The Centre for Social Innovation (CSI) is a social enterprise with a mission to catalyze, inspire and support social innovation. In 2004, we opened the doors to our first experiment: a 5,000 sq ft shared workspace in the Robertson Building in downtown Toronto. This workspace provided offices, desks, meeting rooms and amenities to a community of 14 organizations that were “doing good” in the world. It was a smashing success.

Within three years, we had a waiting list of more than 40 organizations that wanted to be part of the Centre. So, in 2007, we opened an additional 13,000 square feet of space in the Robertson Building, welcoming 75 new world-changing organizations and projects to our community. Fast forward to 2009 and we were operating 23,000 sq ft and had a dynamic membership of over 175 people and projects committed to social change. Our waiting list continued to grow.

So we decided to buy a building.

As a successful nonprofit organization, we had built a strong reputation and cultivated deep networks over six years of operation. But we had no assets to leverage and practically no money: only $50,000 in accumulated surplus. The building we wanted would cost us $6.8 million to purchase and renovate. The gulf was enormous.

The first thing we did was secure a loan guarantee from the City of Toronto that enabled us to get a mortgage for 75% of the projected value of the building after renovations, rather than 65% of the purchase price, which was what the banks originally offered. However, we still needed $2 million to realize the project and had no clear strategy for how we would raise that amount in such a short time.

So, we leveraged the only asset we had – our community. The result of our work is the Community Bond, an innovation in social finance. This financial tool allowed us to offer an RRSP-eligible investment opportunity to our network of supporters. In a four-month flurry of activity we raised $1.4 million (and eventually the full $2 million), inked the deal on our newest property, and prepared to welcome over 300 new organizations to our second shared space project.

This book contains the story of how our small, community-based social enterprise bought a building. It is also a guide to help your organization leverage its most important asset - its social capital - to pursue its mission, build its resiliency and create more vibrant communities.

Good ideas become great ideas when they are shared. The nonprofit community is just starting to understand the potential of Community Bonds and the power they can unleash. We hope you will use this guide to replicate, tweak, and implement community bonds in a thousand different ways. Good luck. And don’t forget to let us know how your own story unfolds by reaching out to communitybonds@socialinnovation.ca.
THIS GUIDE IS FOR:

- Nonprofits and charities with an existing revenue model that want to acquire a property
- Nonprofits and charities that own property and need financing for leasehold improvements or green retrofits
- Social enterprises that require financing to grow their business and expand their social impact
- Community power organizations that require financing in order to purchase equipment
- Policy makers and public servants looking for innovative ways to empower the work of nonprofits
- People who want to come together to undertake a project that would benefit their community
- Individuals and organizations generally curious and enthusiastic about the possibilities of community finance
- Social innovators of all stripes who can take the seed of an idea, grow it, transform it and spread it far and wide
CAST OF CHARACTERS

TONYA SURMAN
Tonya Surman is co-founder and Executive Director of the Centre for Social Innovation. Tonya has been the prime mover behind the community bond concept.

BRIAN ILER
Brian Iler is a partner at Iler Campbell LLP and a Board Member of the Centre for Social Innovation. It was Brian’s legal chops that allowed us to navigate the complexities of the project and put forward a viable offering.

SCOTT HUGHES
Scott Hughes is principal of CapacityBuild Consulting Inc., which provides financial consulting to nonprofits. Scott’s financial and investment wizardry helped structure the Community Bond model and CSI’s bond offering.

KARINE JAOUICH
Karine Jaouich is Director of Operations at the Centre for Social Innovation. She jumped into the role with both feet in early 2010, quickly assuming day-to-day coordination of the Community Bond project.
Beth Coates is Finance Manager for the Canadian Alternative Investment Co-operative. Beth has the eyes of a hawk and in her role supporting nonprofits through CAIC’s pre-application process, Beth provided some of the most insightful guidance and feedback.

Alex Speigel is President of Ideas Development and One Development, which offer innovative urban redevelopment and advisory services. Alex was part of the duo that brought 720 Bathurst to CSI and continued to play a key role as project manager through the due diligence, purchase, design and construction of the building.

Dean Goodman is co-founder of Levitt Goodman Architects, an award-winning architecture firm, that helped CSI plan and design our new space at 720 Bathurst. Dean was also one of the people who brought the property to CSI’s attention.

Plus dozens and dozens of other staff, Board members, investors, tenants and community supporters. This was truly an ensemble performance!
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INTRODUCTION
“Community Bonds democratize finance.”
A Community Bond

1. is only offered by a nonprofit or charitable organization

2. is accessibly priced for your community of supporters

3. helps you grow your social impact

4. allows you to leverage your greatest asset – your community

5. is an interest-bearing loan that must be repaid to investors
POWER TO THE PEOPLE

Historically, the nonprofit sector emerged from the efforts of concerned citizens. These individuals – committed to a vision of a more just society – banded together to create positive change. Over time, the sector professionalized, becoming more capable while pursuing an increasing array of missions, from poverty reduction and artistic creation to environmental protection. Canada’s nonprofit sector now employs more than two million people and represents more than 7% of our gross domestic product\(^1\).

This professionalization has helped us to effect greater and greater change. But it’s also had unintended consequences. As nonprofits became larger and more institutionalized, their connection to community has – in some cases – weakened. Whereas nonprofits were originally a direct expression of citizens, many have become distanced from the very communities in which they exist.

The community bond is a bold step toward rebalancing and reinvigorating the relationship between citizens and the nonprofit sector. In the face of uncertain public sector support and increasing demand for services, nonprofits must work hand in hand with citizens to co-create our communities and make positive change. In this sense Community Bonds aren’t just about raising money. They are about strengthening the connection between nonprofits and the communities we serve.

Community Bonds turn supporters into investors.
MARRYING MARKET AND MISSION

Community Bonds are also about innovation in the marketplace. Over the past ten years, we’ve seen an explosion of new forms of organizing for social change across Canada and around the world. Social enterprises, social purpose businesses, and individual social entrepreneurs are all operating in a new “blended value” sector that marries the marketplace savvy of the for-profit world with the social values and community roots of the nonprofit world. Some nonprofit organizations are dipping a toe in the marketplace, selling a product or service on the side to support their work. Others are jumping in with both feet, embracing business strategies and even registering for-profit businesses.

This change is having a profound impact on the culture of the nonprofit sector, as organizations adapt and employ tactics generally associated with their for-profit counterparts. Across the country, Executive Directors of nonprofit organizations are defining their value-proposition and creating marketing plans. Along the way, these organizations are becoming more sophisticated, shuffling priorities and hiring staff with specialized business skills and experience. They are learning to leverage conventional methods of doing business to better serve their mission. The community based, grassroots gang is increasingly professionalizing, creating hybrid organizations that can make money and serve a social purpose too.
COMMUNITY BONDS CAN PROTECT AND REVITALIZE THE COMMONS

CREATING CITIZEN INVESTORS

In the quest for funding, nonprofits have historically depended on those with deep pockets: government departments, foundations, corporate sponsors and individual philanthropists. This approach has sustained the sector for generations, but it limits the contribution of ‘regular citizens’ to modest donations. Through emerging tools like the Community Bond, people of average means can be transformed from occasional donors or volunteers into citizen investors.

The Community Bond helps nonprofits leverage their relationships with their communities to create a winning scenario for the organization, the individual, and the community. Community Bonds are the ultimate impact investment.

WHAT COMMUNITY BONDS CAN DO

Imagine a small town creating its own performing arts space, or a hockey rink financed by the players’ parents. Picture a neighbourhood association creating a seniors’ center. Think about how existing property owners could re-finance their assets to conduct green retrofits for substantial energy savings. The possibilities are endless - and exciting!

Here’s what we know so far: Community Bonds work best when there is a low risk for investors and predictable future revenue to repay the debt. Beyond that, the sky is the limit!
Here are just a few examples of how Community Bonds can be used to support nonprofits

**BUILDING ACQUISITION AND UPGRADES**

Property acquisition and upgrades are the most obvious uses for Community Bonds. Far too many nonprofits spend their limited dollars on rent in substandard facilities because building acquisition is out of reach. But – with the right support – many could make it happen. Consider large nonprofits, recreation centres, theatres, hockey rinks, seniors’ homes, community kitchens and others. The Community Bond may be the key to get many of these organizations “over the hump” of a down payment or any number of building upgrades. If the Community Bond is secured by a mortgage on the property, there is also an opportunity to make the investment RRSP-eligible and, therefore, accessible to a larger group of investors.

**ENERGY EFFICIENCY UPGRADES**

Picture an organization that wants to upgrade its heating and cooling system for substantial savings in operating costs, but can’t afford the purchase price. We all recognize the obvious environmental and financial benefits of such an upgrade, but the initial hurdle is simply too high for many organizations. The Community Bond presents a novel and viable investment strategy for green retrofits that serve our communities and the bottom line.
“Social enterprise” is a term that describes a revenue-generating program of a nonprofit organization. Examples include a catering business, employment training institute or even a shared space for world-changers. Many social enterprises could achieve greater financial success and community impact with a bit of financing to help them acquire new resources, build capacity, break into new markets or undertake other developmental activity. Community Bonds could be the key for helping a social enterprise jump to the next level of success.

As we all confront the rising price of fossil fuels, many of us are looking to renewable energy sources to supplement or replace our dependence on oil. In regions like Ontario, which is home to North America’s first feed-in-tariff, there are financial incentives for renewable energy producers. The challenge is the high up front costs of purchasing the equipment. Community bonds are a perfect solution to financing the purchase of renewable energy infrastructure.
Here’s how a few local organizations are adapting the Community Bond

WEST END FOOD CO-OP

The West End Food Co-op runs a local farmer’s market in Toronto and is dedicated to advancing the cause of food security. They are using a super accessible community bonds – selling at a price of $500 each with a 2.5% interest rate – to finance the purchase and renovation of a new natural food store in the city’s west end.
**SolarShare**

SolarShare develops community-financed solar PV renewable energy projects. The proceeds from their Community Bond offering will be applied to their current project portfolio, which consists of 18 solar power installations, representing over 600 kW of generation capacity. Each project is backed by a 20-year power purchase agreement with the Ontario Power Authority and features fixed prices for the power produced, thereby guaranteeing a sustainable long-term revenue stream.

**ZooShare**

The ZooShare Biogas Co-operative is a nonprofit community co-op that plans to build a 500-kilowatt biogas plant at the Toronto Zoo for about $5 million. Electricity from the plant will be sold to the grid under the province’s feed-in-tariff program and fertilizer will be sold in garden centres under the Zoo Poo brand. Waste heat will be available for a nearby greenhouse to grow animal feed. About 70 per cent of the project, or roughly $3.5 million, will be funded through the sale of RRSP-eligible Community Bonds. ZooShare hopes to offer bonds with a seven-year term and up to a 7% annual return on investment.
CHAPTER 1

THE BOND STORY
“Community Bonds are not for the faint of heart.”
COMMUNITY BONDS HELPED THE CENTRE FOR SOCIAL INNOVATION BUY & RENOVATE A 36,000 SQ FT BUILDING IN LESS THAN ONE YEAR.
The CSI Community Bond story is just one story. We don’t think you should do exactly what we did – after all, your circumstances will inevitably be different. But we hope you can benefit from our experience and adapt our approach to suit your circumstances. We’d love nothing better than to see what else Community Bonds can do to support community development.

There are a lot of decisions to make in order to raise the money to undertake a community infrastructure project. All of these decisions coalesce into a deal structure. It may seem linear, but it is more like a giant puzzle, with pieces coming together from every angle all at once.

Tale of two projects

Remember: There are two projects taking place at the same time: the Community Bond campaign and the project you are trying to make happen. It will take double the effort and you’ll need to plan for an overlap in human resources, time, energy and money.
The Centre for Social Innovation is a social enterprise with a mission to catalyze, inspire and support social innovation in Toronto and around the world. We do this by creating community workspaces, incubating emerging enterprises, and developing new models and methods with world-changing potential.

Our core business is the provision of shared office space. We rent or purchase space and then divide it and rent it out to small organizations, either as offices, private desks, or coworking spaces (part-time shared workspaces). We orchestrate all of the shared services and manage the shared infrastructure while providing a vibrant menu of programs and activities intended to support our members and foster collaboration and innovation. The difference between the rent (or mortgage) we pay and the rent we charge is what covers our operating costs.

GROWTH

In 2004, we opened our doors to 14 tenants in 5,000 sq ft of space. By 2009 we had grown to over 230 tenants in 23,000 sq ft of space. Demand for our spaces continued to grow and we were eager to boost our organizational sustainability.

Most of all, we wanted to create an asset that was ‘by the community, for the community’. And of course, owning a building would be a great way to build equity for the organization while supporting more and more world-changers (Plus, as entrepreneurs, it would be a tremendously fun challenge to pull this off). We wanted to prove that we were capable of growing our operations and our impact. So we began exploring the possibility of buying a building in late 2009.
Voices echo in the aptly named Think Tank—someone's having a meeting. A couple of other members wander up to the rooftop patio for a chat. Someone else comes out of the bathroom in a party frock, on her way to a function straight from work.

One by one, lights start going off at desks across the floor.

FINDING THE CSI ANNEX
When we found a 36,000-square-foot building located near Bathurst and Bloor streets in Toronto’s Annex neighbourhood, we knew we had found the right spot. Unfortunately, we had no assets and therefore no way to secure a loan. The property was for sale at $4.2 million and the soft costs and renovations were estimated at $2.6 million. How was our small social enterprise going to raise the $6.8 million required to buy and retrofit a building to serve our vision?

THE SEARCH FOR A SOLUTION
We took the traditional route first and called the bank. But lo and behold, they weren’t interested in giving a mortgage to a nonprofit with no assets. We couldn’t really blame them, but if we gave up after our first negative response, we wouldn’t be entrepreneurs. So we kept asking. And eventually we found the right banker. We continued to look for more support while building this relationship.
In the squeeze between Christmas and New Year's Eve, Tonya Surman secured a meeting with Mike Williams, head of the City of Toronto’s Economic Development and Culture Department. He was thrilled with our shared space model and suggested the possibility of a loan guarantee from the City.

The banks started competing for the mortgage, acting as if the loan guarantee was a sure thing. We hoped it would be.

CSI formally pitched the folks at Economic Development and Culture for a loan guarantee.

The Economic Development and Culture Department brought the proposal to the Finance Department, which approved the plan.

Our Investment Package was ready and we began to formally market our Community Bond.

The removal of an oil tank delayed the environmental approvals - which turned out to be a blessing in disguise since we needed the extra time. We agreed to a $5,000 payment to extend the closing date until May 18.

The Finance Department presented the proposal to the Executive Committee at the City of Toronto, which recommended that the plan go to the council.

Here is how a small nonprofit purchased, funded, renovated and occupied a building in 19 months, while raising $1.4 million along the way.
MAY 2010 The building deal closed with $1.4 million in Bonds sold.

MAY 2010 The proposal for the loan guarantee went before Toronto's City Council and was approved - what a night!

MAY 2010 Series A and Series B bonds sell out!

JUNE 2010 Time to celebrate! More than 600 people came to a blow-out party at the new building.

JUL 2010 Construction begins.

OCT 2010 Unofficial opening. Tenants began moving into the 2nd floor of 720 Bathurst.

MAR 2011 We reach our $2 million target with the sale of Series C bonds just before the RRSP season ends.

JUL 2011 Construction is complete.

JUL 2011 We bought out our first bondholder - using additional sales of the lower interest Series C bonds to finance the buy out of higher interest bearing Series A bonds.
THE LOAN GUARANTEE

Early on, we explored the possibility of a loan guarantee from the City of Toronto. The City had provided loan guarantees to other nonprofits, so it seemed reasonable to ask them to consider the same for CSI. The loan guarantee would help us get our mortgage and would also demonstrate the City's support for our idea and our organization. We met several times with City staff and assembled a proposal that was eventually approved. It was a long process - six months from start to finish - but we stayed optimistic. The mere possibility of the loan guarantee was enough to keep the banks and investors interested while we worked out the details.

For those of you that need some interpretation, this meant:

1. the bank would provide a larger loan so that we could actually pay for improvements to the building.
2. the interest payments would cost us $224,000 less than they would without the guarantee.
3. the loan guarantee boosted investor confidence. People thought, “if the City likes it, so can I.”

There is no question that the loan guarantee was instrumental in making this project a reality.
SECURING A MORTGAGE

We were able to entice various financial institutions to offer competitive mortgage rates, based on the assumption that the loan guarantee would go through.

The building appraisal was key for us. All our financial dealings hinged upon the projected value of the building after renovations. It had an impact on how much the bank would give us in a mortgage, our insurance rates and the loan guarantee figures too.

We reached out to four financial institutions. The competition for our business was fascinating. With the likelihood of the loan guarantee, the banks improved the terms of financing considerably.

CSI ultimately secured a competitive five-year, $4.8 million mortgage from our existing financial institution – Alterna Credit Union – at 4.5% for 75% of the building’s projected value after renovations. The mortgage itself was structured as a development loan that carried strictly interest during the first year while we undertook renovations. As tenants assumed space and rental income started to trickle in, the loan converted to a long-term mortgage with a blended payment, reducing the loan balance that will be amortized over 25 years.
THE TWO MILLION DOLLAR IDEA

With the loan guarantee and the mortgage in motion, we were feeling great. But even when these two crucial items seemed to be falling into place, there was still one little hitch – we needed to raise an additional $2 million to actually close the deal and cover the costs of the work.

Tonya had been thinking for years about the possibilities for community investment in CSI. Since first hearing the term ‘community wealth,’ she had wondered how CSI could entice individual investment in CSI as a way to build organizational equity and a sense of shared ownership. Still unsure of the form this might take – or whether it would even apply to the current situation – she bounced some ideas off of Scott Hughes, a friend and social finance expert. Then she bounced some ideas off of Brian Iler, CSI’s social purpose lawyer. Then Scott, Brian and Tonya bounced some ideas off each other. It was clear that the answer lay in some kind of loan – accessible to community members and at terms that were manageable by the organization.

What emerged – out of circumstance, conversation and creativity – was the Community Bond. Initially just a wisp of an innovation, some careful research and planning helped to elaborate the proposal and confirm that the approach made legal and financial sense. CSI would sell bonds in the CSI Annex project as a way to generate revenue, build organizational stability, engage our constituents and serve our mission.
FOR-PROFIT OR NONPROFIT

We really wrestled with the idea of starting a new for-profit organization to purchase and manage the space. For-profits seemed to have so much more freedom in generating investment, especially given the number of potential investors that wanted an equity stake in the project.

Two pieces of information ultimately informed our decision. First, we learned that the Ontario Securities Act exclusion permitted charities and benevolent societies (that’s us) from having to go through the full (and very expensive) Ontario Securities Commission prospectus process; second, we confirmed that the loan guarantee from the city would only be available to nonprofits and charities.

This information led to our decision to remain a nonprofit.
The intention is to commence principal repayments within the first four years from inception

Principal repayments anticipated to commence following the Maturity Date of Series A Bond

Principal repayments anticipated on an ongoing basis with the option to roll the investment forward
We issued our bond in a series of three, backed by a mortgage on the property

All three Bonds are subordinate to a conventional first mortgage loan from Alterna Credit Union. This means that we owe the bank first, then the City, and then our Bond holders.

We chose the rates and length of time for the Bond offerings by looking at our timelines, our debt tolerance, and by asking people directly about the return they expected from an investment of this nature.

The fact that our bonds were subordinate to the mortgage meant that our investment did carry some risk. The truth was that the investment wasn’t ironclad – if something went drastically wrong, our investors could lose their money. We therefore needed to triple-check our assumptions – and back them up in a sound investor’s package and business plan – in order to establish sufficient confidence in the Bond.

In other words, if CSI couldn’t repay our mortgage, the City would step in to pay the bank, confiscate and sell the asset (building) - proceeds from the sale of which would be used to repay all bond holders.
CREATING OPTIONS TO SERVE THE NEED

Our offering was structured to secure investment in a very short timeframe (we had just four months from the point our investment package was ready to the closing date!). Offering Series A and Series B at a higher floating interest rate and with a higher minimum investment helped us attract investors in time to close the purchase. These early investors would give CSI time to solidify our business model and recruit our other investors while ensuring that we had operating dollars. Ultimately, this offering was conceived as a way to create an incentive for a longer investment period so that we would have more time to repay the debt. We would then have more time to market the C bond to our broader community.

We only sold Series A and B prior to the deal closing in May. From that point on, we sold only Series C Bonds to reach our $2 million goal. Over the subsequent six months we raised the balance of our $2 million. All of the bonds are RRSP-eligible.

To this day, we continue to sell Series C with the goal of buying out the more expensive bond holders. In due time, the community could even buy out the bank!

SELLING, SELLING, SELLING

From the start, the idea of the Community Bond garnered a ton of support - in principle. But the true test was whether anyone would buy them. As it turns out, they did.

Our first investor came in with a $150,000 investment, which helped establish a baseline for everyone else. Almost all of CSI’s Board members and the Executive Director became investors in the project.
In addition, CSI secured the investment of three foundations. This was a great step toward helping foundations explore how they could support social mission work outside of their traditional granting structures.

**TOUCHDOWN**

On May 18th, we delivered the money we had raised to our trustee. Then there was the exciting question: would we actually get the keys that day? At 5:00pm our small but mighty team of Tonya Surman, Karine Jaouich, Brian Iler and Eric Meerkamper took the keys to the building, opened the doors of the ground floor, boldly walked in and opened a bottle of champagne in celebration. We immediately called Scott and were then joined by members of the CSI community in celebration of this huge step in our evolution.

There were so many times in the process when we didn’t know if it would really work. We kept waiting for people to say no to us, but amazingly, people kept saying yes. We remain in awe.

A project like this requires incredible support and our crack team of experts had just the right mix of skills and enthusiasm. It was a dramatic six month whirlwind of activity to pull the deal together and to secure the financing to bring this vision to life (just wait until we tell you the renovation story!)

Since then, the real work has begun. Remember, the Community Bond was not an end of itself – it was merely the tool we needed to bring our new community to life. Our real purpose is social innovation. The Centre for Social Innovation is not just a property owner – it is a super powered platform for people and projects that are changing the world!