

April 24, 2024

To: Mayor and Members of City Council

From: Sheryl M.M. Long, City Manager

Subject: **COUNCIL REPORT – COMMUNITY INVESTMENT TRUST
(CIT) PROGRAM REVIEW & RECOMMENDATIONS**

REFERENCE DOCUMENT #202400119

The Equitable Growth & Housing Committee referred the following item for review and report at its session on January 17, 2024:

MOTION, submitted by Vice Mayor Kearney and Councilmember Johnson, WE MOVE for a report within sixty (60) days on establishing a Community Investment Trust (CIT) program in Cincinnati, including feasibility, costs, and steps for implementation.

BACKGROUND

The Community Investment Trust (referred to hereafter as “CIT”) is a program established in Portland, Oregon in 2019 by Mercy Corps, a global humanitarian non-profit and non-governmental organization with a branch in the region. CIT provides residents of low- to moderate-income areas the opportunity to make low-dollar, loss-protected investments in local commercial real estate properties. Mercy Corps’ goal was to increase community connections and allow residents to build equity and individual economic prosperity.

PROGRAM INFRASTRUCTURE

Before initiating the creation of CIT in Portland, Mercy Corps worked directly with community members to receive input regarding their desire for accessible commercial real estate investment opportunities. Mercy Corps staff engaged with community members via surveys and direct conversations to learn about their financial preferences. They then set out to create a program for residents to invest in real estate in their neighborhood and build equity as their community grows. This required the inclusion of real estate, project finance, legal, economic development, and public relations experts to get the project off the ground. During this time, Mercy Corps

experienced funding limitations and had to utilize volunteers and pro-bono professional assistance. Once they established their knowledge base, they began their search for a suitable property that was ready for community investors.

When assessing a property, Mercy Corps used a distinct property evaluation metric. They assigned scores to commercial properties based on eight distinct categories: 1) property viability, 2) potential for government support, 3) nearby affordable housing, 4) potential neighborhood partners such as churches, schools, neighborhood associations, etc., 5) flexibility, 6) location, 7) neighborhood profile (diversity and median income), 8) other subjective factors. Once scoring different properties, Mercy Corps chose the property with the highest score. By doing so, they ensured good returns for both their targeted investors and tenants.

To buy the property, Mercy Corps' CIT team developed their own legal structure and organized into separate entities to split different functions. They formed two single member LLC's and a corporation made up of community investors who own the property. The LLC was the lead organization and run by Mercy Corps staff while the corporation was led by a board of directors selected by the investors. Once the board of directors was selected, they went through a unique CIT training program. After all this was complete and the legal structure was established, members of the community could finally begin to invest. Initial research and ideating began in 2010; it took until 2017 for the set-up of CIT to be complete and for community members to be able to invest.

REQUIREMENTS & INVESTMENT STRUCTURE

To become investors, interested residents had to meet several requirements, including residency within specific ZIP codes, and an age of at least 18 years old. In addition, they had to take a six-hour financial education course developed by CIT called "Moving from Owing to Owning." This training was offered over Zoom and taught by community leaders in a variety of languages. During the course, participants learned about budgeting, goal setting, financial investments, and overall financial literacy. Only after completion could residents enroll and choose their preferred level of investment. Investments ranged from as little as \$10 a month to as much as \$100 per month.

Once a participant invests, they receive an annual dividend when there was profit from tenant payments on the property. Over time, as investors buy more and more shares, the value of the property appreciates, and the loan owed on the property decreases. The investor can choose to liquidate their assets at any given time without a loss of their investment amount. CIT guarantees protection against loss through a direct pay letter of credit from the bank. As a result, there is no risk for the investor.

PROGRAM MAINTENANCE & OVERSIGHT

After the CIT program was built, Mercy Corps required additional tools to maintain it over time. This included: 1) a home website where investors could sign up and learn about the program, 2) an online investment management portal for investors to track their account, 3) management of the CIT and program operations, 4) annual monitoring and evaluations to track the impact of the program, and 5) community outreach initiatives to increase the investments. Furthermore, they created a brief document outlining tools and products needed for replication of CIT in other communities to grow access.

The document developed to assist with replication of the program by other non-profit organizations identifies various goals and products critical to the feasibility of replication. Products critical to the study of initial feasibility done by an organization to build their capacity include things like organizational dashboards, staffing requirements, community mapping tools, property evaluation and neighborhood viability metrics, capitalization and financing steps and options, investor education, legal structures, capitalization strategies, budget and operations logistics, Design, Monitoring, Evaluation, Research and Learning (DMERL) method, organizational assessment, and more. Products required for post-feasibility replication and beyond include investor trainings and curriculum, legal frameworks, entity formation, Board of Directors trainings, communications and public relations guidance, investor management, an accessible official website and digital presence, online investment management portal and customer service provider, CIT general management and operations, annual monitoring, and more.

Additional requirements for successful replication would be close partners, such as a City or housing agency, to fulfill many of the primary areas listed above. In addition, those partners must be able to support the replication of CIT through the purchase and management of property.

ANALYSIS OF REPLICATION IN CINCINNATI

The CIT initiative in Portland happened because an already-established non-profit sought to create it. The role of a CIT managing entity requires specific facets empowered by a non-profit, nongovernmental structure. Furthermore, Mercy Corps' history as a global, established, and well-resourced non-profit with pre-existing staff and operating funds allowed them to take on this role without needing to raise much additional funding to begin operations. Even still, it took Marcy Corps several years to get CIT off the ground, and they experienced funding issues.

The City of Cincinnati Administration has not been approached by any local organization expressing interest to begin forming a similar model to Mercy Corps' CIT. Thus, the first step for such a program in Cincinnati would be a local non-profit organization notifying the City that they are willing to commit the staffing resources necessary to start-up and run the program. The non-profit would need to ensure they had support of real estate industry experts, and a process for evaluating local investments similar to the methodology created by Mercy Corps. As previously

mentioned, Mercy Corps created materials and resources related to process overview and implementation steps that could help with this deployment.

Once the local non-profit organization crafted its program; nurtured necessary technical assistance partnerships; and began acquiring property, they would then be able to make specific funding requests of the City or other local housing assistance providers like Cincinnati Development Fund for assistance with the acquisition of housing *or* repairs to the housing following acquisition. Over the long term, the program would need to have a structure that tracks rent revenue and expenses from each property *and* records excess revenue utilized for capital reserves, administrative costs, and net revenue available for distribution to investments. It would also need to track investment revenue and the resulting equity growth by the investors to ensure it is meeting the intended purpose of creating wealth for community members through real estate investment.

As noted above, the CIT model in Portland relies on a direct pay letter of credit from a lending institution to ensure that the investment does not decrease in value and there is no loss to the investor. If attempts to replicate this program in Cincinnati moved forward, the local non-profit would have to secure a lending institution willing to provide a direct pay letter of credit *or* another financing mechanism to mitigate losses that would have an annual cost to the operating costs for the property.

RECOMMENDATION

The establishment and implementation of a CIT-like program in Cincinnati would be complicated and necessitate the consideration of several steps before moving forward. Most notably, a local non-profit organization would need to decide to take this on, instigating the initial steps and committing to devoting the staff capacity to creating and overseeing the program. Only after that could the City provide resources to assist in the effort and engage with the interested non-profit organization on a specific proposal. At the time of this report, no local non-profits have expressed interest or engaged the City Administration in any such initiative.

Copy: Markiea L. Carter, Director, Department of Community & Economic Development