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TAPPING NEW SOURCES AND EXPLORING NEW MODELS FOR COMMUNITY DEVELOPMENT FINANCE

Summary of Conference Proceedings

November 10, 2010

Federal Reserve Bank of St. Louis

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CONTENTS

Tapping New Sources and Exploring New Models for Community Development Finance

*NOTE: This booklet contains executive summaries of the videoconference key speakers. A full summary and videotaped version of the videoconference can be found online at www.stlouisfed.org/community_development.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Dione Alexander—Executive Summary

BIO:

Dione Alexander is vice president of Nonprofit Finance Fund (NFF), Midwest region. NFF is a community development financial institution that has lent more than $200 million. She is responsible for managing and overseeing financial and advisory services throughout the Midwest, and for marketing and fund development activities. Prior to joining NFF, Alexander spent six years as a department executive with the charter county of Wayne, Mich., where she managed economic development and government finance. She also spent 10 years at Comerica Bank as vice president of commercial lending. Additionally, Alexander has served as a business consultant under contract with the U.S. Department of Commerce, the U.S. Department of Defense and Eastern Michigan University. Alexander received a B.S. in business administration from the School of Business and Industry at Florida A&M University and is an alumna of the Graduate School of Banking at Louisiana State University. She has served on various nonprofit boards.

SUMMARY:
We are currently in the "second life" of community development finance. Organizations must move from project financing to platform financing in order to grow and take advantage of leveraging opportunities. In the past, the success of a project had no true correlation to the success of the organization. There was no way for nonprofit organizations to redeploy or leverage assets to the next opportunity, because all resources were tied to individual projects. Stringing together unrelated projects does not make nonprofits stronger. They need to move to a systemic framework that looks like master planning. A forward-thinking nonprofit should ask, "What is the opportunity that we're trying to address?" rather than simply attempting to finance one project at a time. Project financing is a problem; system financing is an opportunity.

Securitization of assets is not bad! The problem is that it's been done poorly; organizations' pride of ownership makes them unwilling to take assets off the books. But they should be leveraged—liquidate seasoned assets, or securitize and monetize them to fund future projects. Packaging assets, swapping between organizations, buying participation from others, selling assets—all of this makes an organization stronger.

Tax credits are neither good nor bad. Although they have largely been good for the industry, they are not sustainable and are subject to political will. The model must be redefined—look at other models of government investment with less limited life. We need more direct investment.

There is a myth that "scale" has to get larger; in reality it has more to do with the repeatability of a project string. Can it be replicated? How do you replicate (not repeat) good projects? Sometimes organizations can't get up to scale because they do not have the necessary equity. "Buy capital" is the regular revenue from operations, a buy of services; it is recurring and repetitive, requiring organizations to do the same thing over and over again. It funds programs but not a shift in strategy. "Build capital," on the other hand, funds an organization's platform for growth. It is designed for sustainability, to leverage opportunities in the long term. It is transformative, a game changer.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Dione Alexander—Executive Summary

"Philanthropic equity" is a new funding model that creates growth capital for nonprofits. It is designed for "builders," not "buyers," allowing nonprofits to create diversified income streams rather than continuing their reliance on old-model grants and contributions. It is designed and structured similar to an IPO; those investing in an organization can see how their contribution is being leveraged.

Organizations need to become collaborative. We've believed for years that the pie is infinitely small. But the truth is that the pie is large, and we have simply sliced it small. We need to begin to think globally, create new partners. Look for alignment on some things with groups you didn't think agreed with you at all. While you may not be completely in tune, you may well be aligned on some discrete projects. And alignment may come on funding rather than ideology.

Be mindful that funding is difficult work. Our return on capital is largely human. We need creative thinking on how to get funded for sustainability.

KEY TAKEAWAYS:

- Organizations must move from "project financing" to "platform financing" for growth and leveraging opportunities. Currently, we are unable to redeploy or shift gears once an individual project is completed because all of our resources are tied to that project.
- Stringing together unrelated projects does not make an organization stronger.
- Nonprofits must move to a systemic framework that looks like master planning.
- Securitization of assets is not bad; the problem is when it's done poorly. Organizations must relinquish pride of ownership in assets; need to move them off the books—securitize, monetize, liquidate them and use the funds for future projects.
- Tax credits are neither good nor bad. They have been very helpful in our industry, but this is not a sustainable model; it has to be redefined.
- Scale does not necessarily have to do with getting larger. It has more to do with the repeatability of a product string. You can't continue doing the same things and expecting different results. Organizations need equity to grow business to scale.
- "Buy capital" is revenue from a buy of services; it requires organizations to be repetitive. "Build capital" is periodic, for a purpose. It allows organizations to leverage opportunities in the long term. It is transformative.
- Philanthropic equity is a new funding model for builders; it allows organizations to focus on growth and sustainability.
- Nonprofits need to be collaborative and strategize around finance. New partners and financial sources may be global and may have seemed to be in opposition to you. They may not be completely aligned, but you may be able to collaborate on some discrete projects.
- The pie is NOT infinitely small. It is actually quite large, but we've been slicing it small.
- Funding will always be difficult. Be creative and think broadly about all the ways to get the resources you need.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Dione Alexander—Executive Summary

MEMORABLE QUOTES:

"It's not about how clever we are about the numbers. The end goal of all the work we do has a person attached to it. You're not playing with a balance sheet; you're affecting someone's life."

"We have to be very mindful in our work, that it really is—at the end of the day—'How do we make healthy, holistic, better communities, block by block, person by person?'"

"Business school training doesn't give all the answers. The answers for how communities get better are invested in the people that live there, that wake up every day saying, 'How am I going to get my child to school?' 'Is the school going to be a quality place?' 'Are there going to be fresh groceries on my corner?' 'Are we going to have appropriate banking services?' 'Will I live in a place that I can be proud of?'"

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Ian Galloway—Executive Summary

BIO:

Ian Galloway is an investment associate at the Federal Reserve Bank of San Francisco. His primary responsibilities are with the Center for Community Development Investments, and he assists with the publication of the *Community Development Investment Review* and the center's working paper series. In 2009, Galloway authored "Peer-to-Peer Lending and Community Development Finance." He has previous experience in management consulting, community development finance and social enterprise development. Galloway holds a master's degree in public policy from the University of Chicago and a bachelor's degree in political science and philosophy from Colgate University.

SUMMARY:

In today's world, we collect a lot of information. And we need to find better ways to communicate this information to the public. Technology can help.

One example is to create a community development finance/CDFI app for smart phones that could alert individuals to projects in the community, creating branding and increasing awareness of the community development industry as a whole.

Another possible use of this app would be as a conduit for "citizen journalism." Individuals could use it to commit money to the rehab of specific properties in their community. Which leads to another benefit of technology—the frictionless transfer of money.

Transaction costs of investing and transferring money have decreased so much that it has enabled citizen participation in community development projects that was never possible before. Kiva is a great example of this, creating a platform that connects individual investors in the developed world to individual entrepreneurs in the developing world. Just a few years ago, the transaction cost of contributing a small amount of money to someone in another country would have exceeded the benefit. But technology has changed those economics and made this type of investment possible.

This is more broadly called peer-to-peer lending; its basic concept is simple. Borrowers post their loan request on a peer-to-peer lending site, providing basic financial and personal information as well as the purpose of the loan. Then individual lenders ("investors") underwrite the loan request. If the loan is funded, investors receive a pro-rata share of the principal and interest payments over the life of the loan.

Peer-to-peer lending can benefit domestic borrowers, too, and Kiva has moved into this market. Their business model works by investors recapitalizing a microfinance institution that has already made the loans—a little less compelling than lending directly to the borrowers, but the reality of how this type of lending works. In the U.S., CDFIs could take on that intermediary microfinance role, continuing their current lending with individuals helping to recapitalize them so they can continue to lend in the future.

There are some challenges for CDFIs in using this technology, including:

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Ian Galloway—Executive Summary

1. Loan size and terms—CDFI loans are usually for real estate; peer-to-peer loans are generally consumer loans capped at $25,000. A platform is required that can solicit individual investment sufficient to help fund a larger loan.
2. Regulatory issues—Peer-to-peer lending is not regulated as lending but as securities trading—a significant impediment to the growth of this industry. The GAO will study the regulatory framework of peer-to-peer lending and produce a report in the first quarter of 2011, providing suggestions on overcoming some of those issues.
3. Investor sophistication—While peer-to-peer lending allows individuals to participate in loans, there is a downside—people participating in deals that they don't understand and making poor financial decisions. A sophistication threshold should be established.
4. Fraud/potential for fraud—There is no way to verify the data provided on peer-to-peer sites, to know whether individuals or even CDFIs are legitimate. This issue needs to be addressed.
5. Lack of knowledge—Many people don't know what community development finance is or what a CDFI does, making it difficult for CDFIs to shift their focus from institutional investors to individual investors to tap this new source of capital.
6. Inability to sell community development securities on these sites—CDFIs are currently prohibited by the FCC from selling loans on a peer-to-peer lending site. So if they want to get a loan off their balance sheet, they can't.

According to a recent study, there is $120 billion of untapped individual impact investor capital available. The problems with accessing it are transaction costs and providing access to information—individuals want to know about the impact of their loans and how their money is used. Technology can definitely help provide that information.

KEY TAKEAWAYS:

- The International Data Corporation estimates creation of 1,250 exabytes of new digital information in 2010—enough to fill 7.8 billion iPods.
- Collecting data is one thing; communicating it to the public is entirely another. CDFIs do a good job of collecting information, but it is usually unavailable to the public, shared only in an organization's annual report.
- We need to share information. Technology has improved access to information and provides for frictionless transfer of money.
- Because of technological advances, we have the opportunity to tap into a huge amount of money from individuals—according to one study, $120 billion.
- Technology can be used to bring new capital to the field, especially via peer-to-peer lending (e.g., Kiva platform).
- Challenges to CDFIs using peer-to-peer technology include loan size and terms, regulatory issues, investor sophistication, potential for fraud, lack of knowledge of CDFIs by the public and FCC restrictions.
- Technology is radically democratic. It returns community development to its roots, back to community organizing, allowing individuals to invest in their own communities and have an ownership stake in the outcome.

MEMORABLE QUOTES:

"Transaction costs of investing and transferring money have gone down so much that you can see citizen participation in community development projects that was never possible before....Imagine the cost 20 years ago, or even ten years ago, of contributing

Ian Galloway—Executive Summary

$25 to a potter's business in Kenya from the U.S. The cost of just getting that transaction done would exceed the benefit. But technology has changed the economics and allowed people to participate in these types of projects in a way that was never possible before."

"We don't have to go international to find worthy projects that individuals in the U.S. would be interested in funding."

"Peer-to-peer lending is not regulated as lending; it's regulated as securities trading. And that is a totally different animal from a regulatory standpoint. It's been a significant impediment to growth of this industry as a whole and it will be an impediment to CDFIs moving into this industry, despite the compelling story that we all have for doing so."

"According to a recent study, there is $120 billion of untapped individual impact investor capital out there, the vast majority of which could be re-routed to the CDFI industry. Even if we got a tiny slice of that, it would be a game changer."

"Technology allows individuals in their own communities to invest in themselves in a way that was never possible before."

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Trinita Logue—Executive Summary

BIO:

Trinita Logue is the founding president and CEO of IFF (formerly Illinois Facilities Fund). A nonprofit community development financial institution with assets close to $200 million, IFF provides real estate finance, development and consulting to nonprofits in Illinois, Indiana, Iowa, Missouri and Wisconsin. Logue serves as a director of First Nonprofit Trust Cos., a member of Northwestern University's Kellogg School of Management Public and Nonprofit Advisory Committee, a director and member of the executive committee of the Donors Forum of Chicago, a member of the Attorney General's Charitable Advisory Committee, a member of the Governor's Early Learning Council and a member of The Chicago Network. In past roles, Logue was assistant director, Chicago Community Trust; director of the City of Chicago's North Loop Theater District Project; and executive director, Arts Council of Jacksonville, Fla.

SUMMARY:

Similar to other industries, CDFIs are very different from each other. They are established and grow up around particular needs and opportunities, but should respond to other things as communities and needs change. People should push CDFIs to be innovative and try new things to expand their impact.

IFF works in the human services sector broadly (charter schools, affordable housing, YMCAs, services for the mentally ill, domestic violence, child abuse programs). Most IFF borrowers work on a human services revenue model; they are facilities- and labor-intensive, and their highest costs are people and space. While technology and new service models have reduced the scale of real estate holdings in the human services sector, the need for real estate, facilities, vehicles and equipment will never go away. It is an endless market.

Recent state budget crises have reduced funding for services and therefore revenues for nonprofits that

provide those services. Some cases are more extreme than others; each state is different. Many current projects are not major growth projects; they're small. Nonprofit executives are smart and most of them today are cautious about expansion—not because there's no demand for their services, but because of the economy. Many executives have faced up to the realities of the recession.

While nonprofit corporations are collaborating more, figuring out how to help each other, their executives have become hardened to social policy changes, ruthless about planning for budget cuts so they can act quickly when necessary—staff cuts, refinance/sell property, use endowment funds more strategically, close programs more quickly, and use finance more strategically in every possible way.

More and more often, executives are involved in advocacy as a core component of their work. They track and participate in legislative efforts and in educating leaders. They think about politics and funding when they build their board of directors, working to get the "right" members and demanding more from the board.

Technology is central to the work of all nonprofits, resulting in better research and data collection, easy analysis of trends, and better loan proposals and annual reports.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Trinita Logue—Executive Summary

CDFIs (including banks, credit unions and other financing entities) are now part of the continuum of financial services for community development. They are able to do their work because of incentives for conventional banks to invest in them, usually through subsidized capital, which they also get from government and foundations. And President Obama included additional lending funds for CDFIs in his proposed budget.

CDFI lending is up as banks contract due to falling real estate values. National banks are investing in CDFIs more than ever, and regional and local banks are acting customer by customer. Nonprofit executives are looking at all of these funding opportunities.

A new challenge is a conflict between federal programs and policies, and state funding and policies. Billions of dollars will be coming from Washington for health centers, charter schools, small business lending, transit-oriented development, energy conservation projects, healthy foods in food deserts, child care centers and Promise neighborhoods. These are great opportunities for CDFIs and nonprofits.

Conventional financing will always be important in community development, but different parts of the continuum require different financing. The CDFI industry is ready to meet those needs, but more of them operating on a sustainable level are needed.

KEY TAKEAWAYS:

- CDFI financing is used in many ways; they need to be pushed to do different types of business that can expand their impact.
- IFF works in the human services sector; their borrowers work on a human services revenue model and are facilities- and labor-intensive.
- Technology has changed some things in the human services sector, but not the nature of the businesses funded by IFF—it's an endless market and an endless market gap.
- There is very high demand for funding, but not for major growth projects—lots of small projects.
- Nonprofit executives have faced up to the realities of the recession and are cautious about expansion because of the economy. They are becoming more business-savvy and sophisticated. Data and performance analysis are regular parts of their jobs.
- Nonprofit executives are getting some things right. They:
    - perform more advocacy as a core part of their work;
    - track and participate in legislative issues;
    - work on getting the "right" board members, those who can affect policy;
    - are collaborating more than ever before;
    - have become hardened to social policy changes and act quickly when necessary.
- The strongest nonprofits plan, act quickly when trouble comes and use funds strategically.
- Small banks and credit unions can be CDFIs.
- CDFI funding is up; they get subsidized capital from banks and government, and major banks are making more and larger investments in CDFIs.
- Nonprofit executives are shopping around to check out all available funding opportunities. They don't just go to their "regular" funder.
- Washington policy agendas are in conflict with policy agendas in many states.
- State economies are not supporting operations as in the past due to budget pressures.
- CDFIs need to grow. New opportunities provided by the current administration may change over the next few years, and there will be more state-based tax cuts.

Tapping New Sources and Exploring New Models for Community Development Finance

NOVEMBER 10, 2010

Trinita Logue—Executive Summary

- Billions of dollars will be coming from Washington for community health centers. There will also be growth in:
    - Charter schools
    - Transit-oriented development with an emphasis on disinvested communities
    - Energy conservation projects
    - Healthy foods for food deserts
    - Child care centers
    - Promise neighborhoods
- We all share the responsibility for getting needed community development work done.
- There will probably be more state-based tax cuts and program cuts, but there are many movements that will not be repressed.

MEMORABLE QUOTES:

"There are so many challenges confronting state and local governments these days, and there's excess housing, surplus school buildings, state institutions closing….We want to be present while these things are being figured out. And we want to try to direct the allocation of resources that have already been paid for once by public dollars back to maximum public benefit."

"Together we have all strengthened each other. This is what is meant by community."

"The CDFI model is not a corporate definition. It's a mission definition of using finance to do community development."

What are attendees saying?

Can you talk a little more about how to structure philanthropic equity?

"The average size of a foundation program grant is actually relatively small. It's generally a year-long grant under $60,000. That's really not enough to seed a capital deployment strategy. So, we're looking at going to high-bulk individuals and foundations that want to invest on a large scale. That's usually something with a few more zeroes behind it. That money does not come from their program grant side; it usually comes from their investment side in the form of either PRI (program-related investment), social impact investing and mission-related investing (it's got a lot of names). We then work with you to structure a prospectus about how you will use those funds and leverage them to get that annual compound growth number that we talked about and that leveraging factor. What does the business or enterprise model look like that allows you to deploy those funds, leverage them, and return them in an investment model? Very different from a loan model where there's no return implied. In those cases I've given principal and interest, but from an investment model. So we work with you to develop the methodology to scale the organization. We will work with your funders or help you go out and find some investors who are willing to invest in that model. Some names that you might recognize that we've worked with include Global Giving, Donors Choose, Root Capital, Vision Spring, Yes Prep, the College Summit and Project Help. (We do have a report that we just published on our philanthropic equity program, which can be found online or through the resources at the Fed.) These are organizations that said, 'We have a model that we believe we can scale and replicate.' They were either taking it statewide to other states, or investing in new ways of delivering those services, which required some level of equity. And what does equity buy? It buys you staffing in a service business. We tend to wait for the opportunity and staff up. In an investment model, you have to staff up while the opportunity's coming. You can't wait and say, 'How will this look and who will we staff?' So, it buys you staffing, it buys you technology, it buys you a facility (if you need it) for the purpose of leveraging not just your regular facility for administration. In the case of Yes Prep, they were moving to campuses in different states using the very successful model that they had already built upon in Texas. So the equity piece allows you to grow into the revenue model just like equity for any for-profit business. And that often comes from philanthropy—high-net-worth individuals who want to do something different than a loan, want to do something different than the program grant, want to see real returns, and want to be closely associated with the outcome." *(Alexander)*

With the current recession, we know there are few good alternatives to trying to get higher net return on your investment. So peer-to-peer lending may be an option. What do you think is the long-term picture for peer-to-peer lending?

Peer-to-peer lending today is actually a pretty attractive investment opportunity in a lot of ways. If you visit prosper.com, for example (they're the leading for-profit peer-to-peer lending site on the internet), you can invest in loans and earn a return in excess of 20 percent on your investment. Now that's going to be a risky investment for sure, and certainly not an alternative to investing in a CD or in a low-yield savings account. But if you are interested in investing and earning a higher return than is otherwise available in the market, peer-to-peer certainly provides that opportunity. Keep in mind, though, that all the things I mentioned before still apply in terms of the potential for fraud. And I can't emphasize enough that there's a social component to this that is attractive to a lot of people, but be leery. Don't make these investments lightly. You can lose your money doing this just like you can doing anything else. Just because somebody puts up a cute picture up of their family or dog and has a compelling story, that's not an adequate substitute for creditworthiness. So, that's just a word of caution. In terms of the long-term viability of the industry, I think a lot of that comes down to the regulatory environment and whether or not there is a shift. Right now I'm not sure that the industry is sustainable if it's regulated as a securities trading business. For me, that's the biggest constraint to growth. But I think that the concept is right. It sort of takes us back to an original conception of lending, which is face-to-face. You go into your local bank or your local credit provider, you make a case for why they should make a loan to you, and they underwrite you. We've gotten away from that. We've gotten much more into an algorithm-based, risk modeling-based lending system that tends to leave some people out because they don't fit the profile that the algorithm has produced for them. Peer-to-peer returns us to our lending roots and allows some people—who otherwise wouldn't be able to by going to conventional sources—re-enter the market and get credit." *(Galloway)*

Our nonprofit has an economic development mission to grow the life science industry in Memphis. We have projects with good business plans, some capital and tax credits. But lenders will only do credit enhancements or guarantees for loans, and real estate doesn't seem to be considered as good collateral anymore. Any ideas about how we can find credit enhancements for loans?

"I'm going to go back to your foundation partners for a moment, and ask you to reconsider, understanding the kinds of capital you need and how to ask for it. That is a place where communities can get together with their local banking partners and put together credit enhancement pools that actually strengthen the loan request and act as incentives. Those are places where foundations can be largely helpful because it's 'one to the many' and not 'one to one' of putting together enhancement pools. That is a place that you can do some advocacy at your state level on credit enhancement. This is a different way to play with foundations other than saying, 'I need the $60,000 program grant. But I need to leverage more funding and I need to get an incentive to banks and CDFIs to give me that loan.' Because it is a fairly hands-on, intensive kind of lending and you don't always have the collateral. At NFF, we're not largely collateral lenders. But when we take collateral, who wants to be the evil villain who goes and repossesses the playground equipment? Nobody wants to do that. So we really often need to have that credit enhancement from another source to make the loan work." *(Alexander)*

"There are two CDFIs in Memphis. Enterprise Corp. of the Delta, based in Jackson, Miss., serves Memphis. Another is Pathways. I think they only do small-business lending, but I'm not sure. They may be worth talking to, just as colleagues." *(Logue)*

Could you expand on your statement about scale and not replicating activities and not just growth? While replication is good, we also need to recognize that just because you've done something in the past doesn't mean you should necessarily continue to operate business as usual. How can you achieve scale through replication without just doing business as usual?

"The reason that I say scale isn't always about growth is because many folks aren't in a growth mode just as a result of the recession. Scale can happen in contraction. It's really not about how many more units you do, but how you do those units well. Some of us need to get to scale by right-sizing. We were in some lines of business that we shouldn't have been in anyway because we were chasing grant dollars. We're all guilty to a certain extent. We got out of our bandwidth. Some of us need to scale back to the core business and make that profitable. So that's why scale is not always larger. Relative to replication, a lot of times what we're not doing is scenario planning. We're not far enough out on the horizon to be able to risk return opportunities and weigh them. We do budgeting and planning, but we don't do scenario planning. So we might still be funding into a model whose life cycle is over. So if we're in health care, we might still be doing prevention and awareness, and the next big chunk of money is coming in something in education. So you do need to have a long enough time horizon on scenario planning to know what you should be doing next. But the replication piece is important, because if it is a good program and it's working, it's unlikely to go away. If you're still solving a problem and you're doing it well, there may be an opportunity for you to replicate that into a more profitable margin. And one of the things that Ian (Galloway) is talking about in the use of technology is that it brings you different partners in replication. So you may be able to sell, franchise, share your knowledge with someone else. So if someone's doing something in Evansville that works, why can't it be done in Kansas City if the general dynamics are right? And you can do some of that through technology. Everything that we do we don't have to make. One of the challenges that we've suffered is that, as an industry, we want to keep making it. If somebody else has already made it, it's OK for us to use it. So that's where the replication piece comes in and that's where we do a lot of learning. There may be something that someone's doing internationally, whether it's with mobile phone apps and smart phones about how they can deliver health care, or how they do banking services. In developing countries, most of the banking services are done with smart phones, not one-on-one teller transactions. Is there something in that that you can use? That's the idea of replication. What do we have that we do well that we could become a stronger, more stable platform by selling more of, or sharing that service with someone else? Which is very different than, 'Are we doing the same things over and over?' Because that speaks to scenario plans. Because if you're trying to do green and you're just jumping on the bandwagon now—well, a little late. So we need to be in advance of that by knowing our communities. Because, basically, we're here to serve a community need. So you know what your communities need. But let's not get back into the cycle that we need a new trick pony every time there's some money out there, saying we should do that because there's money. Do what you do well, that your community needs. And find a way to do it profitably." *(Alexander)*

You were talking about getting people to invest in your nonprofit in an equity model. Traditionally, in a for-profit setting, an equity model comes with some kind of share of stock or something else, which of course is not allowed in a nonprofit organization. So how do you structure an equity return scenario for an investor in a nonprofit model setting?

"We do have an IRS ruling on one of the products we've created called a 'segue product.' So it's passed muster. So you're not actually selling a share, per se. And not all investors want the upside potential, although some do. When we say 'equity,' we're really saying 'equity-*like*' because you're not getting an ownership share. You're usually getting either the stated social return or a real cash return on your investment. But you're not taking on ownership; it's structured as an equity-like participation. So you're not selling off 15 percent of the housing corporation to someone else in exchange. It serves as that base level of growth capital without selling ownership. There are social investors who are taking real equity positions in social mission organizations that are for-profit. One of the things that I didn't say but should, since we're trying to provoke thought, is that everything we are doing in this room, somebody else is probably doing in a for-profit model, and they're asking/requiring a lot more than we are. Stop giving it away if you can. Somebody is doing mental health and they're asking for full-cost reimbursement for it. Someone is providing low-income housing and they might not care as much about the people in the community as you do. Somebody's providing grocery service; may not be good, may not be talking to people about healthy lifestyles, but they're doing it. And they're doing it at full cost because they know their return and know how to run that business. You know how to run your businesses very well. But we underestimate our cost and we don't ask for what we need to actually fund our business." *(Alexander)*

What are attendees saying?

Do you fund, or do you get funding requests from, social entrepreneurs or for organizations that do redevelopment? How does your evaluation consider different types of business models?

"Probably physical redevelopment projects? The answer for us would be yes, we get loan applications from all of those areas of the nonprofit sector. And there's a lot of standard underwriting that has to be done on any loan request. But then we certainly also have tailored underwriting for certain kinds of businesses or activities. We could get you details if you want to know more about our underwriting." *(Logue)*

"We also lend to social entrepreneurs and I do think they're a huge part of the future of how we do business. And it's very specific and it's just like writing to any other entrepreneurial development, whether an SBA model or venture capital model. What is it that you've got that you're putting out there that you think the world wants? And how does it meet the social need? And how are you going to make money on it? You've got to be doing your core business (e.g., mental health and wellness) at the top of your game before you go into a social enterprise mission (e.g., Starbucks in your facility). Because you can't subsidize both businesses. Somebody's got to be minding the shop. So we look at the social entrepreneurs the same way that a bank would look at any other entrepreneur. What's the plan, how do you make money on it? It's great that you can help people, but does it make sense?" *(Alexander)*

Ian (Galloway) mentioned that there were several CDFIs that are currently sharing information through technology. Do you know who they are? And how could you interweave into that platform?

"When I made that comment, I was actually referring to CDFIs participating on peer-to-peer lending sites. So, not so much sharing information. But I'm sure that CDFIs share an abundance of information that I'm not aware of, whether they use technology or not. But the specific question goes to the point that I made about the participation on the peer-to-peer lending site. The site is MicroPlace. It was spun off of Calvert Foundation, which is based in Chicago and was ultimately purchased by eBay. So it's owned and operated by eBay now. And MicroPlace is fundamentally different from Kiva in the sense that you can go on Micro and make investments in institutions that then make investments in other institutions, which then make loans to small-dollar entrepreneurs. So it's significantly more intermediated, relative to Kiva. But it does operate in the U.S. ACCION is one example. They're a microfinance lender operating predominantly in the southern U.S. and the model works essentially as follows: You invest in Calvert Foundation. Calvert Foundation, backed by PRIs and other foundation capital from additional foundations, then makes loans to microfinance institutions like ACCION. Then ACCION goes out and makes loans to small-dollar borrowers in Texas, Louisiana and other states in the southern U.S. So there are CDFIs currently participating on peer-to-peer lending sites, and a good example of that is MicroPlace. And Kiva has also moved into the domestic market. Opportunity Fund, which is a CDFI based in San Jose, was the first domestic CDFI to participate on Kiva. I believe ACCION has also recently joined Kiva as well." *(Galloway)*

***(From a CDC that is able to get grants and investments in real estate)*—We have capacity as a developer *(suppose real estate)*. What approaches could you recommend to finding more substantial sources of equity? Could a CDC real estate developer also adopt an equity-type platform?**

"Interesting question. My immediate answer is yes. And I think some of the challenges depend on how that real estate portfolio was originally funded. And the tale on it. Because we know some of the projects are 15- and 30-year projects. But I think any organization can do some level of equity funding, even if it's not through one of these products that we talked about. Go back to my original comments: We're funding the platform these days and not so much the project. So, I think, yes. For real estate developers that have large holdings, the question really becomes, 'How do you monetize some of that and take it off the balance sheet if it's still on there?' Because you're probably sitting on your own equity. Now granted, do we have tons of investors that say, 'I'd like 100 units in the inner city' (the challenges of managing those!)? No. But are there markets out there for seasoned properties that you can liquidate? Yes, there are. So, first look at your own equity. But I do think you can do some philanthropic equity with housing." *(Alexander)*

Tapping New Sources and Exploring New Models for Community Development Finance

Local Discussions – St. Louis

NOVEMBER 10, 2010

What are attendees saying?

QUESTIONS FOR THE PANELISTS (St. Louis Dialogue):

I come from a nonprofit world and a military background. When funders moved to expectations that were more business- and outcome-based, a lot of my peers weren't ready for the transition. They'd been giving funders information one way and then all of a sudden, seemingly overnight, funders said, "No; we want it a different way," and forgot that the nonprofits weren't trained to give that information in the way they were now asking. Is NFF or are CDFIs doing things to help nonprofits get up to speed? Is there any formal training or anyplace you can send people to get information on how to give you the outcomes based on the way you want to see it now?

"From an evaluative and research standpoint, we don't do this; other people do it better. But we're the frame for that because the first part of having any kind of metrics is understanding your financial story. So, we do a lot of training and it's all on our web site. Some training is done as personal consultation, some as webinars, some are tools on understanding your financial story. And I have a personal comment about metrics and outcomes, which I think are absolutely necessary—to talk about how your money and your mission work. We usually just talk about mission and say, 'We save 1,000 puppies.' And the big questions are, 'Well, so what? What did that do? What did it look like? How was money deployed to make that happen?' You actually do have to show some correlation between money and mission. Evidence-based outcomes are very difficult and very costly to track over time. And what we should be asking (those who are requiring them) is the 'what' and the 'why' because output outcomes are very different. If you're not doing 25-year longitudinal studies, I have no idea whether my one dollar helped a kid learn how to read or not; we're not going to track it that long. So, the first thing you need to ask when people are asking for outcomes is, 'Relative to what?' And, if we're actually going to be doing serious metric evaluation, you need to ask your funders, 'Are you going to help me pay for it?' I think it is very important for us to understand our impact on the community. But before we get to that, we have to better understand how to tell our financial story. That's work that we do—telling your financial story—as well as other CDFIs, many technical assistance centers, veterans' assistance centers, PTACs. We find far too many of us are so focused on our mission that we don't really know our numbers as well as we should. Our boards need a little bit more financial literacy in helping us tell those numbers. So, the answer is 'Yes' and 'Yes.' We do some training but we don't do the evaluation and those kinds of measurements that other folks do much better." *(Alexander)*

"I agree. I'll start where Dione [Alexander] ended. The foundation should help you pay for it and help you get there. And it should be a process and not something that happens overnight. I hope you can have a conversation with them. But I think there are a lot of TA trainers, and whether you're talking about technology or about how to refigure your financial statements, I would think you could find TA providers locally who could help you with that." *(Logue)*

"NFF works with both nonprofits and funders. So we do financial literacy and help on both sides of the desk. We're an advocate because we are a nonprofit, we work for nonprofits, but we also work for funders. Good grant-making requires everyone to come to the table with a conversation. And we can no longer say, 'Give us 42 pages of paper and then we'll think about it.'" *(Alexander)*

Is there a better way to handle money/funding left over at the end of the reporting period than to scramble to find a way to spend it so the funder doesn't think it wasn't needed?

"That goes back to telling your financial story. You have to educate folks on *why* you have money, how you're using it. It is a horrible paradigm that in the for-profit world no one would be the winner if they had no money left, couldn't make payroll, etc. We have to really do a better job of telling our story, and why 'for-profit' is a tax status, not a lifestyle choice. Nonprofit doesn't mean you don't have money. We have to better explain that and help all of our stakeholders to understand that. It does not mean that we should not make money or have savings. If you have no surpluses, you are opening yourself up to extreme risk. If you didn't learn that in 2008, you know it now. You must have surplus." *(Alexander)*

"I also think it could be a question of scale. If it's a tiny amount of money, it may not matter. Maybe you could just call the funder and inform them that you have it and you're going to put it in your net assets. If it's a substantial amount of money, I think you have to go back to them and say, 'We obviously want to keep it. What more can we do that would work for you?'" *(Logue)*

What is your opinion of L³Cs?

"One word—governance. It's tricky when we're accustomed to underwriting or evaluating a nonprofit corporation with a board of directors to switch to a model where we can't get a handle on governance. It is private ownership, essentially. So, the governance question is the one that needs to be figured out so that we know how to evaluate that. Other than that, I think it's great that we have hybrid models being discussed and tried. And we haven't seen a lot of them, but we do see them occasionally. But we assume that they are like a for-profit small business or entrepreneur, and that's how we treat them." *(Logue)*

Can you define the term "L³C"?

"It's a limited-profit corporation that's a model where, for example, an entrepreneur wants to be able to apply for subsidized capital or for foundation funds and agrees to limit profits, but doesn't want to be a true nonprofit corporation with the regulations that come along with that and with a board of directors that represents the community. So it's kind of driven by the entrepreneur model. It's a great idea. Whether it will, over time, attract different money at any scale that proves that it's a great idea, I don't know. It's too soon to tell. But it's good to try these things." *(Logue)*

"Just another hybrid model that's being developed now is B Lab/B Corp. It's an alternative model that's attempting to do the same thing, which is to create a legal structure that allows for private investment in companies that have a social mission, and doing it in a way that both respects the financial needs of the investors but also the mission needs of the organization receiving the investment." *(Galloway)*

"Foundations *can* make grants to, and make investments in, for-profit companies. They can do it. They just usually don't. And it's largely for the same reason—governance." *(Logue)*

I was really intrigued by the peer-to-peer issue. Are there any off-the-shelf software options that deal with peer-to-peer? Could you see that being used for credit enhancement pools or matching? And we have a very successful status to our tax credits here, that's 100 percent transferable. Could you see that working for LIHTCs, which would eliminate the syndication cost and the overhead? We hope to apply for matching historic tax credit in a homeowner's historic tax credit model that will do away with syndication cost.

"Those are a lot of great questions. First: No, there are no off-the-shelf software options. A big part of that is the regulatory issue. Then I'll skip to the last one, which is the LIHTC question—whether or not this could be used as a platform, presumably to connect individual investors to LIHTC deals." *(Galloway)*

(Clarifying) Based on your [Galloway's] article. I saw the issue of private investors backing into LIHTC deals, which would require a tax law change.

"Yes, absolutely. And that is discussed in the article. I won't get into the details of the tax ramifications, but the thrust of it—at least the reason that I wrote the article in the first place—is actually to address the earlier concern about the instability of the tax credits market, particularly during a recession. And my response to that is that it's not necessarily that the tax credit concept is broken, it's that the investor base was overly concentrated among a handful of large financial institutions. So, not surprisingly, when there's trouble in the financial sector, the price for tax credits bottoms out, which is a significant problem with the program. So, my solution to that was, 'Well, let's bring in new investors. Let's bring in individual investors, assuming that they haven't lost their job (and that is a significant issue).' But the vast majority of people continue to have individual tax liability throughout the recession, so that would be a stabilizing force in terms of the price of the credit the next time we hit a similar recession." *(Galloway)*

(Continuing speaker) **Our state's tax credits are generating 87 to 92 cents on the dollar, unlike the LIHTC credits that are trading at very, very low percentages. So that is the reason for the question: Do you think we could do a transferable LIHTC credit as opposed to a syndicated LIHTC?**

"I'm not a tax credit expert, so I couldn't answer that question, particularly with respect to your specific state tax credits. But I think the concept is valid. As with all of these things, the devil really is in the details when it comes to marrying peer-to-peer technology with the tax credit programs. I know that's probably an unsatisfactory answer." *(Galloway)*

(Continuing speaker) **Have you seen these credit enhancement pools on a database for a matching service (for real estate, all kinds of renovation projects, etc.)?**

"That's a fantastic point. I have not seen that, but it's something that makes a lot of sense. And you don't have the regulatory hurdles if you're just talking about creating an information exchange, right? You're just matching people on the internet who are physically mismatched. You're not trying to originate deals. You're not necessarily trying to make a loan or make an investment in another organization. You're just saying, 'This pile of capital exists'—whether it's a credit enhancement or something else—and, 'This is an organization that needs access to it.' And create some kind of platform to connect those two groups. And that, to me, is something we could do tomorrow. There's no real hurdle to that. I guess the issue is that nobody has the motivation to do it at this point. You'd have to build a business model to reward the platform itself for making that match. But that is something that, again, could be done tomorrow and used in a lot of different ways. I'll give you another example of a platform that just recently went online or is at least in the beta testing mode. It's a platform being hosted by a CDFI called Partners for the Common Good. They have skirted the regulatory issues by essentially creating an information exchange, where projects are listed and investors can look at them and identify those they're interested in. And then connect off-line and talk about deal terms and actually make the physical investment. So, the platform itself is just an information exchange. It's a way of connecting disparate groups. That is being done today. It could be done with credit enhancement, it could be done in a lot of other contexts. To me, the most exciting thing about it is that there are no real hurdles to doing it now. You just need the technical capacity to build it and then people need to come." *(Galloway)*

Tapping New Sources and Exploring New Models for Community Development Finance

Local Panel Discussions - St Louis

NOVEMBER 10, 2010

What are attendees saying?

Our company recently went through finding out what impact investing really is when the largest single investor in tax credits in the country stopped investing in September/October. They've done so much for the industry. At the same time, they had a tax issue and couldn't do anything the last quarter. So, that put a lot of community developers out into the market trying to find investors. What we found was that when we spoke to institutions, we either spoke to the grant side or to the investment side. And the grant people didn't really care if there was a return; the investment people didn't really care if there was a social impact. We found that they weren't talking [to each other]. If there was some way to incentivize that social impact with the very valid returns that we were offering the tax credit investor, it seems to me there'd be more momentum in institutions to invest in social impact programs.

"Just a little context about how foundations work, because that's absolutely correct and that's been our experience, too. Foundations are required by law to give away five percent of their corpus every year. And that can be as a grant or an investment that yields a zero percent return as long as they reinvest it the next year. The other 95 percent is really there to maintain the corpus over time. So that's why you have this weird schism in the foundation. You've got the mission people and then you've got the people whose job it is to not lose money. And actually, to *make* money so that you can give away more next year. So that's just a little bit of context. That is a problem across all foundations and there are initiatives—like More for Mission, based out of Harvard—where they're trying to get foundations to contribute a larger percentage of that 95 percent toward activity that reinforces their mission, in addition to generating a positive financial return." *(Galloway)*

"You're talking about a corporate foundation?" *(Logue)*

(Clarifying) **Either corporate or the social impact side of any institution.**

"Right. It's my understanding that, with most large corporations, best practice is considered that the foundation operates totally separate from the business. And that they, in fact, have been criticized and gotten in trouble with the Feds for having a foundation support projects that make profit for the company. So, I think they actually try hard not to do that." *(Logue)*

(Continuing speaker) **So then—not to push back, but in the nature of discussion—why is it that the CRA division of a financial institution doesn't care whether or not there's a return on their investment in tax credits, and there's another department in that same institution that really doesn't care about social impact?**

"They may not care, but that's why the requirements in that tax credit program are about low-income census tracts. The money has to be spent, whether the individual people care about that or not. Their business is to move the paper." *(Logue)*

(Continuing speaker) **I understand the answer, but the point is that if this is a forum for gestating new ideas that can help community development funding, that's a problem.**

"I happen to sit on one of those investing committees at one of those big intractable foundations. And I think part of it is—and we're getting there—that the criteria on the investment side is so much different than on the program side. Where foundations are having some discussion internally, it is about getting program officers to understand why all of their grantees don't fit in the investment model. The investment model really has to deal with the triple bottom line. It has to have some social impact, you have to return principal and interest, and there has to be some upside, whether in terms of a social metric or of real cash ROI. And not everyone is structured or should have that kind of capital investment. So, even within foundations there's this discussion or some misalignment between program folks and investment folks

What are attendees saying?

about what fits. And I think we'll get there. This is just an aside, relative to the new markets, that CDFIs are looking really good to corporate investors. They're saying, 'We got a two percent return somewhere else.' So we feel really proud because somebody thinks we're a good deal when the market fell off. We were a good deal all along. So I think we're getting a level of investor that recognizes not only our real earning potential but our social potential as well. And it's just kind of an ongoing dialogue where sometimes never the twain shall meet, and other times it does. But generally—and it goes back to philanthropic equity—the folks who are suitable for a grant are not the same folks who are suitable for investment, for various reasons." *(Alexander)*

"I think there's no question, though, that the new markets tax credit program projects would not be happening without that tax credit. Unlike with a lot of CRA projects, where I think they would be happening anyway. And banks want to be part of them. But if we didn't have the tax credit, these things wouldn't be happening." *(Logue)*

"Does everybody know what the CRA is? It's the Community Reinvestment Act, and it's a federal law that requires all depository institutions to serve all of their communities from which they take deposits equally. So you can't cherry-pick the rich neighborhoods over the poor neighborhoods in terms of how you reinvest the money you take in from all of those neighborhoods. So when we talk about a CRA-motivated bank, that's essentially a bank making an investment in a low-income community because if they don't, the Feds come down on them and bad things happen." *(Galloway)*

I wonder if there are religious strictures that Islam or other religious organizations might have that are particularly well suited to the kinds of specific limited partnerships that you're describing with regard to peer-to-peer lending.

"There are a couple of CDFIs that do lending that's appropriate for Islam. And I think there are a couple of banks that have figured that out also." *(Logue)*

"In all of our work we have learned, or should be learning, how to be culturally sensitive and appropriate. This kind of lending is one of those aspects where there are few who do—and probably a few who should—to do it well and to respect both culture and religion. But also one of the things that we were talking about at our breakfast table this morning is that I don't think any of us should shy away from faith-based investment. We would not be sitting here without it. Before there were CDFIs or community development, all of this came out of faith-based communities—nuns and religious orders, churches in communities. They decided that we needed to tear down a house to get rid of urban blight. A big source of capital still is the faith-based community. And many of them are nonprofits, just ecumenical nonprofits, and they've got a lot of money. So, on a level of community engagement or financing, I don't think that you should overlook faith-based communities and religious orders. There is a whole social investing network of faith-based organizations that you may be able to tap, if you haven't already." *(Alexander)*

Tapping New Sources and Exploring New Models for Community Development Finance

Local Panel Discussions

NOVEMBER 10, 2010

What are attendees saying?

I want to come back to an earlier question. We have to use forums like this to bring the social service agencies, the FDIC banks and the CDFIs together. Because unless we have forums like this (and forgive me for these acronyms), but we've got BEA that a lot of people are not familiar with that can team up FDIC financial institutions with CDFIs to help with their CRA money and help the CDFI put the money in the community the way it should be. But we're also a $200 million CDFI and we approach it from a whole different aspect than everybody. And we need forums like this to bring us all together. Because we can answer everybody's questions. We can cover your CRA and help the community, and everybody's going to come out win/win/win. And we've got to team up and use forums like this to come together.

(Different speaker) **This goes back to Mr. Galloway's point on information sharing and the lack thereof. How do you envision using technology so nonprofits working in this sector can access and analyze data on a much larger national scale to be able to discuss impact in a broad way?**

"I'm not trying to skirt the question, but I would actually turn it around and say that that information is probably going to come from *you*. I think that the federal government should use technology—just reporting technology—to reach into communities, to reach down to the nonprofit level, to collect social impact data that's then aggregated in some kind of publicly available way so that people can analyze impact in a statistically significant way. Which is something we can't do now. We have an abundance of anecdotal evidence that says that we're doing good, that we're making an impact. But it's almost impossible to verify that claim in any kind of statistically relevant way. To me, that's a significant impediment to a lot of things, not the least of which is connecting into this $129 billion of latent capital. They're going to want data, they're not going to want stories about impact. But there are all sorts of problems associated with that, and it's not just a technological issue. It's a values issue. It's that every single nonprofit doing good work on the ground has a different conception of what they're doing and what the impact is. I don't think you could find a nonprofit that will admit to you that they're doing a bad job. Right? No; what they'll say is, 'We're serving a specific community, with specific needs in a specific way that no other organization could do as well as us.' That's what they'll all tell you. So, how do you aggregate that information in a meaningful way, in a way that you can use to analyze social impact in a community or in a specific population or across the whole country? To me, that's the larger problem—getting everybody to agree on what counts. What is impact? Is it jobs created, is it units built, is it health and wellness, is it happiness, is it education outcomes? Maybe it's all these things, maybe it's a composite score. But to get that information, we're going to need buy-in from the nonprofits. They're going to need to *want* to participate in this because they see that it benefits them in some way. And right now, the status quo is probably more attractive. They'd rather make their case to a specific foundation or a specific investor about why they're making a difference than have to report on 10, 15, 20 metrics where maybe they're not doing so great. And they'll be punished for reporting that information. So, I think it starts with the nonprofits agreeing on what counts, and then we can start talking about building an online system where people report metrics to some central repository of information that everybody can access and analyze. I'm not sure if that completely answers your question. But to me, technology is actually a side issue. The bigger issue is the values issue that we all need to get onboard with." *(Galloway)*

Tapping New Sources and Exploring New Models for Community Development Finance

Local Panel Discussions

NOVEMBER 10, 2010

What are attendees saying?

From all indications—at least in Missouri and I'm sure it's across the board—state budgets are going to be slashed again this year. I work for the University of Missouri; we've been told they're already planning 10-20 percent in cuts. That means city and county budgets are going to be cut as well. This means that there will be less money for grants and programs, which will affect a lot of people in the room. As they cut mental health on the state level, there are going to be more people who need mental health services. As they cut housing, etc., there are going to be more people who need these services. We have about nine months to plan between now and May when our legislature in Missouri ends their session and tells us the world is coming to an end here. What three things would you recommend that we do as not-for-profits to plan for this so that our budgets don't suffer?

"Your budgets *will* suffer. I don't know if there's a miracle. If you can't raise charitable contributions to fill the gap—but those are only temporary anyway—you have to downsize and give the problem back to the state." *(Logue)*

"I would add that a lot of health and human services providers are real estate-intensive, so now is a very good time to look at your real estate. It will likely be the biggest single challenge that you have to manage. Because with programs, you have some flexibility to work around. Your fixed costs are just that—fixed. Understanding your real estate issues and implications is going to be really important because it's very likely that your programming budget covers a very small percentage of your occupancy to begin with and none of your overhead. So, I would suggest that you get really concentrated on what it's going to take to maintain your facilities and/or operate them in a different way." *(Alexander)*

This question is directed to Dione [Alexander]. Early in your presentation, you mentioned the shifting of gears from a project to a platform financing methodology. Could you explain a little bit, and go into detail about what platform financing looks like versus project financing? And could you speak to the importance of having a strong infrastructure in place for, and to bring about, community development and economic development, bringing all of the stakeholders together, openness in who's doing what, and how to get an engine in place so that we'll have something for gears to be turning on?

"The first question is the difference between project and platform financing. We have always funded program or 'the thing.' The thing could have been housing, after-school, etc. And all of our funding and resources have been at a program level. But there is very little margin at a program level to fund the organization. So, many of us have found that, while we got the stimulus grant, three years from now we're going to be very unstimulated. We're going to be very worried, let alone stimulated, asking, 'All right, we built this thing; how do we keep it running? What do we do now that that's [stimulus money] gone?' So, in funding the platform and the infrastructure, we're actually getting staffing right, we're getting accounting right, we're getting our facilities right, we're doing things that are not at that very localized level of the unit, the after-school program, the child. It is really a whole-enterprise approach. So, if you look at the organization model as a triangle, at the top is your mission and program. On one axis is capacity—the people, places, processes that drive mission. And on the other axis is capital—what you own, what you owe, and how resources are deployed. It's the job of the folks that sit in these chairs to keep the triangle in balance. When you only fund a program, you're not looking at the whole organization. And you're only looking at the organization for a very short snapshot in time. You're not looking futuristically at all. Because the $60,000 that you got for the program at the boys' and girls' clubs is only going to fund *that* program. It is not funding anything else. We're back to build to buy, know how your money works. When you fund the platform, it's at an enterprise level of capacity and capital that feed up to mission. That gets back to infrastructure. Here's a true story. I was sitting at one of my clients' offices, doing some consulting. And one of their board members couldn't make it to the meeting. So he asked that the presentation be emailed to him. The first 15 minutes, I got 'Y.' The second 15 minutes, I got 'A.' About 45 minutes in, I got 'H.' And I figured that eventually we'd get to 'Yahoo' but I would be too old to tell the story. So I asked how old the computer system was. She literally said, 'We got these laptops in 1983. But our board won't let us invest in more.' No wonder they had problems communicating with their clients! A great part of infrastructure is technology. It's not just getting accounting statements faster; it's how you build brand, use social media, provide a cheaper way for clients to get to the organization, how they see the information—that's part of the whole enterprise financing that's beyond the program level. The entire organization needs to be funded, not the little pieces of what you do. You know what you're doing; you need unrestricted operating support to figure things out on your own." *(Alexander)*

In this economy, a lot of for-profit companies have been very savvy about looking at the landscape and scooping up some of the folks who are operating out there, and really looking at where there might be other capital with capacity in the community that they can take advantage of. I think that's a worthwhile conversation to have in the nonprofit community as well. I'd like to know what you all think about that.

"Well, I think it's sort of the same question as, 'What are you doing?' You have to start the process of downsizing before they tell you, before you wait until next May and seem surprised. You shouldn't be surprised that this is coming. And if something changes and it doesn't come, you'll still be better off for having gone through a process of planning to downsize. And there are lots of ways to approach it, but you start with all of these things that we've been talking about. You start with occupancy, and assets, and what you own, and what you have. How much does your staff cost, and is the staffing right? Is there a way you can downsize and keep serving a similar number of people? Are there services you can sell that can offset some of the losses? And, as I said in my remarks, collaboration. We've talked about collaboration for years, but in just the last year we've seen what it really means. It's necessary, and there are a lot of ways to do it. So I think that it's the same answer. You have to start the process and the answers will come through the hard work of thinking through all of those things. And you'll get to the right answers. But I guarantee you this: The organizations that don't do this thinking will be much worse off than the ones who do and plan for it. It's not a good thing, but you still can be in charge of it." *(Logue)*

What do you think about looking at other nonprofits in the community and their assets as a means to actually be in the accumulation mode, and maybe even while you're looking at scale?

"We've also seen a lot of mergers in the last couple of years of small agencies getting folded into larger agencies. And this again is exactly why. Those are very, very effective. They don't get a lot of play; they shouldn't. They're personal, difficult, sensitive, sometimes embarrassing events for people. They don't need to get a lot of play; they just need to happen." *(Logue)*

"I would add to that how you do more with less. There are some community assets that, even in this time of recession and state cutbacks, we need to fight to maintain. If you've lived long enough, you've been through a recession. And there's another one coming somewhere in your future. That doesn't mean you close up shop and go away. Some community assets must be maintained, but we're going to have to do more sharing to do that. You've got to know the base level of inventory that is possible how to share some of that. Some of us are going to have to move in with some other folks and get out of the pride of

What are attendees saying?

'My name was on the top of the building.' Some of us are actually going to have to do some service center activities. Why does every homeless organization in the state do its own intake? We're all seeing the same clients anyway. Eventually they'll come back through. Maybe somebody who's really good at intake needs to just do that for everyone. It becomes a revenue model for somebody and an expense reduction for somebody else. So the idea is, 'How do we share community assets and maintain them?' Because it's not about who got to touch the client last, it's really about whether we can still touch them." *(Alexander)*

I just want to make a comment about this whole issue of collaboration. I'm really beginning to think less in terms of individual organizations and more in terms of a sector. I understand that later today the Regional Commerce and Growth Association (RCGA) is going to be here. They represent business, some 80 of the top CEOs in St. Louis, including the heads of all of the universities, hospitals, Emerson Electric...you could go on and on and on. These people sit around and they talk about competition today being between regions and not even between countries. They don't have it figured out yet. But there's a missing component to regions such as St. Louis being really competitive, and that's the nonprofit component. Business is very well organized, they're tremendously diverse. But they know what they want, and they're very well organized. The public sector is very well organized. They really need the nonprofit sector to be very well organized to plug into the third leg of that three-legged stool that will allow the region to be competitive. When they sit around the table and talk about this region competing with a region in China or other places, or when they talk about the "China hub," which we all hear about, there is no nonprofit sector at the table saying, "This is what *our* needs are as a group, though we're quite diverse, and this is what *we* can bring to the table relative to this initiative that is going to impact the whole region." So, I just really want to encourage that level of thinking about what happens in community development finance and the other aspects of what nonprofits do. Because I think that the need is actually there and recognized on the part of the business sector. Business, the public sector really don't have this figured out. We can help them. We can be an asset as opposed to thinking of ourselves in such small and myopic terms as though we don't matter. But we matter tremendously. We just don't think of ourselves in the right context. There needs to be more merger, there needs to be more collaboration. But some of this activity needs to have the goal of being that third leg of the stool.

(Different speaker) **In the 10 years that I've been doing nonprofit, I've really never seen a funder give me money because they thought the mission was awesome. I think the mission is great, and we've got good business practices. But with all of the successful nonprofit directors that I know, the funders gave them money because they believed that *that person* could get that mission accomplished. When I've had this conversation with other nonprofit directors, it's almost a fight. Because people are so used to thinking their mission is completely awesome and no one else can do this great thing. It's really difficult to get nonprofit directors to think differently. And it's not just the nonprofit directors. Even if they're there, sometimes their staff is not there, their board is not there. I would really like to see continuing dialogue on helping nonprofit organizations also as a whole change their way of thinking about the organization. Because the mantra that I have (and I've finally convinced my board) is that people aren't giving us money because we help veterans and they're just loving veterans. They're giving it because they think the director, the staff, the people who are running that organization can accomplish that mission. I'd really like to see more conversation about that. That's the direction that I completely agree that we need to go in, getting us to think differently about how we go after the dollars.**

What are attendees saying?

(Different speaker) **I'd like to know if there are some examples in other communities where you may see foundations (which St. Louis has a healthy number of) come together around issues where there is collaboration on that scale. And then the second part is that, Ian, someone has already taken your idea. "Donation Connect" is an app where you can actually donate to certain nonprofits or causes out there. It's relatively small.**

"Do you mean foundations collaborating with each other around funding issues? We have seen quite a bit of that in the Chicago region and in a few other locations where we also work, where they get around a particular issue and create a funding collaborative in order to send more money to a particular issue for a period of time. Yes, we have seen a lot of that, if that's what you're talking about. And I think it's been effective. Those things, in my experience, haven't lasted. They don't last for a long, long time. They kind of have a specific time in which the foundations agree to fund a certain sector or area." *(Logue)*

"I think we're seeing a lot of that work around the healthy food initiative. You've got many players involved in that, including the W.K. Kellogg Foundation, Robert Wood Johnson Foundation, Food and Fitness. They tend to rally around certain programmatic agendas. But also, when we talk about philanthropic equity (as much as I love and use it), in fact most of the giving to nonprofits does not come from philanthropy. It usually comes from individual donors. It's somewhat hard in the social space sometimes for us to get the buy-in that we need from individual donors. We're doing more fundraising than fund development. But really, from an unrestricted capital basis, that's the best money there is. And while foundations give you bigger chunks over longer periods of time, if you added up the corpus of every foundation in the country, it is still relatively miniscule compared to the giving need. So, we still have to rely on individuals. It becomes harder for some of us to get that because it's difficult to convey to somebody that we want them to invest in an individual housing unit or something like that. But we are seeing more collaboration from foundations. When we don't see it, we push back on them. Again, being an advocate in both seats, saying, 'How can you tell nonprofits you want *them* to collaborate when we actually don't see *you* doing it more?' So, everyone push your local foundations, if they don't have one, for common grant application. That's a way to start." *(Alexander)*

We are actually working on a common grant application right now. And you're right about funder collaborations and we have a few in this community. Funders are also very sensitive to not looking like they're coming in with a hammer, telling communities what they need to do. And so, what they're really looking for are nonprofit partnerships in these collaborations. And nonprofits to also help drive—well, what would that look like, help us see the vision as funders. Because we can talk to each other as funders, but if we don't have the ground support, the ground troops buy-in, all we're really going to do is create a system where we walk into a community, potentially, and ask people to start chasing dollars. So, it's a delicate relationship in collaboration more than anything. The St. Louis region is having a glut of private foundations. The reality is, compared to the rest of the nation, where they have about a 15 percent asset base in the private foundation community, we're at 5 percent in this community. So when the private foundations get together and want to try to make change, sometimes they don't have the asset base to do that. And they need the nonprofits to help bring their donors to the table as well.

(Previous speaker) **And that's exactly part of my question as well. Who begins that dialogue, gets that discussion started?**

"*You* begin that dialogue, really you do. Because that's how initiatives get bubbled up to foundations. And it's a powerful statement when you say that you met with someone and they met with someone else who met with someone else, and we have decided that we were looking at this community and these are some needs. Here's how we all believe that we can collaborate and here's what we need you to do for us." *(Alexander)*

I don't have a question so much as a comment. I'm part of the Greater St. Louis Community Foundation. As we speak, we are active in starting that kind of discussion about collaboration and foundation. As a community foundation, we are a private foundation. I can tell you that even though private giving in St. Louis is down on the list from the percentage nationally, St. Louis is probably in the top 10 regions in the country for the level of private wealth. So the money is there, which goes back to the comment about the $129 billion. But it has to find a locus of operation before it will be unlocked.

(Different speaker) **We're in the second generation but, for instance, CRA just celebrated its 33rd anniversary and we're just on the ground level in the St. Louis area. So, putting a strong foundation in place for community development, especially in low-development communities of color like the north side that I live in and I have such strong passion for, and universal application for funding, and looking at our United Way system (is it really being as effective as it can in serving overall needs and the needs of our communities?) is very, very important. So, I want to say thank you so much for this forum and this engagement, because it is a long time coming and very, very, very much needed.**

(Different speaker) **I just can't get my head around this L^{3}C. Why did this happen anyway? Why is there a need for a hybrid structure? Why did they create this B corp, why did they create L^{3}C? The whole advantage seems to be, the people who want to just delay and don't want to make profit versus those who want to get substantive credit back so everybody can contribute to a mission. Can you help to clarify this a bit more?**

"I think we'd have to get a historian in here to give you a real answer to your question as to why we have this sort of silly-looking system from the outside. My amateur history comment is that other countries, particularly European countries, provide most of their social services via government, whereas in the United States we don't. We instead have a civil society, essentially, that provides those services via nonprofits. So it creates sort of an insulation from both government and from the private sector. And there are a lot of advantages to that. Obviously, these are all points that are arguable and people have come down in different places with respect to the system. But I would make a larger observation about what I see as a global trend of a more enhanced view of investment. And really thinking about investment on a social and financial continuum. It doesn't have to be maximizing profit on one end and maximizing impact on the other. There are lots of things in between. You can invest your money at a zero percent interest rate and just get your principal back; that's one way to make an impact. You can give it away. You can invest in an armed services provider to maximize financial return if you want. So it's more of a continuum. The recession really caused a lot of people to re-think their values, to a certain extent. And there's now more of a demand for financial opportunities to exert those values in some way. And so I think that's why you see these hybrid models starting to develop. Because people aren't satisfied with this false dichotomy between profit maximization and impact. They want to be able to invest in a social enterprise doggie day care that employs homeless kids because they believe in it. But they also believe that that community needs a doggie day care. So, there's a financial component, too. For me, this is all indicative of a larger trend of an enhanced view of investment and values." *(Galloway)*