PLACE-BASED IMPACT INVESTING (PBII)

"local capital to finance local organizations, enterprises and projects"

In framing place-based impact investments, local authorities lay the foundation through priority areas, policy, and stakeholder engagement. Municipalities can invest in local social, environmental, and infrastructure projects in multiple ways – whether through place-based investment vehicles or alternative financing tools. In this document, we explore seven vehicles, with use cases in Canada and the United States.

INVESTING SPECTRUM:

TRADITIONAL INVESTING

Seeking financial returns regardless of Environmental, Social or Governance (ESG) factors.

EXCLUSIONARY INVESTING

Screening investments (or divesting) to exclude investments that conflict with the investor's values or ESG considerations.

IMPACT INVESTING

Investing made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

PLACE-BASED IMPACT INVESTING

Investing made with the intention to generate financial returns as well as positive local impact, with a focus on addressing the needs of **specific communities** to enhance local economic resilience, prosperity and sustainable development.

Only interested in ROI → **Avoiding harm** → **Providing positive impact** → **Providing positive impact for local stakeholders**

BENEFITS & OPPORTUNITIES IN PBII:

- ✓ Brings in additional forms of capital to help support community objectives.
- ✓ Allows more responsive, targeted investment in social issues that matter most to the community.
- ✓ Helps local communities build, control their own wealth as opposed to investing in external communities.
- ✓ Not strongly correlated with the broader investment market; thus, diversifying and stabilizing portfolios.

Municipalities may opt to partner with third-party private, public, or civic organizations in achieving desired social and environmental outcomes. Keeping in mind that place-based impact investing vehicles are a tool, and not a complete solution to systemic problems.

MUNICIPAL PLACE-BASED IMPACT INVESTING | CASE STUDIES

1) SOCIAL IMPACT BONDS - Social Impact Bonds (SIBs) are partnerships between public authorities, private investors, and social-service providers with the goal of financing innovative prevention programs. It is a pay-for-performance contract wherein the government has no upfront cost and instead, repays investors (who provide the initial capital) based on how much the social impact outcomes/metrics are met. When using SIBs, municipalities must be cognizant of the potential for sample selection bias.

[Child & Family Welfare] The Sweet Dreams Supportive Living Project - Saskatoon, SK, Canada
EGADZ Saskatoon Downtown Youth Center, a non-profit community based organization, issued a 5-year SIB aimed at keeping 22 children of single parent mothers with their mothers. The program provided a supported living environment for 36 women and their families and 55 children, more than twice the initial target. Of these, 54 remained out of care of the ministry and safely with their families by the end of the program. Savings to the government were estimated between $0.54-$1.5Mn while its 2 private investors and Conexus Credit Union received the whole of their $1Mn investment back together with a 5% return on their investment.

Perhaps the most significant outcome of this project, however, is that the Government of Saskatchewan has decided to finance the scheme directly, providing $120,000 a year, so it will no longer be an SIB.

[Education & Early Years] Mother Teresa Middle School - Saskatoon, SK, Canada
In a partnership with The Mosaic Company Foundation, Mother Teresa Middle School in Regina received a $1Mn SIB for a five-year period to strengthen support offered to the school's students. The cohort is composed of 88 Grade 6 to 8 students whose probability of success has been compromised by socio-economic factors - largely First Nations or Metis. The Government of Sasketchewan (Ministries of Health, Education, and Social Services) will repay the foundation the principal plus 1.3% interest if at least 82% of the students graduate from Grade 12 on-time. If there is a 75% graduation rate, only 75% of the principal will be repaid. This SIB is expected to save the government of Saskatchewan $1.7Mn in health, social and justice costs.

2) INVESTMENT POOLS - Established by a state or local governmental entity or instrumentality that serves as a vehicle for investing public funds of participating governmental units.

[Various] Municipal Investment Pool: The London Fund - London, UK
The London Fund was launched in January 2020 as a collaboration between two local government pension schemes (LGPS) investment pools – the Local Pension Partnership Investments (LPPI) and London Collective Investment Vehicle (London CIV). LPPI is the Investment Manager and London CIV is the Alternative Investment Fund Manager. The London Fund focuses on positive social and environmental benefits for Londoners and sustainable long-term, risk-adjusted returns for pension investors. Investment opportunities focus on residential property and affordable housing, community regeneration, digital infrastructure, and clean energy. The Fund aims to deliver competitive investment returns with a target return of CPI +3% and 80% of the capital invested within London's 32 boroughs.

The London Fund is aiming to raise £300 to £500Mn over several years from individual London-based LGPS funds. In December 2020, the London Pensions Fund Authority (LPFA) provided a £100Mn commitment, followed by an individual £50Mn in March 2021. The London Fund made its first investment to support the development of new quality housing stock for London.

[Community & Economic Development] TO Supports Investment Fund - Toronto, Canada
In 2020, the City of Toronto secured $10.2Mn in direct emergency funding to community agencies serving vulnerable residents during the pandemic. The City raised the TO Supports Investment Fund from 3 sources: Phase One of the Provincial Social Services Relief Fund, the Canadian Medical Association Foundation through the Federation of Canadian Municipalities, and private donors. As of Dec. 2020, $7.6Mn has been allocated to a total of eighty community agencies and groups. Funding to Indigenous and Black-mandated agencies have been priorities.

3) IMPACT GICs - a guaranteed investment certificate is a Canadian deposit product that offers a guaranteed rate of return over a fixed period of time, issued by credit unions to support local businesses that pursue at least one of the United Nations' Sustainable Development Goals (SDGs). Impact GICs are made available to institutional investors, municipalities, and post-secondary institutions. Impact GICs typically have a tenor of 30 days to 5 years.

[Small-Medium Enterprises] Various locations, Canada
Through Impact GICs, credit unions have been able to lend money to the likes of Encompass Support Services Society (ESSS), a grassroots, non-profit agency serving its community for over 25 years. In 2020, ESSS supported 2,500+ individuals in the City of Langley, Township of Langley and Aldergrove and is expanding its services to include primary care, mental health care, substance use, sexual health care, family and youth peer support, etc. Likewise, through GICs, Toronto's Neighbourhood Land Trust was able to acquire a 15-unit rooming house in Parkdale, now permanently preserved as affordable rental housing for low-income community members.

4) MUNICIPAL / COMMUNITY BONDS - Municipal bonds (sometimes referred to as Community Bonds) are those issued by municipalities to raise a portion of their debt financing for the construction of roads, green infrastructure, renewable energy, clean transportation, wastewater management, and other projects to address community challenges. Municipalities pay a specified amount of interest and return the principal to the investor/s on a specific maturity date. Includes, but is not limited to: green bonds, sustainability bonds, social bonds, tax increment financing bonds or community revitalization levies.

[Energy Efficiency & Clean Energy] Green Bond - Toronto, Ontario
On December 2021, the City of Toronto issued its fourth green bond - a 10-year, $150Mn issuance at 2.2% interest. Its purpose is to help finance key capital projects such as the Dufferin Organics Processing Facility which processes some of Toronto's organic waste into renewable natural gas, energy efficiency retrofits in Toronto Community Housing Corporation buildings, the purchase of electric buses as part of the Toronto Transit Commission's Green Fleet Plan, and waterfront revitalization.

[Infrastructure] Community Revitalization Levy - Cochrane, Alberta
The Community Revitalization Levy (CRL) allows municipalities to borrow against future tax revenues (i.e. property tax) to help pay for infrastructure such as new roads, wastewater system upgrades or new buildings that attract new investments, effectively increasing property values. As the area is revitalized, the larger tax base benefits all taxpayers. Levies typically have a 20-year term, but may be longer or shorter.

In 2012, Cochrane used a CRL to retain approximately $13Mn from the province to be used for capital improvements to the municipality's 23-hectare downtown quarry area. The municipality captures the education portion of the property tax bill, and redirects it to the remediation. In recognition of the CRL's success, the town received an award for Excellence in Government Finance from the Government Finance Officers Association (GFOA) of Canada and the US in 2013.

[Infrastructure] Community Revitalization Levy - Calgary, Alberta
In 2007, the City of Calgary decided to utilize a CRL to redesign and rebuild the Rivers District. The CRL allows The City, for a 20-year period, to allocate a portion of the property tax revenue generated from The Rivers District properties and directly invest it into infrastructure improvements within the area. The Calgary Municipal Land Corporation (CMLC), a subsidiary of the City of Calgary, has committed approximately $396Mn to the infrastructure and development programs. Reports suggest that this investment has "attracted nearly $3Bn of planned development and residential property assessments in the Rivers District have increased from $328Mn to approximately $1.2Bn, while non-residential assessments have gone from $647Mn and $1.8Bn."

[Environmental & Social] Sustainability Bond - Vancouver, B.C.
In November 2021, the City of Vancouver issued its first sustainability bond of $100Mn approved in the 2019-2022 Capital Plan maturing in 2031, with a coupon rate of 2.3%. The bond funds environmentally and socially sustainable initiatives and projects. During the year, the City repaid $140.8Mn of debt and amortized $0.6Mn of debt premiums resulting in a total outstanding debt of $1,013.2Mn. At the end of 2021, the City has sinking fund debt reserves of $423.2Mn for future repayments.

5) COMMUNITY TRUSTS - Community Trusts are democratic, non-profit organizations that own and develop assets such as land, for the benefit of the community. One of the most common applications are Housing Trusts or Community Land Trusts (CLTs) which are used to provide affordable access to land and housing for community residents.

"One of the most unusual things about a CLT is that it can separate the ownership of land from the ownership of the buildings on that land. This separation of land and building allows homeowners and businesses to have control and security as owners, while the community has a backstop to ensure that when the land changes hands it stays affordable and in community-serving uses." (Acel-Lute, 2021)

Local government roles include, but are not limited to: providing, subsidizing, or leasing real estate property, providing debt financing, grants and subsidies for project license/s and/or operational support.

[Affordable Housing] Toronto Community Housing Corporation - Ontario, Canada

The Toronto Community Housing Corporation (TCHC) was the largest social housing provider in Canada and the second largest in North America with more than 60K rental units and 2.1K buildings across Toronto. The City of Toronto adopted the Toronto Community Housing Trust in 2016 as the sole shareholder with a portfolio of $10Bn of public assets. In 2021, the City of Toronto transferred the portfolio to two non-profits, the Circle Community LandTrust and the Neighbourhood Land Trust to ensure the continuation of social and affordable housing across the city's boroughs. TCHC found affordable housing could be better maintained and tenant-focused by non-profits, and now funding is primarily from rental income via tenants, and transitional funding from the City of Toronto.

[Affordable Housing] CRD Regional Housing Trust Fund (RHTF) - Vancouver Island, Canada

The Capital Region Housing Corporation (CRHC) provides 1,893 units of affordable housing, and the CRD Regional Housing Trust Fund provided over $11.8Mn to help build 959 affordable rental housing units. The CRD initiated Regional Housing First Program partnered with the CRD, the Province via BC Housing, and the Government of Canada through Canada Mortgage and Housing Corporation, to commit $120Mn to create up to 2,000 affordable housing units, including 20% of units renting at the provincial income assistance rate. According to the CRD website, "The RHTF has significantly increased the Capital Region's ability to raise funds for affordable housing, by raising an ongoing equity stake that can be used to leverage additional funds, primarily from senior levels of government and the private sector."

[Social Equity & Financial Education] Community Investment Trust (CIT) by Mercy Corps - Oregon, USA

The CIT is a low-dollar, loss protected investment opportunity for 300-500 residents in East Portland. For $10-$100/month, investors build collective equity in a thriving and diverse commercial retail mall. Investors will purchase, over time, the initial equity, provided as debt to purchase and improve the property by a humanitarian organization called Mercy Corps, and two impact investors. Investors complete an investor education course offered in 5 languages and are given access to a management portal, protection from loss through a letter of credit from a local community bank, annual dividends, and share prices that move with the property value. In designing the CIT, project leaders applied a human-centered design approach and a behavioral economics lens.

In just over 2 years since its launch, the CIT has paid out annual dividends in the 9% range and the share price has increased from $10 in late 2017 to $15.87 in 2020. The CIT is a proprietary investment vehicle created by Mercy Corps, built for replication by other organizations.

CREDIT-ENHANCEMENT TOOLS:

6) LOAN LOSS RESERVES - A Loan Loss Reserve (LLR) is a credit enhancement approach commonly used by local governments to provide partial risk coverage to banks or private lenders—meaning that the reserve will cover a pre-specified amount of loan losses. This benefits underserved borrowers by reducing the risk for community-based financial institutions.

To set up an LLR, the local government, with its partner lender/s determines the proportion of the loan portfolio size (total principal amount of loans) that the LLR can support. This is typically calculated as a percentage or as a leverage ratio. For example, a $500K LLR for a $10Mn portfolio would be a 5% LLR with a 20:1 leverage ratio. The higher the leverage ratio, the lower the protection for the lender. Markets with borrowers that have low credit scores may need higher LLRs.

LLRs do not usually cover 100% of loan losses as the lender maintains its own reserves. This incentivizes the lender to maintain prudent lending practices and collection procedures.

[Energy Efficiency] Loan Loss Reserve Program - Connecticut, USA
Connecticut Green Bank (CTGB) created an LLR for its Smart-E Loans, a low-interest, unsecured personal loan for residential energy efficiency retrofits. Smart E-Loans typically have a term of 5 to 12 years with loan amounts ranging from $500-$40,000. The LLR is available for participating local lenders who agree to offer better terms (such as longer terms and interest rates that do not exceed a certain amount). In case of default, the lender takes first losses with the CTGB absorbing losses only after a predetermined threshold. Rather than lend directly to homeowners, the Connecticut Green Bank seeks to stimulate more activity and understanding about retail lenders in Connecticut.

[Clean Energy] Loan Loss Reserve Program - New York City, USA
The New York State Energy Research and Development Authority (NYSERDA) implemented a Loan Loss Reserve Program to expand equitable access to clean energy among its communities by supporting lenders that fund solar, heat pumps, and electric vehicles. The State covers a portion of the losses on defaulted loans, at no cost to the lender. With lowered risk, the lenders are more able to attract new customers, reach underserved borrowers with new products, extended terms, lower interest rates, or bigger loans.

7) LOAN GUARANTEES - Under a Loan Guarantee, the local government guarantees repayment of a loan to a lender in the event the borrower is unable to pay the loan itself. A loan guarantee is expected to improve access to financing, as well as, make financing more affordable due to the lower repayment risk.

[Arts & Culture] Loan Guarantee - Toronto, Ontario
In 2022, the Toronto City council approved a loan guarantee of up to $2.2M to Hugh's Room Live, a non-profit arts organization. At a time when multiple live music venues are closing permanently, the guarantee will aid the non-profit in its lending arrangements for the purchase and renovation of a property to be turned into a music and cultural-oriented community centre.

POLICY & GOVERNANCE CONSIDERATIONS

"Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- *securities of the Municipal Finance Authority;*
- *pooled investment funds under section 16 of the Municipal Finance Authority Act;*
- *securities of Canada or of a province;*
- *securities guaranteed for principal and interest by Canada or by a province;*
- *securities of a municipality, regional district or greater board;*
- *investments guaranteed by a chartered bank;*
- *deposits in a savings institution, or non-equity or membership shares of a credit union;*
- *other investments specifically authorized under this or another Act."*

BC Community Charter, Part 6, Division 3, Section 183 - Investment of Municipal Funds

STRATEGIC PRIORITIES FOR LOCAL GOVERNMENTS ON VANCOUVER ISLAND

as noted in municipal annual plans for the 2018 - 2022 council terms

COMMUNITY WELL-BEING & RESILIENCE

23 MUNICIPALITIES

ENVIRONMENTAL SUSTAINABILITY & CLIMATE CHANGE

20 MUNICIPALITIES

ECONOMIC GROWTH & DEVELOPMENT

18 MUNICIPALITIES

LIVEABILITY & QUALITY OF LIFE

14 MUNICIPALITIES

AFFORDABLE HOUSING

13 MUNICIPALITIES

"Municipalities and Regional Districts must balance investment risk against potential investment returns within the requirements of the Community Charter, while still meeting the daily cash flow demands of the local government."

- BC Provincial Government

EVALUATING OPTIONS:

While many opportunities for impact investing exist, municipalities need to consider the following factors before making a decision on choice of investment vehicle.

Objective: Each vehicle has its own advantages and disadvantages when it comes to target outcomes and financial returns. While most have applications in capital/infrastructure projects, Social Impact Bonds are best-suited for social investments.

Investment Horizon or Timeframe: Impact GICs are ideal for short to medium term investing, other investment vehicles typically require patient capital.

Other considerations:

1. Risk to investors/lenders and borrowers
2. Capacity (time, knowledge and experience)
3. Ease of securing financing
4. Complexity
5. Source/s of capital
6. Source of Repayment
7. Number of parties
8. Tax Implications

PERCEIVED BARRIERS:

- **Policy restrictions** - government and legal requirements laid out in BC Community Charter favour conservative investment options and MFA securities & investment funds.
- **Risk appetite** - current local government investments are swayed toward "fiscally-conservative" options.
- **Lack of awareness** and understanding of vehicles, also related to:
  - Lack of standardized definitions
  - Difficulties in measuring outcomes
  - Evolving climate science
- **Fears of conflicts of interest** make municipalities and public fund managers wary of being accused of project bias and undermining their fiduciary responsibility.
- **Change in local government leadership** - with the 2022 election cycle approaching, it is hard to ensure that new leadership will have the same priorities as their predecessors. This could turn into an opportunity for TIF, but research and relationship development will have to be undertaken with newly-elected council members.
- **Traditional mindsets** wherein investors tend to default to global capital markets instead of place-based options which could potentially deliver comparable returns and diversification while addressing the needs of local communities.
- **Capacity constraints** and having the time, expertise and skills to source and carry out due diligence on PBII opportunities are the most limiting factors to scaling up these types of investments. Many municipalities do not have the current capacity to deviate away from investing solely with the MFA.