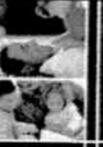




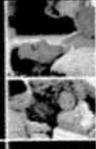
Community Foundations and Economic Development

Michigan House of Representatives
New Economics and Quality of Life Committee
Representative Ed Clemente - Chair
What Philanthropy is Doing to Encourage and Support
April 14, 2010



Economic and Community Development as the Foundation Sees It

A healthy community offers an environment dedicated to enhancing the physical, social and cultural conditions for all residents. It provides meaningful employment, resources for economic growth, a strong downtown and vibrant neighborhoods. We want Kalamazoo to be a healthy and prosperous community, now and for future generations.



Kalamazoo Community Foundation

Economic and Community Development Another Definition

In its purest form economic development is the creation of jobs – those that are well paying with health and retirement benefits - which results in opportunities for stepping up the employment ladder, tax base creation and ensuring intellectual capital and advancing education. (Ron Kitchens, CEO Southwest Michigan First)

3



Kalamazoo Community Foundation

Economic and Community Development Another Definition

The very essence of {economic development} is, in fact, *the transition* ...from one export base to another as the area matures in what it can do, and as rising per capita income and technological progress change *what the **world** economy wants done*.

W.R.Thompson (1965)

In short: It is the transition from what we know how to do to what the world economy wants. (George Erickcek, W.E. Upjohn

Institute adoption)

4



Kalamazoo Community Foundation

Foundation Background

- Created - 1925 with a gift from Dr. W.E. Upjohn
- Current Assets - \$275 million / 90% endowed:
3-31-10

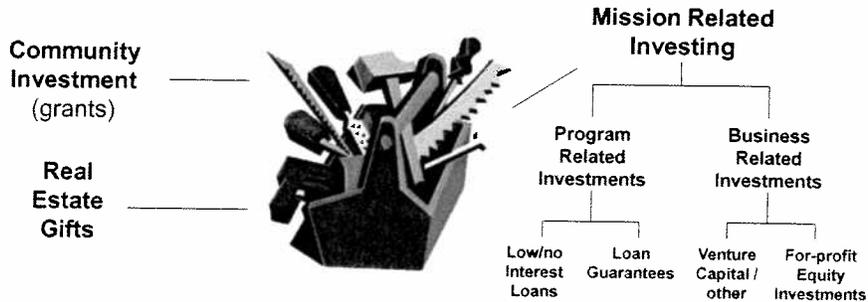
	% of Assets	# of Funds
Unrestricted	37.5%	131
Restricted	62.5%	655

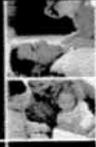
- Gifts and Grants – Average approximately \$15 million annually



Kalamazoo Community Foundation

Asset Leveraging Tools



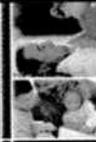


Kalamazoo Community Foundation

Key Organizational Elements

- Economic development priority
- Expanding the tool box – mission driven investing
- Wearing the right Hat
- Retain the asset, but risk vs. community betterment
- Leveraging
- Patience
- Reserve appropriately

7



Kalamazoo Community Foundation

Community Investment Priorities

- Individuals and Families,
- **Economic and Community Development,**
- Youth Development,
- Early Childhood Learning and School Readiness.

8



Kalamazoo Community Foundation

PR/BRI Fiscal Summary

- Unrestricted Asset cap – \$22.5 million + \$1.5 million / JHCRF
- 26 PRIs / 3 BRIs Authorized
- \$22 million executed
- \$4 million retired

9



Kalamazoo Community Foundation

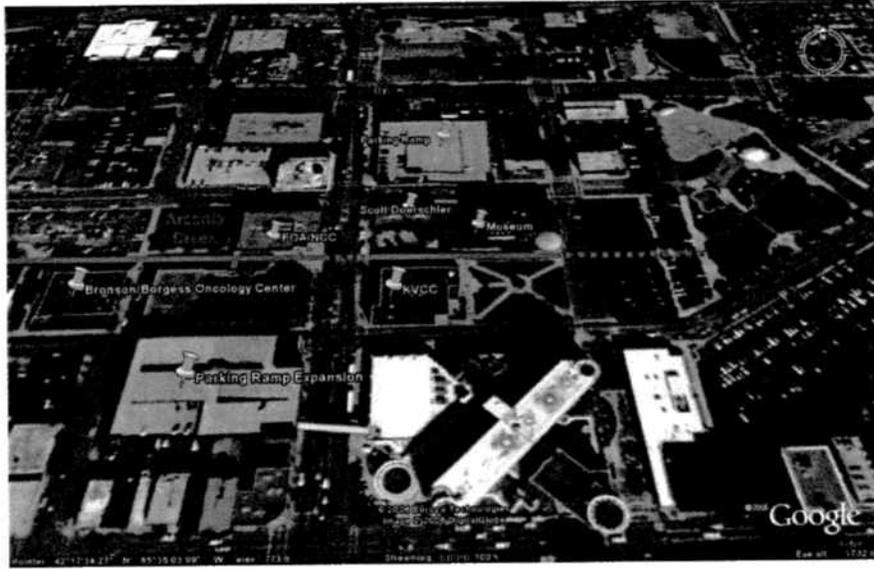
“The Three Legal Basics” ⁽¹⁾

- ✓ Ensure the creation and retention of jobs - ***relief of the poor and distressed.***
- ✓ Help prevent further erosion of the tax base - ***lessening the burdens of government.***
- ✓ Ensure availability of intellectual capital to create synergy with the schools, colleges and universities in the region - ***advancement of education.***

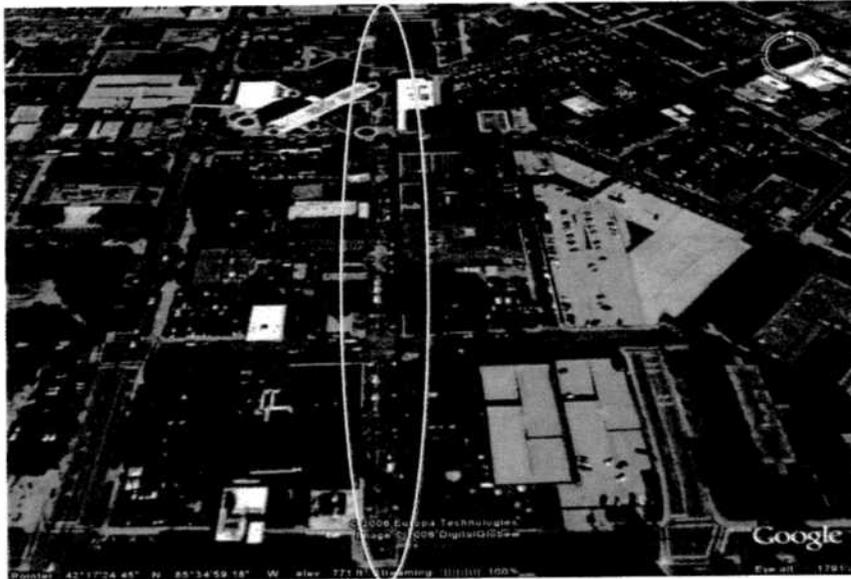
(1) Attorney Celia Rody – June 2003 communication to the Foundation

10

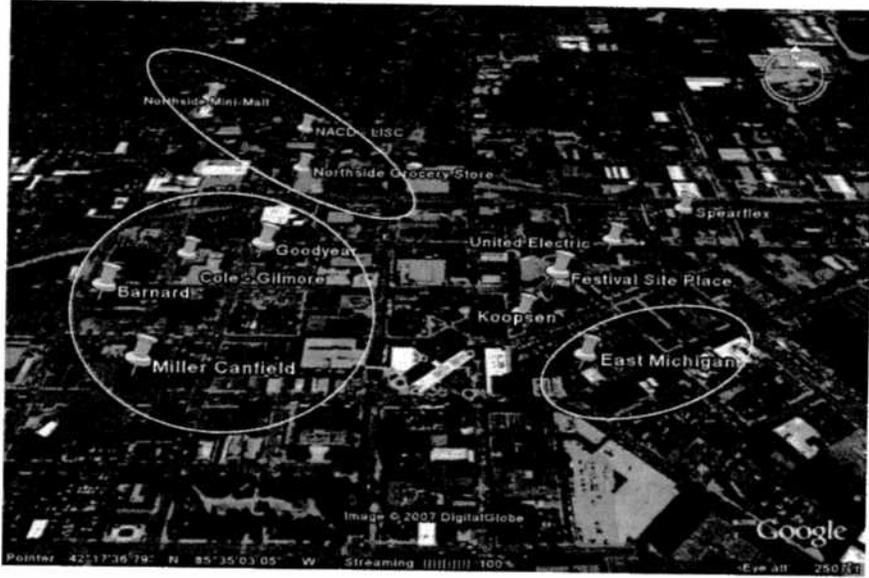
First Generation - Arcadia Commons
Public/Private/Foundation Partnership - \$135 Million
KCF Grants & PRIs – Late 80s / Early 90s



Second Generation – Mall Restructuring
Public/Private/Foundation Partnership - \$10 Million
KCF Grants – Late 90s



Third Generation - Downtown Growth
LISC/DTI/Foundation Partnerships
KCF PRIs – 2000 / Present



Northside Grocery Store - LISC



Koopsen



United Electric



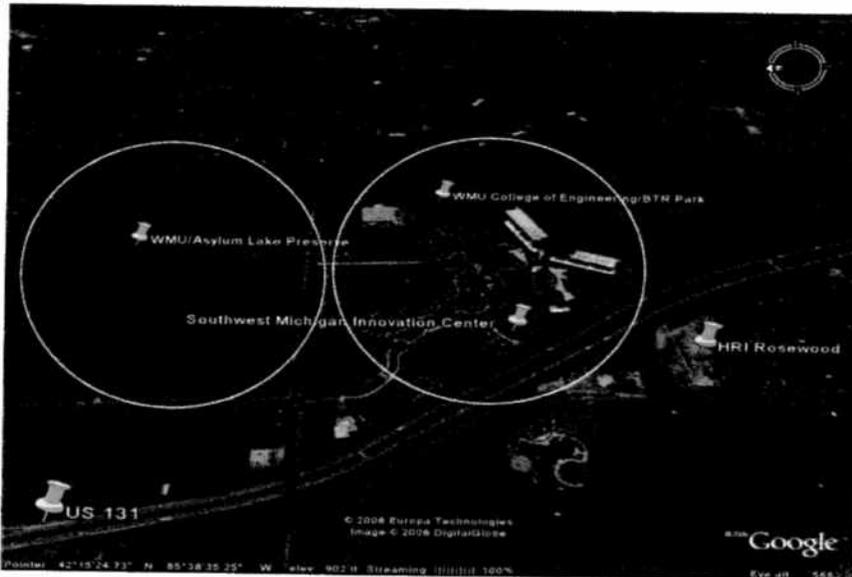
East Michigan



Third Generation - Downtown Growth
Recent Public / Private Development - \$450 million



Third Generation Growth
WMU/SMF/Public/Private/Foundation - \$165 Million
KCF Grants & PRIs



Third Generation Development
 WMU/SMF/Michigan/City/County/Donor/Foundation
 KCF PRI



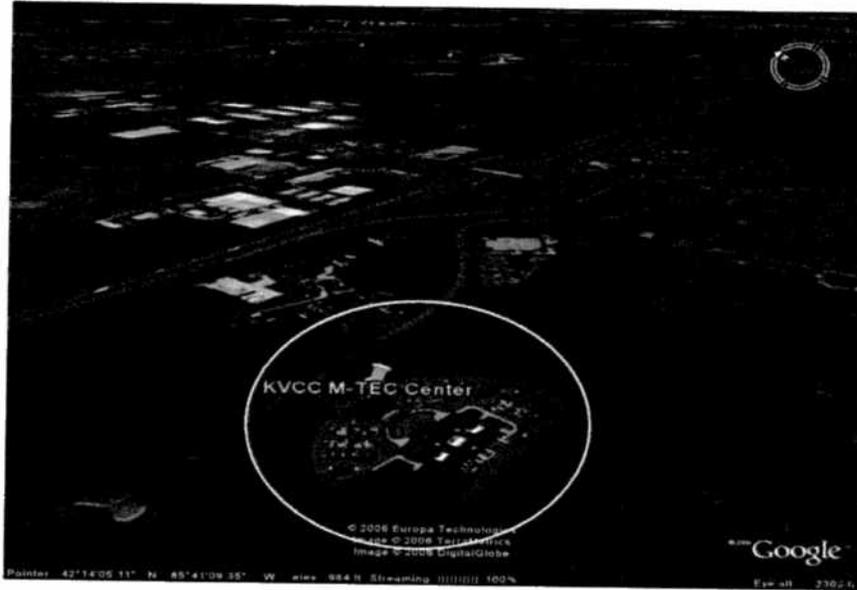
Kalamazoo Community Foundation

- Completed in 2002, the Center is a thriving 58,000 square foot scientific incubator scheduled for a 2008 expansion.
- 18 companies incubated, 8 graduates, currently employs 50 + scientists and total employment of 136.
- Creates high-skill/high-wage jobs.
- A 1:1.3 job creation and \$12.3 million personal income impact.
- Revitalizes the community and opens opportunities for all citizens.
- **\$3 million PRI** to match \$10 million in gifts and state and local funds and a \$2 million expansion.



Western Michigan University
 Business Technology Research Park

Third Generation Development - KVCC MTEC Center
Public/Private/Foundation Grant



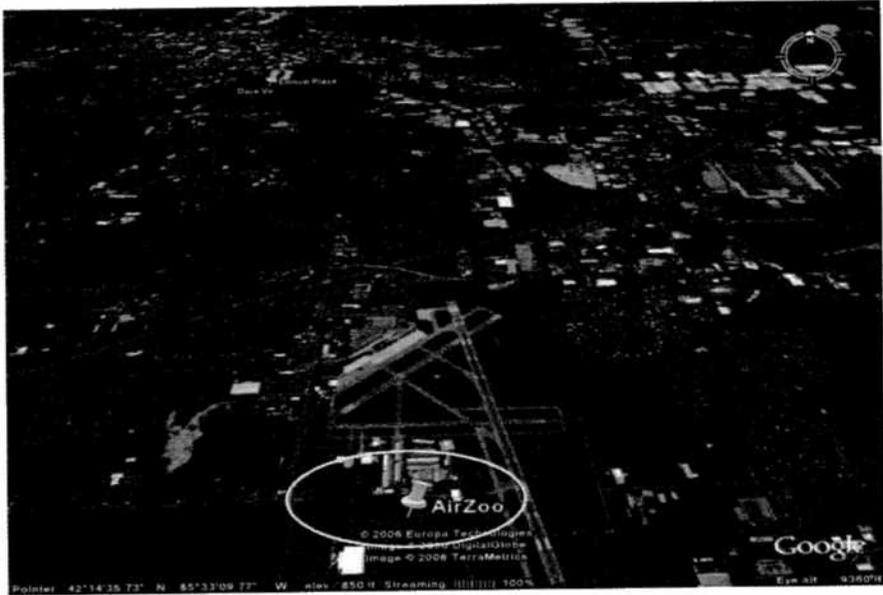
Kalamazoo Community Foundation

- 70,000 Square foot effort by KVCC and its partners (businesses, industries, and foundations in the region) to deliver employer-driven training in the 21st century.
- Also provides a business incubator environment for start up businesses and partners with local economic development efforts.
- **\$2,000,000 Foundation grant** to leverage \$4,000,000 in local funds and a State matching grant in the amount of \$5,000,000.

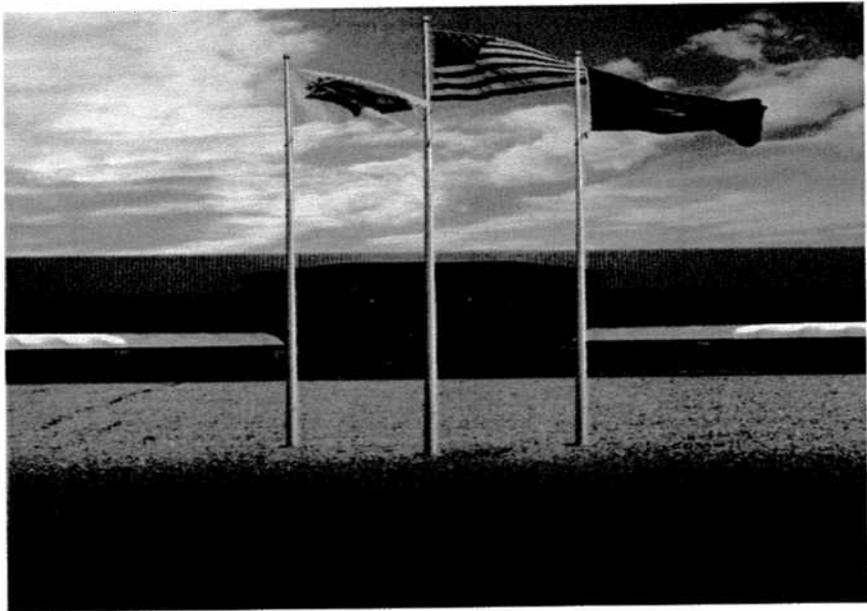
Kalamazoo Valley Community College M-TEC Center



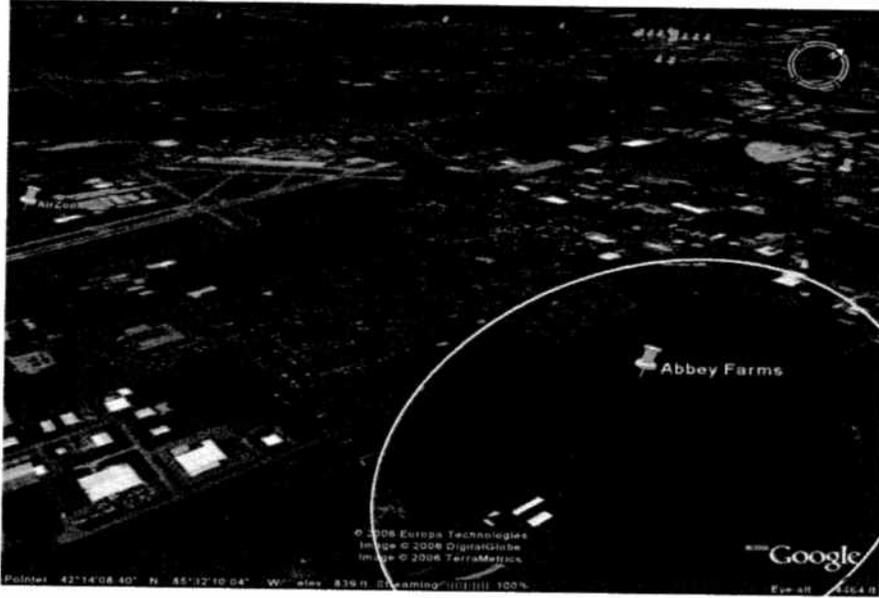
Third Generation Development – Air Zoo
Foundation Public/Private/Foundation PRI



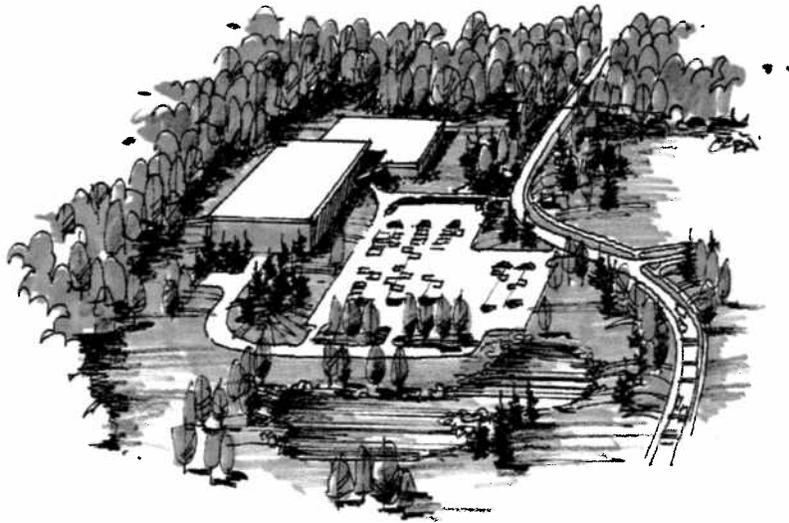
Third Generation Development
Kalamazoo Air Zoo



Third Generation Development
SMF/Foundation/Donors



Abbey Farms – 214 Acres



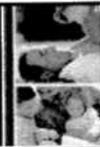


Kalamazoo Community Foundation

- \$31.5 million committed capital
- Pre-seed and seed focus on university-science based start-ups in biotechnology, life science and information technology.
- Some Kalamazoo investment
- Midwest deal flow
- Michigan executive office in Kalamazoo
- **BRI - \$2 million**



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Kalamazoo Community Foundation

- \$20.2 million committed capital
- Early stage medical devices, software, telecommunications, health care, specialty manufacturing
- Some Kalamazoo investment
- Michigan and Midwest deal flow
- Home-based fund, as are both general partners
- **BRI - \$500,000**



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Kalamazoo Community Foundation

- \$14 million committed capital
- Early and seed through growth life sciences: biopharmaceuticals, medical devices, drug discovery tools, healthcare software/services
- Some Kalamazoo investment
- Michigan and Midwest deal flow
- Home-based fund, as is one of the general partners
- **BRI - \$500,000**

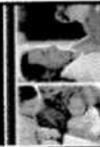


Fourth Generation Development Portage Street Gateway to Downtown





Kalamazoo Community Foundation



Kalamazoo Community Foundation

- **Home Ownership Program (HOP)**
- First HOP in 1993 with \$1 million – current program \$3.8 million
- Nine HOP programs overall with \$31 million for 1st mortgages and \$16 million for 2nd mortgages (in 2000, KNHS administered the largest pool in the Country - \$10 million)
- 5-10 banks commit funding pools with Foundation loan guarantee - 700 + new low to moderate income homeowners positively impacted 80% or < AMI
- Delinquencies higher than normal but to be expected – no Foundation losses





Kalamazoo Community Foundation

Supplemental Information

For added information, please
peruse the follow slides when
you have the opportunity.

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Kalamazoo Community Foundation

Using Charitable Assets for Economic and Community Development Legal Counsel to the Kalamazoo Community Foundation

- Attorney Dan DeMent – DeMent and Marquardt PLC – Kalamazoo, Michigan – General Counsel
- Attorney Celia Roady - Morgan, Lewis and Bockius LLC – Washington, D.C. – Retained Counsel
- Attorney Edward Beckwith – Baker & Hostetler – Washington D.C. – Retained Counsel
- Attorney Duane Tarnacki – Clark Hill PLC - Detroit, Michigan - General Counsel - Council of Michigan Foundations

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Financial Statement Presentation

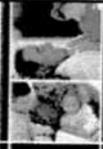
Program Related Investments (PRIs) - PRIs generally take the form of a loan with below market terms and conditions such as lower than market interest rates and favorable repayment terms. These loans are generally made because the borrower cannot obtain traditional financing or because the favorable loan terms enable a project to move forward.

Loans are reported on the Statement of Financial Position as an asset. Annually the loan portfolio should be reviewed to determine the underlying market value of the assets by assessing the collectibility (see an Evaluation in the following tab). Collectibility will be determined by reviewing the value of the assets securing the loan and the balance sheet of the borrower. Amounts deemed uncollectible will reduce the



Financial Statement Presentation

Business Related Investments (BRIs) - BRIs generally take the form of a partnership investment. At least annually, the investment will be adjusted to partner capital. This could be problematic since the community foundation must rely on the partnership to provide value information on a timely basis and in an accurate manner. If the community foundation has reason to believe that something less than partner capital would be returned in the future further adjustments could be accordingly reflected on the balance sheet.



Kalamazoo Community Foundation

Summary

- Traditional grants, PRIs and BRIs have become effective tools in pursuit of the Foundation's economic and community development focus.
- The Foundation's corporate PR/BRI mindset is driven by the program or community investment side of the Foundation – not the managed asset side.
- Were it not for the Foundation's unrestricted assets and the CRF, the focus on economic and community development would be less emphatic.
- Appropriate knowledge has been applied and the necessary processes and administrative support have worked well to support the PR/BRI Policy.

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Kalamazoo Community Foundation

Program and Business Related Investments Early History

- 1988/1995 – Three loans to Kalamazoo Neighborhood Housing Services totaling \$200,000
- 1990 – \$998,620 recoverable grant to Downtown Tomorrow, Inc to leverage the financing of a major downtown reconstruction project – Arcadia Commons
- 1991 – \$50,000 loan to Kalamazoo Valley Habitat for Humanity, Inc.
- 1992 – 2000 - \$200,000 in loan guarantees to HOP programs to leverage \$10 million in five bank consortium lending pool for low income housing
- 2000 – Adoption of Program and Business Related Investment Policy and initiation of second generation structured approach to the use of charitable assets for economic development

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Kalamazoo Community Foundation

Program Related Investments (PRIs) Philosophy & Principles

- Program vs. Investment Management orientation
- ROI = community betterment achieved
- Full expectation of asset retention
- Expanded up-front due diligence and follow-on reporting
- Invest in success driven 501 (c) (3) partners with strong boards and management (examples to follow)
- Financial statement presentation - book appropriate reserves based upon annual evaluation
- Flexible use of security instruments such as promissory notes, mortgages, etc.

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Kalamazoo Community Foundation

Business Related Investment – Venture Capital Philosophy & Principles

- Use subsidiaries (KCFREHI, the Foundation's holding company) having a strong letter of determination re: economic development.
- Seek venture capital funds that will invest in businesses which will serve charitable purposes.
- Seek funds with community presence and/or general partners having deep personal commitments to help the community grow and who:
 - provide guidance to local entrepreneurs
 - assist in attracting and retaining skilled talent and jobs
 - collaborate with economic development agencies and higher education committed to investing in the community

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Kalamazoo Community Foundation

Program Related Investments Security Instruments Used by Staff

- Promissory notes
- Security instruments
 - 1st and 2nd mortgages
 - intercreditor agreements
 - balance sheet covenants
 - contractual interest assignment
 - unutilized holding costs,
 - some combination of above

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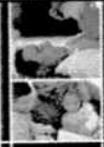


Kalamazoo Community Foundation

Grants: The Traditional Way for Community Foundations to Stimulate Economic Development

- Kalamazoo Community Foundation's largest grant ever (\$3.3 million) was made to Western Michigan University to support the creation of a major Business Research Technology Park.
- One of two of the next largest grants of \$2 million supported the creation of one of six Michigan Technology Centers on the campus of Kalamazoo Valley Community College.
- Numerous other grants have been made in the areas of economic and community development.

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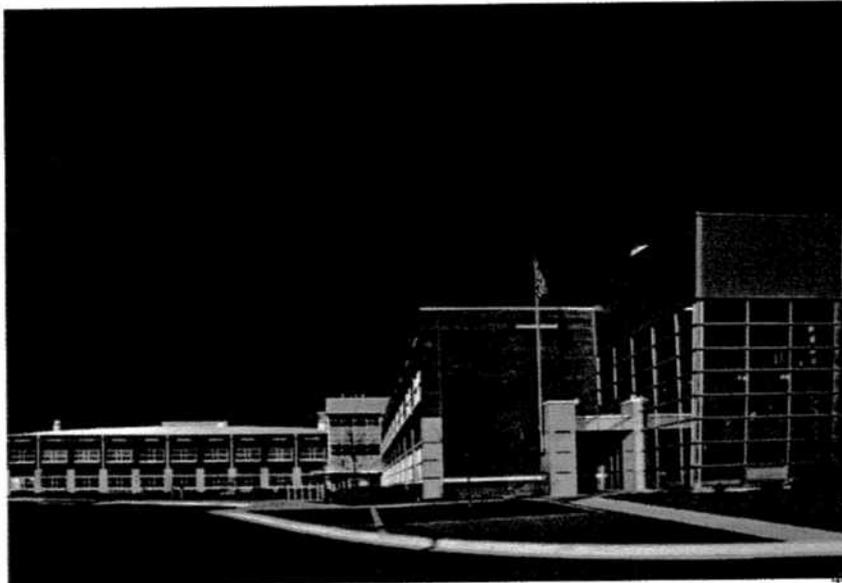
Kalamazoo Community Foundation

- **Rosewood**

- Focus: de-concentrating poverty in older core cities
- 79 high quality mixed income housing units set in suburban area
- Families - low wage working families earning 30-60% of AMI and 65% AMI to Market-rate for single family homes
- 17 special needs units for 30% < AMI
- Financed by \$250,000 Kalamazoo Community Foundation PRI / land, LIHTC, MSHDA, HUD-HOME and City of Kalamazoo tax abatement



Southwest Michigan Innovation Center



According to Bob Miller in a January 22, 2007 MiBiz article the BTR Smartzone designation (one of 13 in the State):

- the capture of taxes from resident companies which gets funneled back into the park for infrastructure, marketing and other direct bottom line purposes,
- that non-University employment of the 30 resident companies in the Park had skyrocketed from 19 to 543 since 2001 and the average employment growth of the companies has been 125%, and
- noted the dynamics of the College of Engineer and the dynamic, state-of-the-art, cutting-edge companies are each the foundation of the Park's success.

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Kalamazoo Community Foundation

- 70,000 Square foot effort by KVCC and its partners (businesses, industries, and foundations in the region) to deliver employer-driven training in the 21st century.
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- **\$2,000,000 Foundation grant** to leverage \$4,000,000 in local funds and a State matching grant in the amount of \$5,000,000.

Kalamazoo Valley Community College M-TEC Center



46



Kalamazoo Community Foundation

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Kalamazoo Valley Community College M-TEC Center

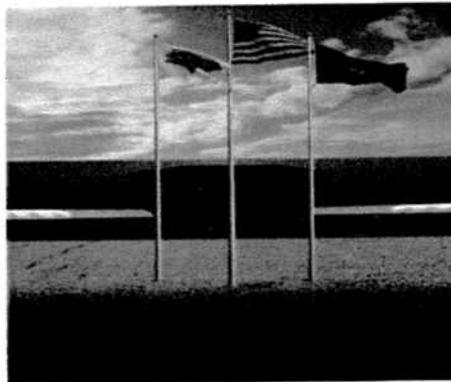


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Kalamazoo Community Foundation

- New concept of entertainment-based education in the air sciences
- Construction completed – 2004
- Governor Granholm said: "The Air Zoo is a metaphor for what Michigan can be."
- Boosts the local economy with job creation and visitor spending
- Unique draw for people across the nation (52% beyond Midwest)
- **\$1 million PRI** to help leverage a multi-million dollar economic development project



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Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

- Goodyear site
- Building originally gifted to the Foundation
- **PRI - \$597,000** to DTI to purchase
- Helped to secure leveraged assembly and development of 9 downtown blocks on western central business district



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Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

- Cole-Gilmore site
- Gift to Western Michigan University
- **PRI - \$1,520,000** to DTI to offset mortgage on property
- To secure leveraged assembly and development of 9 downtown blocks
- Agreement between DTI and University to jointly develop 9 block parcel



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Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

Miller Canfield Building

Loan Date: 2006

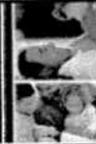
Loan Amount: \$1,800,000

Initial Loan: \$535,500

Keep major legal firm downtown and secure leveraged assembly and development of 9 downtown blocks



51



Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

- City owned property
- **PRI - \$1,250,000** to develop Festival Place site
- Bridge financed beautification and enhanced use of deteriorated downtown block



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Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

- Four buildings at downtown's primary four corners
- **PRI - \$1,515,000** to purchase and sell for development four of six deteriorated buildings
- Because of their individual 30 to 40 foot width, this assembly of buildings was key to their future redevelopment



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Kalamazoo Community Foundation

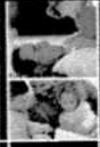
Downtown Tomorrow, Inc.

Koopsen Building

- Loan Date: 2001
- **PRI - \$784,035**
- Status: Completed 2004
 - 20 Residential Condos / Office (12,000 SF)



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Kalamazoo Community Foundation



\$1 million PRI to Local Initiative Support Corporation (LISC) - leverages national LISC funds

• Typical Projects:

- Main Street facade renovation
- Edison Neighborhood acquisition
- Northside Grocery Store
- Northside Mini Mall



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Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

- United Electric Building near downtown on BR I-94 and M-43
- **PRI - \$200,000** to DTI to purchase for redevelopment in concert with a **\$350,000 PRI** from the unrestricted asset pool
- Area is key to the north downtown where rehabilitation of older buildings has surged in recent years
- Sale consummated and project is now under re-construction



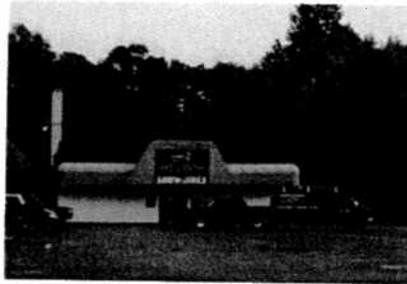
56



Kalamazoo Community Foundation

Downtown Tomorrow, Inc.

- Déjà Vu site
- **PRI - \$382,000** to DTI
- Leveraged financing for purchase and development of buildings which housed a former adult entertainment business
- Nearly a city block in size, this business was situated amidst a diversified inner-city neighborhood
- Officials and neighborhood leaders recently celebrated its demolition



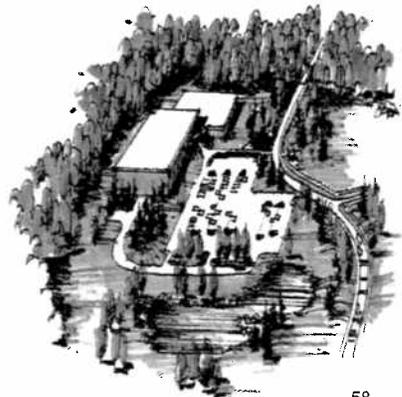
57



Kalamazoo Community Foundation

Foundation Property Development

- 214-acre farm gifted to the Foundation by Carroll and George Abbey near major transportation routes
- **\$75,000 internal PRI** for highest and best use development planning
- An environmentally sensitive park type development with complementing preserved passive recreational areas for mixed light manufacturing, commercial and residential
- **\$1,160,000** to purchase from holding company to make Abbey Farms Historical Fund whole
- Listed on Michigan Site Registration



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