- Real Estate Funds undertake housing, retail, office, industrial and mixed-use projects.
- Investors include: banks, insurance companies, pension funds, foundation endowments and high-net worth individuals.

Understanding these similarities is beneficial in that local/regional stakeholders can better determine how they might engage or utilize Manager-Driven DBL Funds for projects within their jurisdiction.

Differences between Manager-Driven and Sponsor-Driven DBL Funds

While Manager-Driven and Sponsor-Driven DBL Funds share much of the same DNA, there are also key differences:

- Manager-Driven DBL Funds are often national in scope and therefore have less ‘vested’ or long-term interest in ongoing support for other revitalization efforts needed within the local/regional stakeholders’ jurisdiction.
- There is no nonprofit Fund Sponsor involved in a Manager-Driven DBL Fund. Therefore the Fund Sponsor is not available to provide assistance with deal flow, neighborhood engagement and support, incubation of more difficult projects, strengthening of the Second Bottom Line profile of deals, and monitoring and evaluation of Second Bottom Line performance.
- Manager-Driven DBL Funds may only do one project in a particular stakeholder’s jurisdiction, as their footprint may be much larger (e.g. national).
- Manager-Driven DBL Funds with a national scope may be viewed as having greater ability to mitigate risks, from investor perspective, by avoiding regions experiencing regional economic downturn and by having a more geographically diverse portfolio.
- Manager-Driven DBL Funds are under no contractual obligation to share management fees and carried interest with a nonprofit sponsor and thereby they need not invest in or support regional stakeholders’ economic development efforts, unlike a Sponsor-Driven DBL Fund where these requirements are imbedded within the DBL Fund’s operating documents.
- Manager-Driven DBL Funds are typically (but not always) looking for projects that are larger in scale than the Sponsor-Driven DBL Funds.

Tapping into Manager-Driven DBL Funds

Manager-Driven DBL Funds can prove beneficial to regional stakeholders, even if those stakeholders are interested in or have created their own Sponsor-Driven DBL Family of Funds. Some of the ways to think about utilizing or partnering with Manager-Driven DBL Funds include:

- Some large-scale projects are too big for a Sponsor-Driven DBL Fund to take on alone. A Manager-Driven DBL Fund might be interested in being a joint-venture partner if the investment size is large enough for them to consider.
- A Manager-Driven DBL Fund may discover a project that is smaller than their optimal investment size. If a relationship is in place between the Manager-Driven DBL Fund and a Sponsor-Driven DBL Fund, they may make cross referrals.

In short, by establishing a relationship with the Manager-Driven DBL Funds in the market place there may be joint venture and cross referral opportunities that are a win-win for all parties. Since the Manager-Driven DBL Funds are often looking for projects of larger scale, the projects sought after are often not in competition with those being financed by the Sponsor-Driven DBL Funds.

Existing Manager-Driven DBL Funds

Listed below are currently identified Manager-Driven DBL Real Estate Funds and Business Investment Funds in operation or being capitalized around the country. It should be noted that it is likely that there are Manager-Driven DBL Funds that were not identified or captured in this analysis of this fast growing field. It is estimated to be at least \$3.8 billion is capitalized or under development in Manager-Driven DBL Funds.

Manager-Driven DBL Real Estate Funds: \$2.94 Billion Capitalized

FUND NAME	GEOGRAPHY	FUND SIZE
California Urban Investment Partners	California	\$750 m
Canyon Johnson Urban Funds	National	\$900 m
Urban America Fund I & II	National	\$420 m
Southern California Smart Growth Fund	Southern California	\$150 m
New Mexico Urban Initiatives Fund	New Mexico	\$ 30 m
TOTAL CAPITALIZATION		\$2.94 b

Manager-Driven DBL Real Estate Funds: \$892 Million Under Development

FUND NAME	GEOGRAPHY	FUND SIZE
California Smart Growth Fund IV	California	\$450 m
Urban Strategies America (USA) Fund I	New England and Mid-Atlantic	\$240 m
CAPITAL UNDER DEVELOPMENT		\$890 m

Manager-Driven DBL Business Finance Funds: \$842 Million Capitalized

FUND NAME	GEOGRAPHY	FUND SIZE
Yucaipa Corporate Initiatives Fund I	National	\$577 m
ICV Capital Partners Fund I	National	\$130 m
SJF Venture Fund I	Eastern United States	\$ 17 m
Pacific Community Ventures Investment Partners I & II	California	\$ 19 m
Nogales Investors Fund I, LP	National	\$ 99 m
TOTAL CAPITALIZATION		\$842 m

Manager-Driven DBL Business Finance Funds: \$50 Million Under Development

FUND NAME	GEOGRAPHY	FUND SIZE
SJF Venture Fund II	Eastern United States	\$50 m
TOTAL UNDER DEVELOPMENT		\$50 m

Profile I: Urban America Fund I and II**Fund Manager**Urban America

Urban America was founded in 1998, as a minority-controlled registered investment advisor specializing in the urban real estate investment niche. Their mission is to "*become America's pre-eminent vehicle for fiscally and socially prudent investment in urban commercial real estate*". They were the first national conduit of institutional capital into urban commercial real estate.

Total Capitalization

Urban America LP: \$120m; Urban America LP II \$200m currently (to be capitalized at \$300m)

Date Fund I capitalized

December 2005

Investors

LACERA, Deutsche Bank, Church Pension Fund, Nationwide, Washington Mutual, Wells Fargo, JP Morgan Chase, Citibank, Constellation Energy Group Pension Fund, Prudential, Capital One, Metropolitan Life, General Mills Pension Funds, PNC Bank, Fleet Bank, MBNA, Heron Foundation, AXA, Wachovia, NCB Development Corp., LACERS, Chicago Teachers and Aetna Insurance.

Types of Projects

Retail, office, mixed-use and ground up development in for-sale housing

Size of Projects

Ranging from \$10m to \$200m

Investments Size

Target for Fund II - \$15m and up

Website

<http://www.urbanamerica.com/portfolio/>

Urban America: Fund I Characteristics

Number of projects	28 projects
Locations	Washington, DC, Florida, Georgia, Maryland, Michigan, Nevada, New York, Pennsylvania
Investment range	\$4m to \$20m
Project cost range	\$15m to \$80m
Type of project	Retail and Office
Sq. footage range	6,000-540,000

Urban America: Fund II Characteristics

Equity Target	\$300m (\$200 secured, \$100m additional committed)
Number of projects	1
Location	South Daytona, Florida
Size of Project	\$180 m
Status of Funds	Urban America deployed \$120 million of equity to acquire 28 assets (3.7 million sq. feet) at a cost of \$330 million. Urban America LPII had a first closing in December 2005 of \$80m. It has committed \$39m to the Daytona development project. The fund has an additional \$100m in hard-circled investors scheduled to close in Feb-March of 2006. It anticipates a final closing of its full target equity raise by mid-2006.

PROFILE II: SJF Ventures Funds I and II**Fund Manager:**SJF Ventures

SJF Ventures finances and assists rapidly growing companies whose competitive advantage includes environmental or workforce innovation. Founded in 1999, SJF currently has \$30 million under management and is investing from its second fund, which will finalize fundraising in 2006. SJF Ventures is composed of two organizations – SJF Ventures, a venture capital fund and SJF Advisory Services, an allied nonprofit that offers workforce development, entrepreneurial assistance and sustainable business services.

Total Capitalization:

Fund I \$17 million

Fund II \$14 million (total projected fund size is \$30 million)

Investors:

Founding investors in SJF Ventures II included large institutional investors such as MBNA America, Deutsche Bank, Wachovia, Merrill Lynch Community Development Company LLC, Key Community Development Corporation, the National Community Capital Association and the Community Development Venture Capital Association as well as high net worth individuals.

Geographic Focus:

SJF Ventures has offices in Durham, NC and Philadelphia, PA and invests in the Eastern U.S.

Types of Projects:

SJF Ventures targets high growth firms particularly in the clean technology, business services and consumer products industries. Through its investment and technical services, SJF Ventures works to advance three major goals in a strategy which provides market rate returns. First SJF Ventures seeks to increase access to venture capital to under-served companies that are growing at a rapid pace and have innovative products and services. Second, SJF strives to create high quality, livable wage jobs for low-income individuals. Third, SJF seeks to grow companies that demonstrate strong environmental performance.

Size of Projects:

Initial investments of \$500K to \$1.5 million in financings up to \$7 million, preferred stock or debt with warrants. The total Fund investment in any portfolio company shall not exceed 10 percent of the Fund.

Investment Stage:

SJF Ventures focuses on expansion stage companies with revenues of \$1MM to \$20MM that are at an inflection point for rapid growth.

Financial Returns:

The projected net IRR of SJF II after all expenses is in the mid-teens.

SJF Investment Focus

Industry Focus

SJF invests in sectors in which the management team has expertise: clean technologies in large mainstream markets, technology enabled business services and consumer products.

Investments to date:

As of 12/2005, SJF has invested \$12.8 million in 20 companies. Recent investments include ED MAP Inc., a software and fulfillment company dedicated to the support of distance learning and professional training programs. Other recent investments include Preclick Corporation, a digital photo software firms, and B.B. Hobbs, a high efficiency irrigation and fertilizer systems company.

Website:

www.sjfund.com