



LIVING CITIES  
**CATALYST FUND**

# Annual Report

JULY 2012 – JUNE 2013



**LIVING CITIES**

INNOVATE ▶ INVEST ▶ LEAD



# Catalyst Fund Letter

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October 2013

Dear Friends:

It is our pleasure to report to you on the fifth year of operations for the Living Cities Catalyst Fund. The Fund currently has loan commitments of \$34.6 million from ten investors. Since inception, our total cumulative lending of \$29.65 million has sparked initiatives with total funding of over \$400 million.

In recognition of our work and our engagement with the social impact field, we also are delighted to report that the Catalyst Fund was selected for the third straight year for the *ImpactAssets 50* – a public database of private debt and equity fund managers that deliver social and environmental value in addition to financial returns.

Other key developments of the year included:

**New Investments:** This year, we closed two additional investments – a \$2 million increase to Craft3 to support their industry-leading single family energy efficiency retrofit program and a new loan to IFF to support their geographic expansion of their healthy foods initiative. We expect to close the final loan in the first round of Living Cities' signature Integration Initiative in the next few weeks. In addition, by the end of the calendar year, we expect to close our first Pay for Success (PFS) investment in the innovative Massachusetts Juvenile Justice PFS project.

**Increased Deployment:** Deployment of the Catalyst Fund started off slower than expected, but over the past year usage has more than doubled from \$6.2 million to \$13.5 million. We expected to continue to see higher utilization rates from our outstanding loans.

**Loan Maturity and Repayments:** Our three oldest loans on our books are beginning to repay. NSLF repaid their loan in full and the original TRF loan made a partial repayment in September 2013. Craft3's groundbreaking secondary market sale of its energy-efficiency loan portfolio is pending, and we expect Craft3 to repay their loan upon completion of the sale.

**Focus on Innovation:** In 2013, Living Cities' Capital Formation team was renamed the Capital Innovation team. This reflects our increased focus on innovation as well as deployment. With the repayment of some of our oldest loans, Living Cities is beginning to explore the restructuring of the Catalyst fund to better facilitate innovation.

Thank you for your continued support and guidance. We appreciate your commitment to the Catalyst Fund and the low-income communities we serve. Please let us know if you have any questions or ideas.

Ben Hecht

Robin Hacke

Eileen Neely



# Catalyst Fund Overview

## PRI INVESTORS

As of June 30, 2013, the Catalyst Fund had commitments of \$34.6 million from ten investors. This is the second full year in which the Fund's activities were segregated into three pools – Pools A, B and C – to better align the Fund with the programmatic activities of Living Cities. Please see below for details on the Fund's investor commitments by pool.

	Commitment			Total	Paid-In			Total
	A	B	C		A	B	C	
Ford	998,424	5,000,000	3,272,727	9,271,151	998,424	0	3,272,727	4,271,151
Casey	698,897	3,500,000	2,290,909	6,489,806	698,897	0	2,290,909	2,989,806
Metlife	599,054	0	4,963,636	5,562,690	599,054	0	1,963,636	2,562,690
RWJ	499,212	2,500,000	1,636,364	4,635,576	499,212	0	398,230	897,442
Kresge	399,369	1,309,091	0	1,708,460	399,369	1,309,091	0	1,708,460
DB	299,527	0	0	299,527	299,527	0	0	299,527
MacArthur	299,527	981,818	0	1,281,345	299,527	981,818	0	1,281,345
AARP Foundation <sup>1</sup>	49,921	1,000,000	163,636	1,213,557	49,921	0	163,636	213,557
Dignity Health	1,156,069	0	0	1,156,069	1,156,069	0	0	1,156,069
McKnight	0	3,000,000	0	3,000,000	0	0	0	0
Total	5,000,000	17,290,909	12,327,272	34,618,181	5,000,000	2,290,909	8,089,138	15,380,047

## PORTFOLIO SNAPSHOT

The A Pool consists of the original Catalyst loans and commitments as of December 2010. The B Pool is comprised of loans to intermediaries participating in the Living Cities Integration Initiative (TII). The C Pool is funding new, non-TII loans that align with Living Cities' programmatic priorities. As of June 30, 2013, the Catalyst Fund had a closed portfolio of \$26 million across 11 transactions. The Fund has a commitment to close an additional \$3 million loan for Newark, the last Integration Initiative site and a \$1.5 million Pay For Success loan in Massachusetts.

The table below provides a snapshot of the loans in the Catalyst portfolio.

<sup>1</sup> In July 2013, Living Cities called \$1 million from the AARP Foundation for the B Pool, bringing their paid-in amount equal to their entire commitment. We will be making an additional capital call by the end of the 2013 calendar year.



# Catalyst Fund Overview (cont'd)

## QUALIFIED EXPENDITURE REPORT

Commitment Date <sup>2</sup>	Origination Date <sup>3</sup>	Borrower	Investment Type	Description	Rate	Term	Risk Rating <sup>4,5</sup>	Amount	Balance Outstanding	Payment Status	Catalyst Pool
4/9/09	10/23/09	NSLF <sup>6</sup>	Loan	Foreclosure mitigation	5.0%	5	4	1,000,000	1,000,000	Current	A
5/18/09	5/27/09	TRF - 2009 <sup>7</sup>	Loan	Fresh food financing	4.5%	8	5	2,000,000	2,000,000	Current	A
3/31/10	10/12/10	Craft3 - 2010	Loan	Energy efficiency retrofits	4.0%	7	4+	2,000,000	2,000,000	Current	A
3/30/11	6/21/11	BATOAH <sup>8</sup>	Loan	Transit-oriented development	4.0%	10	4	3,000,000	808,336	Current	C
5/23/11	11/15/12	NeDC <sup>9</sup>	Loan	Small business lending	2.0%	10	4	700,000	370,000	Current	B
5/25/11	9/17/12	TRF - 2011	Loan	Housing and community facility	2.0%	10	5	3,000,000	1,000,000	Current	B
6/30/11	12/15/11	NCBCI	Loan	Affordable housing and mixed use real estate development	2.0%	10	5	4,000,000	750,000	Current	B
11/11/11	9/28/12	TCCLB <sup>10</sup>	Loan	Affordable housing and mixed use real estate development	2.0%	9	4	2,300,000	550,000	Current	B
1/12/12	N/A	GUCCC	Loan	Commercial real estate	2.0%	9	3+	3,000,000	0	Current	B
9/7/12	9/7/12	Craft3 - 2012 <sup>11</sup>	Loan	Energy efficiency retrofits	4.0%	4	4+	2,000,000	2,000,000	Current	C
3/15/13	3/15/13	IFF	Loan	Healthy food financing	3.5%	5	5	3,000,000	3,000,000	Current	C
Total								26,000,000	13,478,336		

<sup>2</sup> Commitment Date is the date of the loan closing.

<sup>3</sup> Origination Date is the date of the first draw request funding.

<sup>4</sup> Risk Ratings were determined by the Credit Committee as part of the portfolio annual review process or at the time of loan closing.

<sup>5</sup> The Catalyst Fund uses a 5-point risk rating system with 5 being “Satisfactory” and 1 being “Doubtful.”

<sup>6</sup> NSLF fully repaid their loan on September 30, 2013. This payment was more than six months early indicating the success of their foreclosure mitigation work.

<sup>7</sup> TRF repaid \$500,000 of their loan on September 13, 2013.

<sup>8</sup> BATOAH has drawn an additional \$447,813 subsequent to June 30, 2013.

<sup>9</sup> NeDC has drawn an additional \$50,000 subsequent to June 30, 2013.

<sup>10</sup> TCCLB has drawn an additional \$200,000 subsequent to June 30, 2013.

<sup>11</sup> Craft3 is in the process of finalizing the secondary market sale of their energy efficiency loan portfolio. When the sale is final, they are required to repay their \$2 million C Pool loan. We are in negotiations about the repayment of their A Pool loan.



# Catalyst Fund Overview (cont'd)

## REPAID/CANCELLED LOANS

Commitment Date <sup>2</sup>	Origination Date <sup>3</sup>	Borrower	Investment Type	Description	Rate	Term	Risk Rating <sup>4,5</sup>	Amount	Balance Outstanding	Payment Status	Catalyst Pool
12/19/08	5/27/2009	OHC - VCC	Loan	Foreclosure mitigation	4.5%	4	5	1,000,000	Paid in full	Repaid - June 2011	A
5/4/10	5/6/2010	5716 Lender, LLC	Loan	Health & wellness facility	4.5%	6	4	1,150,000	Paid in full	Repaid - August 2011	A
12/16/10	N/A	New Teacher Center	Line of Credit	Education	4.0%	2	3	1,500,000	Cancelled	Cancelled - July 2011	A
								Total			
										3,650,000	

In June 2013, staff conducted annual reviews of all the existing loans. The Credit Committee and the Catalyst Fund LLC Board approved risk ratings and loan loss percentages for the portfolio. These risk ratings are reflected in the chart above. The Fund has experienced no losses to date.

During fiscal year 2013, the Catalyst Fund made \$5.0 million in two new loan commitments, raising the cumulative total commitments to \$29.65 million (across 14 transactions and 12 borrowers) since inception. Our \$29.65 million in loan capital has helped launch initiatives with total funding of more than \$400 million from numerous public, private and philanthropic financing partners; and resulted in a leverage ratio of 16 times.



## Portfolio Review

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Schedule 5 of the Amended and Restated Catalyst Fund loan agreement identified a number of indicators that we committed to track. The following section summarizes our progress to date.

**Timely repayment of Qualified Expenditures by Qualified Recipients:** At present, all borrowers are current on their interest payments. While no principal payments were due, NLSF repaid their \$1 million in full on September 30, 2013 and TRF repaid \$500,000 of its \$2 million A Pool loan on September 13, 2013.

**Number of non-Living Cities investors who join the fund or invest alongside it:** Dignity Health was our first non-member to invest in the Fund. Across the 14 closed transactions we have worked with nearly 90 financing partners. In the Bay Area Transit-Oriented Affordable Housing Fund, we are one of eleven lenders. In our Integration Initiative cities, we are lending alongside seven of our financial institution members, as well as a range of other partners including various municipal governments, the federal government, Trinity Health and PNC Bank.

**Number of investors new to PRIs who join the fund or invest alongside it:** In 2011, we closed a \$3 million commitment from the McKnight Foundation, a relatively new PRI investor. The AARP Foundation, who made its first \$250 thousand PRI with the Catalyst Fund, made an additional \$1 million investment to the Fund in 2011. Kresge and RWJ both made their initial commitments to the Catalyst Fund in 2008 as part of their new PRI programs.

**Dollars leveraged by Living Cities:** \$29.65 million in Catalyst funding has supported initiatives with total funding of more than \$400 million.

Number and dollar amount of Qualified Expenditures originated to high impact organizations doing innovative work in Living Cities priority areas: All 14 Catalyst loans have been made in Living Cities priority areas. In this fiscal year, we made two new loan commitments as part of Living Cities green economy working group.

**Compliance by the Catalyst Fund with covenants agreed to in our documents:** We have complied with all our covenants except for the deployment covenant. The Fund met the December 31, 2011 deployment covenant for the B Pool in January 2012. Since then, we have been in compliance with all of our covenants.

**Impact of the debt on borrowers, especially those using debt for the first time (growth, financial stability, programmatic scale, access to commercial capital):** In 2011, we made a loan to the Twin Cities Community Land Bank, a new CDFI in the Twin Cities as part of the Twin Cities Integration Initiative (Pool B). We structured our relationship with the TCCLB with an eye toward helping this organization grow and also develop its lending capacity. Since closing our loan, TCCLB has gotten certified as a CDFI and received two Small and Emerging CDFI Awards from the CDFI Fund. TCCLB continues to struggle with developing a financially viable business model. Our loan structure has allowed us to participate in the difficult conversations and influence their future direction.



## Portfolio Review (cont'd)

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In 2010, we closed a loan with the Neighborhood Development Center (NeDC) in the Twin Cities, another relatively new user of debt. Our loan has helped NeDC transition their lending organization away from a grant-based model to a debt-based model. NeDC has increased their role in the Twin Cities civic infrastructure by more fully engaging in the system strengthening small businesses and not just as a lender. NeDC was recognized with a Wells Fargo NEXT Award for Opportunity Finance for achieving a high volume of community impact, tracking and analyzing this impact, and using the information to improve its programs.

Our loan to The Reinvestment Fund (TRF) for work with the Baltimore Integration Initiative has allowed them to gain a solid foothold in this new geography and expand their fresh food initiative to all of Maryland.

In Detroit, NCB Capital Impact (NCBCI) has expanded their work beyond the Woodward Corridor. NCBCI's work along the Woodward Corridor brought them national recognition, winning a \$2.75 million Wells Fargo NEXT Award for Opportunity Finance.

In Cleveland, National Development Council (NDC) has assumed management of the Evergreen Cooperative Development Fund and the Cleveland Enterprise Group's (CEG) business loan fund, after CEG's restructuring.

**Impact achieved by our Qualified Recipients in their fields (e.g. number of new outlets for fresh foods; number of children assisted by education programs we fund, etc.):** Please see below for a summary of the impact achieved by each of our loans. The older loans in the A Pool have achieved the most concrete results so far but we are also seeing promising results for our newer loans that closed in the last two years.

POOL A:

### **Neighborhood Stabilization Loan Fund** (foreclosure mitigation)

As of June 2013, the Neighborhood Stabilization Loan Fund (NSLF) had acquired or had under agreement approximately 572 units across 179 buildings. Construction is complete on 474 units, 10 units are under construction, and 30 are in predevelopment. 26% of these units were targeted for residents at 50% AMI or below, 5% were between 50-80% AMI, and 30% were between 80-120% AMI. 139 of the units are in Boston, 140 are in Worcester, and 97 are in Springfield with the remaining units spread among several other cities.

As acquisition for properties through the NSLF is complete, MHIC has focused on moving properties from acquisition to construction and take out. The success of their follow through is evidenced by their ability to repay their loan six months early.

### **TRF** (health and wellness)

Our \$2 million loan to TRF funded the construction of a large refrigerated produce warehouse and distribution facility called the New Farmers Market in Newark, NJ. Construction of this facility was





## Portfolio Review (cont'd)

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completed on time and on budget and had created approximately 400 construction jobs and 179 full-time jobs, 40 of which (27%) were hired locally from Newark. The building has a gross footprint of 167,025 sq. ft. including 10,800 sq. ft. of office space. In addition to Living Cities' loan, the project received about \$40 million in other funding, including New Markets Tax Credits and borrower equity. This warehouse facility is a critical anchor serving to attract more grocery store retailers to New Jersey as the lack of warehouse space has constrained the ability of operators to develop new grocery stores in the region.

### **Craft3** (green economy)

Our \$4 million loan to Craft3 supports its single-family energy efficiency retrofit program, Clean Energy Works Oregon (CEWO). As of June 2013, Craft3 had almost 1,800 outstanding loans totaling nearly \$32 million. Due to the CEWO's strong Community Workforce Agreement, the average wage for all hours of work performed on these energy efficiency retrofits was \$23/hour. Over 40% of the work was performed by people of color and 30% of the work was performed by businesses owned by women or minorities. 33% of the projects are located in CDFI hot zones and 48% of the borrowers are in households with self-reported income less than 100% AMI.

Craft3 is also in process of pursuing a secondary market sale of its energy efficiency portfolio. The CDFI anticipates selling to a regional bank with a structure that would involve a subordinate tranche of capital supporting their market-rate capital. They anticipate completing a sale by the end of the calendar year. We are monitoring this development closely as it would be one of the first secondary market sales of an energy efficiency portfolio and have critical implications for the energy efficiency field.

### POOL B:

#### **Neighborhood Development Center** (Twin Cities Integration Initiative)

The Corridors of Opportunity Initiative in the Twin Cities has been established to create a regional model of cross-sector collaboration that leverages investments in high-quality regional transit to improve the lives of low-income people, their businesses and neighborhoods. Our \$700,000 loan supports NeDC's Small Business Growth Fund and Small Business Building Ownership Fund. As of June 2012, NeDC has funded six small business growth loans through its Catalyst loan. In addition to supporting the borrowers, the loans benefited three additional tenants who leased space in the impacted properties. The combined effect of the loans blended with façade grants has helped create a revitalized Little Mekong business and cultural district. The high visibility of these improvements has helped the community move beyond apprehension of the Central Corridor Light Rail Transit project and holds promise to attract additional investment from local Asian business owners.

#### **The Reinvestment Fund (TRF)** (Baltimore Integration Initiative)





## Portfolio Review (cont'd)

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The Baltimore Integration Partnership (BIP) is creating a model that systematically harnesses the power of anchor institutions, substantial infrastructure investments and local and state workforce development resources to create economic opportunity for low-income people. Our \$3 million loan to TRF supports predevelopment, acquisition, construction and New Markets financing of affordable housing, charter schools, grocery stores and other community facilities in East and Central Baltimore and along the Red Line transit corridor. TRF has closed two projects using Living Cities' Catalyst funds: Chesapeake and Remington Row. For Chesapeake, Catalyst Fund debt was deployed to renovate an abandoned city-owned restaurant near North Station for commercial use. This project has reduced blight, added new neighborhood amenities, and created 34 construction jobs (including 5 for local residents). The second project, Remington Row, is the renovation of 10 homes in Remington Village as a part of a larger 30-home initiative. Home prices in the project range from \$150,000-200,000. The general contractors have committed to work with BIP to ensure that at least 20% of construction work hours go to local residents. The renovations are projected to create 104 construction jobs (including 38 for local residents). As part of the BIP, TRF helped establish the process for identifying local employment opportunities in BIP capital projects and helped develop the Workforce Resources Plan that all developers sign in conjunction with the BIP loan closing.

### **NCB Capital Impact (Detroit)**

The Woodward Corridor Initiative in Detroit is creating a model for older industrial cities of "redensifying" by concentrating population and activity in sustainable corridors, expanding opportunity for low-income residents, and reusing vacant land. Our \$4 million loan to NCB Capital Impact (NCBCI) supports the redevelopment of abandoned and under-utilized properties and the creation of new mixed-use and community facilities along Detroit's Woodward Corridor. Through June 2013, NCBCI has used Catalyst funds for two projects along the Woodward Corridor -- the Auburn and the Woodward Theater.

The Auburn created approximately 9,100 sq. ft. of rental space for local retailers and 58 units of affordable and workforce housing. The redevelopment of the Woodward Theater, a 32,500 sq. ft. three story historic theater, removes blight on one of the last derelict blocks on Woodward Avenue in Midtown Detroit. The development is expected to create 80 construction jobs and 14.5 permanent jobs.

In September 2013, NCBCI announced the launch of the \$30.25 million Woodward Corridor Investment Fund, developed to invest in transformative real estate projects that advance the physical redevelopment of Detroit's Woodward Corridor. The fund is a direct outgrowth of the work that NCBCI undertook as part of Detroit's Integration Initiative.

### **Twin Cities Community Land Bank (Twin Cities Integration Initiative)**

The Corridors of Opportunity Initiative in the Twin Cities has been established to create a regional model of cross-sector collaboration that leverages investments in high-quality regional transit to



## Portfolio Review (cont'd)

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improve the lives of low-income people, their businesses and neighborhoods. Our \$2.3 million loan to TCCLB supports the acquisition and redevelopment of affordable single-family and multi-family residential buildings and the development of mixed-use, affordable housing and community facility projects along the new light rail lines in the Minneapolis/St. Paul region. As of June 30, 2013, four project loans have been closed – Prior Crossing, St. Alban’s Park, Corcoran Triangle and Oxford Green Apartments – supporting the preservation or development of 272 housing units, with 78% affordable to households earning 60% or less of AMI. All projects are within several blocks of transit.

Prior Crossing is a high quality permanent supportive housing project for young people ages 16-21 transitioning out of homelessness into a more stable adult life. The project is currently envisioned as a 5-story elevator building with offices and community spaces on the first floor and 44 efficiency apartments with individual kitchens and baths on the four floors above. The project's proximity to the Central Corridor LRT will provide access to public transit, as well as to a wide array of jobs and educational opportunities for the residents.

Our loan is being used to acquire and substantially rehabilitate the 74-unit St. Alban's Park development in Saint Paul in order to preserve its affordability for low and moderate income households in the Twin Cities.

Corcoran Triangle is a 103-unit, mixed-income affordable housing development poised to revitalize the intersection of 32nd and Hiawatha, an existing LRT and major north-south arterial in South Minneapolis. The project, consisting of two, four-story buildings and will be accessible to a variety of household sizes and across a range of incomes. It includes 11 supportive housing units for long-term homeless households living with HIV/AIDS and 82 units offered at 60% AMI.

TCCLB provided financing to acquire six duplexes near the Blake Road Station on the Southwest LRT for the future development of the Oxford Green Apartments. The proposed \$14 million project will provide 51 units of affordable housing to households earning less than 50% of the Area Median Income (AMI), including 4 long-term homeless units.

POOL C:

### **Bay Area Transit-Oriented Affordable Housing Fund (TOD)**

Our \$3 million loan to the Bay Area Transit-Oriented Affordable Housing Fund provides early-stage financing for housing and mixed-use developments in mixed-income TOD communities. As of June 2013, the Fund has closed four project loans supporting the development or redevelopment of 535 housing units in mixed-use buildings. Each property includes retail and commercial space, including a grocery store in a food desert, a dental office in a senior building, and a community center with affordable childcare. Seventy-five percent of the housing units are affordable to households earning less than 60% area median income (AMI). All sites are within several blocks of transit stations.



## Portfolio Review (cont'd)

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The TOAH fund has become a national model for financing affordable housing, community facilities and services near transit. The success of the fund despite the disappearance of the redevelopment agencies in California has led the MTC to agree to provide an additional \$10 million in first loss money for an expansion of the fund.

### **Craft3** (green economy)

Please see the social impact of this transaction in the Pool A section.

### **IFF** (green economy)

Our \$3 million loan to IFF has supported the development of four grocery stores in their Healthy Food Access Program in the Midwest. Two of the projects are in St. Louis, one in Des Moines and one in Chicago. The four projects will provide healthy foods to food deserts. In addition, the stores will provide other education and neighborhood programs such as on-site nutrition education programs and educational content on food products, healthy recipes, and cooking instructions; a mobile market to provide fresh produce to low access neighborhoods; a food box program in which food boxes are provided to child care centers on Fridays that include ingredients for weekend meals to help continue the nutrition regimen. All four stores will create both construction and permanent jobs for local residents.