

## Deploying New Strategies In Pursuit of the Mission Of the Jessie Ball duPont Fund

*Trustees Set Aside \$10 Million  
For Multi-Pronged PRI Initiative*

In the summer of 2009, near the bottom of the Great Recession, communities, nonprofit organizations and philanthropic entities were reeling from the economic meltdown. Like other foundations, the Jessie Ball duPont Fund had seen the market value of its endowment plummet. But instead of lamenting the loss, the staff and trustees of the Jessie Ball duPont Fund considered their bounty and posed a provocative question: How could the Fund do more with its resources?

To meet immediate needs, the trustees already had approved a measure to increase the foundation's annual payout from 5% to 6% for the next three years, driving additional grant dollars into financially strapped organizations and communities. And the trustees had invested an additional \$1.6 million in special "safety net" funds to support organizations providing food, shelter, rent and utility assistance to the needy in its primary communities in Florida, Virginia and Delaware.

The question the staff and trustees posed was a deeper one. In the long run, is the Jessie Ball duPont Fund content to make grants to support its charitable mission, or do we want to make a deeper commitment? Are we willing to invest part of our core resources in the work we support? Are we willing to be true partners with those making change in communities?

In August 2009, the trustees answered those questions in the affirmative, and launched what would be a two-year period of research and study into Program Related Investments. By fall 2011, the trustees had set aside \$10 million of their endowment for Program Related Investments and had committed \$2 million of that to its first PRI, supporting the development and preservation of affordable rental housing and development of community facilities in Duval County, Florida.



"What better time for the Jessie Ball duPont Fund to step out?" said the Fund's president Sherry Magill. "It is hopeful. It says, 'We believe in these communities. Come follow us.' It is responsible action in turbulent times."

### What Are Program Related Investments?

Simply put, Program Related Investments - PRIs - are investments by a charitable foundation at below-market rates to support organizations that are addressing social or community concerns. PRIs often take the form of loans, promissory notes or equity investments. They are like grants in that they support organizations and activities that are in furtherance of the foundation's mission. They are different from grants in that they must be repaid.

PRIs offer advantages both to the foundation making the PRI and to the organization that receives capital from the PRI.

From the foundation's perspective, PRIs provide a vehicle

### How are PRIs Used?

PRIs are used for all kinds of charitable purposes, including affordable housing, arts, community development, cultural organizations, historic preservation, economic development including entrepreneurship and micro-businesses, charter schools, health clinics, childcare centers, faith-based structures and programs, social services, sustainable agriculture, fisheries and forestry, and wildlife habitat protection. They are used to fund capital projects, bridge loans and loan funds; to support microfinance institutions and promote economic development through loans to small and medium-sized businesses; to help organizations acquire property; to create jobs; and to develop new products or expand services.

*PRI Makers Network*

for deeper, more lasting and more focused investment in a particular issue or a particular place.

Grants tend to be awarded in smaller amounts and for shorter periods of time; consequently, they tend to focus on activities and issues that can be addressed in the short term. Capital made available through a PRI, in contrast, may be lent in much larger amounts over a much longer period of time, allowing recipient organizations to address more complex undertakings.

Some foundations fund PRIs from their grants budgets. The Jessie Ball duPont Fund, however, like many other foundations, is funding its PRIs from its endowment, making the PRI investments a true complement to the foundation's grantmaking, and broadening the potential reach of the Fund's philanthropy.

From the recipient organization's perspective, a PRI can often leverage funding from other sources. A PRI may be the critical piece of funding that helps attract commercial lenders to a neighborhood redevelopment project, for example, or it may be the piece of funding that enables an organization to establish a track record and prove its credit-worthiness. In addition, recipient organizations can benefit from the discipline and accountability practices that are part of the PRI process.

While foundations may make Program Related Investments in a wide range of organizations, many prefer to invest directly with an intermediary organization, which then makes, manages and collects payment on individual loans. For example, a foundation may make a PRI with a community development financial institution (CDFI) that provides low-interest loans to support housing redevelopment in a low-income community. The foundation relies on the local knowledge and lending expertise of the CDFI rather than hiring the staff and developing that capacity internally.

### **The Jessie Ball duPont Fund's PRI Strategy**

While the Jessie Ball duPont Fund's mission speaks to "expanding access and creating opportunity," the trustees imposed upon themselves a more targeted structure for the PRI program. The Fund's PRI investment policy statement requires PRIs approved by the Jessie Ball duPont Fund to:

- 1) Be consistent with and advance the mission and programmatic goals of the Fund;
- 2) Focus on investment opportunities in the American South, with a priority for such opportunities in the three states - Delaware, Florida and Virginia - that represent the geographic priorities of the Fund;

- 3) Seek to strengthen the capacity of community development financial institutions (CDFIs) that serve the American South;

Within this framework, PRIs must align with and enhance the Jessie Ball duPont Fund's grantmaking in four key areas:

- 1) Preservation and development of affordable housing;
- 2) Growth of the renewable energy and sustainable energy sectors;
- 3) Job creation and enterprise development, particularly in Southern rural communities;
- 4) Financing of community facilities that serve low-wealth communities (e.g., child-care facilities, community health clinics).

### **Care and Due Diligence**

Foundations, and those who manage them, are charged with fiduciary responsibilities -- that is, they are entrusted to care for assets for the benefit of another. As fiduciaries, foundation trustees must exercise great caution in the investment of the foundation's assets, so as not to jeopardize the benefits that might accrue. So how can a PRI that takes the form of a large, unsecured, low-interest loan to a young nonprofit organization be consistent with fiduciary responsibility?

In 1969, the Internal Revenue Service created a specific provision (Section 4944(c)) that enables private foundations to invest money in ventures that will help achieve the foundation's charitable purposes but may not otherwise meet the criteria to be an acceptable business investment. The IRS requires that these Program Related Investments meet the following criteria:

- The primary purpose of the investment is to accomplish one or more of the charitable, religious, scientific, literary, educational and other exempt purposes.
- No significant purpose of the investment is the production of income or the appreciation of property;
- No purpose of the investment is to lobby, support or oppose candidates for public office or to accomplish any of the other political purposes forbidden to private foundations.

To ensure compliance with the IRS regulations, and to be the best possible stewards of the foundation's assets, the Jessie Ball duPont Fund has exercised extreme care in structuring its PRI program and has conducted extensive research and due diligence on potential PRI recipients.

Early on in its exploration of PRI programs, staff engaged the help of Tom Miller, formerly director of PRI programs at the Ford Foundation. Miller, together with Jessie Ball duPont Fund Vice President Mark Constantine, who directs the Fund's PRI program, developed a rigorous due diligence process consistent with the highest standards in the field. They drew on the expertise of organizations such as PRIMakers Network, Opportunity Finance Network, the Ford Foundation, the MacArthur Foundation, the Mary Reynolds Babcock Foundation, the F.B. Heron Foundation and the Annie E. Casey Foundation -- organizations that have greatly advanced the field and eased the barriers to entrance for smaller foundations.

Part of the due diligence process includes submission by the applicant of its most recent CARS review. CARS, the CDFI Assessment and Rating System, provides independent, third-party assessment of a CDFI's performance and financial strength, helping investors assess CDFIs that match their social objectives and risk parameters.

### **The Jessie Ball duPont Fund's First PRI**

As the Jessie Ball duPont Fund entered the PRI space, the trustees were clear that they were not soliciting PRI requests, but being intentional about identifying potential investment opportunities. Among the first opportunities the trustees explored was the affordable housing market in Duval County (Jacksonville), Florida.

The Jessie Ball duPont Fund has a long history of investment in affordable housing in Duval County. Early in the Fund's history, it was among the original funders of Habijax, the local Habitat for Humanity affiliate. In later years, it was instrumental in bringing LISC to Jacksonville and helping LISC Jacksonville become among the strongest and most productive LISC chapters in the South.

In addition, through a partnership with the Archdiocese of Miami, the trustees had been among the original funders of the Florida Community Loan Fund, a CDFI that provides capital and technical assistance to nonprofits in Florida involved in affordable housing, economic development and essential social services in urban and rural low-income communities.

Not surprisingly, the Florida Community Loan Fund was among the first stops for the trustees as they began learning about PRI opportunities in January 2010.

Over the course of the year, the trustees and staff took a hard look at the affordable housing landscape in Duval County, drawing on the expertise of lenders and housing

experts in government as well as others in philanthropy across the state. The trustees also engaged Susan Christian Consulting to conduct a market analysis assessing the demand for capital to build, rehab and/or manage affordable rental housing in Duval County.

As a result of that research, the trustees invited the Florida Community Loan Fund to submit a request for a PRI that would provide capital that the Loan Fund would relend to community development projects, primarily affordable rental housing, for the benefit of low-income people in Duval County.

The specific parameters of the PRI request that was approved by the trustees include:

- A commitment of a \$2 million loan for a term of 7 years, carrying an interest rate of 2% payable annually, with half of that interest amount placed by the Loan Fund into a funded loss reserve dedicated to the PRI.
- Proceeds of the loan would be restricted to projects benefiting low-income people through development of new or preservation of existing affordable rental housing in Duval County, Florida, with up to 25% of the total PRI to be used for "non-housing" community projects that serve low-income people in Duval County in other ways.
- The program anticipates making three to six loans, not exceeding \$2 million over the 7-year term of the requested PRI. Loans would support a range of development needs, including predevelopment, acquisition, and rehabilitation or new construction.
- The PRI would be used by the Loan Fund to originate loans to nonprofit and perhaps for-profit developers to complement and expand the reach of conventional sources of capital. Based on historical experience the PRI also would help leverage additional capital from public and private sources for high impact projects. Historically, CDFIs such as the Loan Fund have leveraged an aggregate \$3 of capital from other sources for every \$1 of PRI capital deployed.
- The Loan Fund would service loans and monitor progress of its borrowers. The Loan Fund's continued expansion of its loan pool will provide sufficient capital and flexibility to repay the PRI.

### **A Learning Opportunity**

While the PRI represents a significant financial investment by the Jessie Ball duPont Fund, the trustees and staff were

quick to agree that it also represents an enormous learning opportunity.

In the long run, the Jessie Ball duPont Fund's program interest is in building the capacity of institutions in the county to provide sufficient affordable housing. Gaining direct experience in a time of rapid change is key to that long-term goal.

"Making loans is not the goal here," Magill said. "Making loans is a tactic. The goal is to build a system to ensure that folks can afford housing."

Toward that goal, the PRI plays an important role, but also a complementary one, standing alongside the Jessie Ball duPont Fund's grantmaking, convening and research agendas to, as a coordinated body of work, expand access and create opportunities for the people, organizations and communities that were important to Jessie Ball duPont.

## **TO LEARN MORE**

**PRIMakers Network** -- [www.primakers.net](http://www.primakers.net) - An association of grantmakers that use program-related and other investments to accomplish their philanthropic goals, PRIMakers provides a forum for networking, professional development, collaboration and outreach to funders, including those new to the PRI and social investing field.

**Opportunity Finance Network** - [www.opportunityfinance.net](http://www.opportunityfinance.net) - The leading network of private financial intermediaries identifying and investing in opportunities to benefit low-income and low-wealth people in the U.S.