

# Southeast Colorado Springs

Summer 2019

## Community Investment Trust



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# The Problem:

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## Problem Statement:

Southeast Colorado Springs has not experienced the same degree of economic development that the downtown and northern regions have in the last 5 years. As Colorado Springs evolves to be “Olympic City USA,” it is necessary to bolster the economic climate of Southeast by providing residents with the tools to assert ownership within their community.

## Statistical Proof of Issue:

While issues occurring within the Southeast community certainly are not limited to zip codes 80910 and 80916, Southeast Colorado Springs is generally defined by the aforementioned zip codes for research purposes. Census data on the region indicates that it is significantly more diverse but also more disadvantaged than the city as a whole. 22 of 26 schools in Harrison School District 2 have over 50% of students qualifying for free or reduced lunch. A 2018 study by the Urban Land Institute found that Southeast has the highest number of vacant properties in the city - indicating a gap in investment in this region but also a large potential to activate these spaces. In order to create a thriving economic environment in Southeast it is necessary to consider solutions that address the root causes of the disparities - low median income, low levels of education, and lack of affordable housing.

	<b>Colorado Springs</b>	<b>80910</b>	<b>80916</b>
<b>Poverty Rate (%)</b>	12.8	26.5	20.8
<b>% White</b>	78.2	56.64	54.29
<b>Median Income</b>	\$58,158	\$47,809	\$55,391
<b>Homeownership (%)</b>	57.8	39.2	48.4
<b>&gt; HS degree (%)</b>	93.2	83.0	85.6

Data retrieved from US Census Bureau

<b>Metrics</b>	<b>Southeast Colorado Springs study area</b>	<b>City of Colorado Springs</b>
Population	73,697	459,681
Population growth, 2000–2017	19.2%	26.7%
Average household size	2.61	2.45
Percentage over 18 years of age	72.0%	76.7%
Median age	30.2 years	36.3 years
Unemployment rate	5.5%	3.6%
Median income	\$40,786	\$59,604
Housing vacancy rate	7.1%	4.8%
Median home value	\$150,079	\$273,788
Retail vacancy rate	17%	7%
Retail lease (per square foot)	\$9.50	\$23

Source: ULI briefing book.

# Current Momentum and Efforts in SE COS:

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## City of COS in the Southeast:

The City of Colorado Springs is currently working to further develop the Southeast community. Projects aimed at supporting community capital in the Southeast include Panorama Park, the Amazon Warehouse, and the Academy & Hancock Improvement Project. The Panorama Park Master Plan was recently finalized after a community event held on the projected property gauged interest, wants, and concerns of residents. Once completed, Panorama Park will serve as a revitalized center for community engagement and enjoyment. Furthermore, Amazon plans to expand to Colorado Springs by placing a sustainable operating warehouse near the airport in Southeast COS. This project in turn will create significant growth in terms of work opportunities, fostering continued momentum within the region. Regarding the Academy & Hancock Improvement Project, the City of Colorado Springs plans to improve and fix the South Academy Boulevard Corridor. By conducting studies and public meetings, the city has placed importance on revitalizing transportation in Southeast Colorado Springs. Ultimately, the implementation of these various projects will significantly increase economic development of Southeast COS and is representative of the increasing focus on the region.

## Grassroots Movements:

Many Southeast residents are active in their community in varying leadership capacities. Southeast is a community that is distrustful of outsiders yet this does not hinder their ability or willingness to organize. The RISE Coalition was created in 2017 and brings together local organizations involved in Southeast to facilitate dialogue and social cohesion. In addition to validating which organizations in Southeast are genuinely invested, RISE Coalition identifies “VIPs” (Very Involved People) in the community. RISE has been successful in mobilizing community members and establishing name-recognition and credibility amongst residents.

Solid Rock Community Development Corporation has a number of ongoing projects (see section: Organizational Impact in SE COS). One of their major collaborations, for instance, is the redevelopment of Mission Trace Shopping Center into Mission Trace Development Hub. Survey

research of Southeast residents by El Paso Public Health indicated a desire for a community gathering space, or a “hub”. As a result of this research, Solid Rock CDC is working with Craddock Development and other organizations to activate this space by turning it into a coworking space, entertainment, bar/dining, etc.

## Organizational Impact in SE COS:

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### 1. THRIVE

THRIVE is a non-profit organization aimed at providing innovative business-creation education and fostering the entrepreneurial spirit among residents in Southeast Colorado Springs. With funding from the Transforming Safety Initiative, THRIVE instructs current and aspiring business owners selected through an extensive application process via an eight-month course, in hopes of “shifting power back to the community.”

### 2. Solid Rock Community Development Center (CDC)

The Solid Rock Community Development Corporation works to alleviate systemic poverty in Southeast Colorado Springs. As a 501(c)(3), Solid Rock focuses on affordable housing and developing the economic community in the Southeast. Through Solid Rock’s Fresh Start Investment Program, formerly incarcerated individuals are supported in creating their own small businesses to be centered in Southeast. Solid Rock is also leading the redevelopment of the Mission Trace Hub. Much of the funding for Solid Rock comes from grants, and funding for the Fresh Start Investment Program comes from the Transforming Safety Bill of Colorado passed in 2017.

### 3. Council of Neighbors and Organizations (CONO)

The Council of Neighbors and Organizations (CONO) is a non-profit organization aimed at connecting neighbors to each other and neighborhoods to their local government. CONO advocates for neighborhoods by facilitating public, as well as one-on-one, meetings, with the hope of encouraging residents to advocate on their own behalf.

## 4. RISE Coalition

The RISE (Resilient, Inspired, Strong, Engaged) Coalition is a group comprised of over 30 community based organizations in Southeast Colorado Springs. Funded by a grant from the El Pomar Foundation in 2016, the RISE Coalition supports Southeast nonprofits and community organizations to continue their work to uplift and engage the Southeastern region of Colorado Springs.

## 5. Colorado Institute for Social Impact (CI4SI)

The Colorado Institute for Social Impact (CI4SI) is a 501(c)(3) as well as a social enterprise of the Better Business Bureau of Southern Colorado. CI4SI provides resources to and promotes social entrepreneurs through consultation services, measures social return on investment, and hosts networking events to act as a catalyst in this sector.

## 6. Pikes Peak Community Foundation (PPCF)

Pikes Peak Community Foundation (PPCF) is a tax-exempt, public charity that receives and administers philanthropic donations throughout Colorado Springs. PPCF is currently working to transform wealth into community capital by creating a sustainable funding mechanism for the low-income, under resourced area of Southeast Colorado Springs.

# Community Investment Trust Model:

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## Model Overview:

The CIT model is designed to spur community-based ownership via financial literacy and real estate investment. Community members within predetermined regions (zip codes 80910 and 80916) are encouraged to invest in a local property development. The property is not exclusive in the types of tenants it can house. The collective investments from community members lead to improved financial stability of individuals as well as economic development of the area. All individual investments are protected from loss by a letter of credit from a bank.

The CIT is structured as follows:

1. Community members from 80910 and 80916 are recruited to invest by trusted community leaders,
2. Community investors participate in a financial literacy course that focuses on how to save, invest, and manage finances to build wealth,
3. Community investors buy equity shares in the CIT development at low-dollar (\$10 – \$100) monthly investments,
4. CIT tenants pay monthly rent,
5. Community investors receive annual dividends from the growth of the value of the CIT property distributed by the equity manager,
6. Share price is adjusted annually,
7. Over time, community investors/residents buy out the initial down payment on the CIT property.

## The CIT operates in 3 steps, LEARN → INVEST → PROFIT

### LEARN

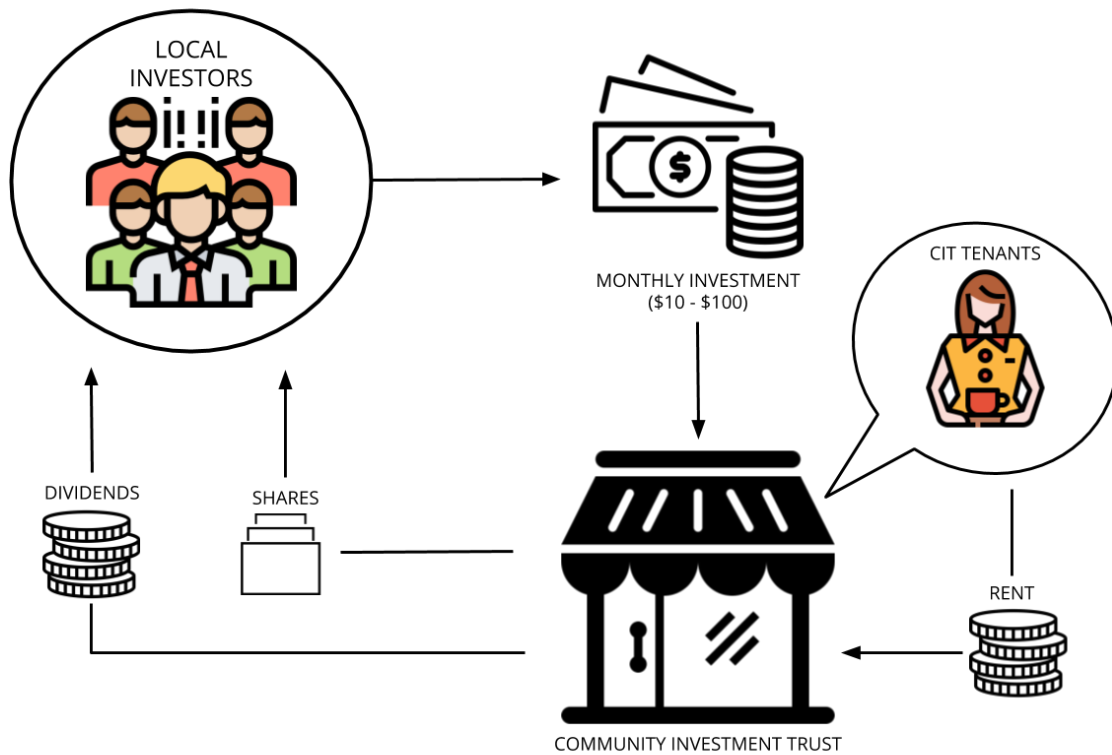
To become eligible to invest, neighbors must complete an eight hour financial action course, Moving from Owing to Owning. The course is geared to help community members learn their financial rights and opportunities. They'll also learn about how the CIT operates and how to invest.

### INVEST

Class graduates from eligible zip codes can sign up to invest in the CIT. Amounts range from \$10 to \$100 per month. With each monthly investment, neighbors grow their share of ownership in the property.

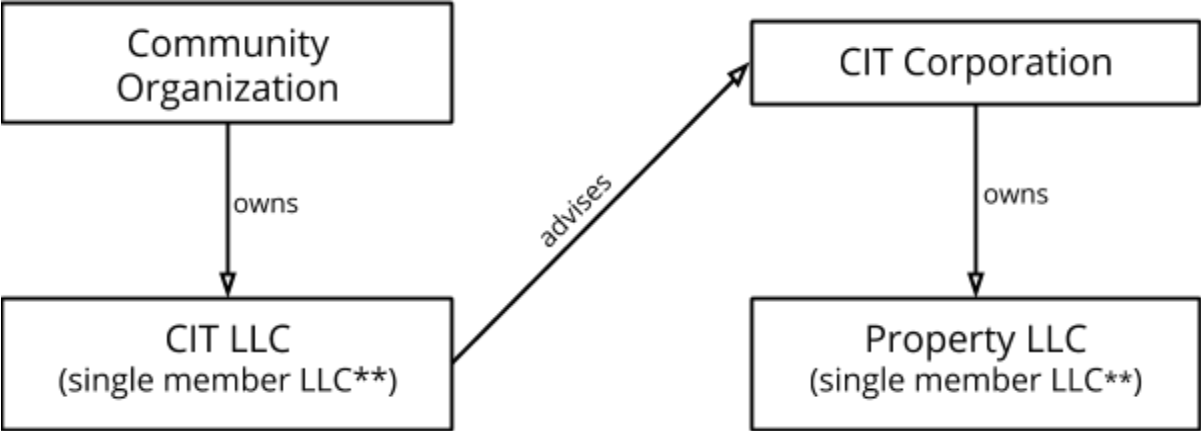
### PROFIT

Investors profit in two ways, through a yearly dividend and the sale of shares. The loss protection ensures a minimum 2% dividend and that the share price will never go below the purchase price.





# Legal Entities:



\*\*Single-member LLC allows for scalability  
(modeled from East Portland CIT legal entities - legal structures are recommended, not required)

- Community Organization:** initial funder and organizer for CIT
- CIT LLC:** asset manager, advisor to CIT Corp., controlled by community organization
- CIT Corporation:** owns and manages CIT property, controlled by investors and board of directors
- Property LLC:** property owner

# Capacity:

The East Portland CIT has identified eight areas of expertise needed in order to create a successful Community Investment Trust:

- |                         |                         |
|-------------------------|-------------------------|
| 1. Real Estate          | 5. Public Relations     |
| 2. Project Finance      | 6. Community Contacts   |
| 3. Legal                | 7. Affordable Housing   |
| 4. Economic Development | 8. Funders & Volunteers |

Buy-in from community-based organizations is paramount in the success of a CIT in Colorado Springs, however, support from other organizations that can provide expertise in each of the eight areas listed above is also necessary.

# Desired Outcomes in Southeast:

Southeast Colorado Springs is at a point where the goals of a CIT align with the community growth areas that grassroots organizations have been working on - safety, equity, and economic

development. A CIT spurs a change in the built environment of the community by altering the economic status quo and providing a community hub. Following are several goals/outcomes that will be achieved via the implementation of a successful CIT in Southeast COS.

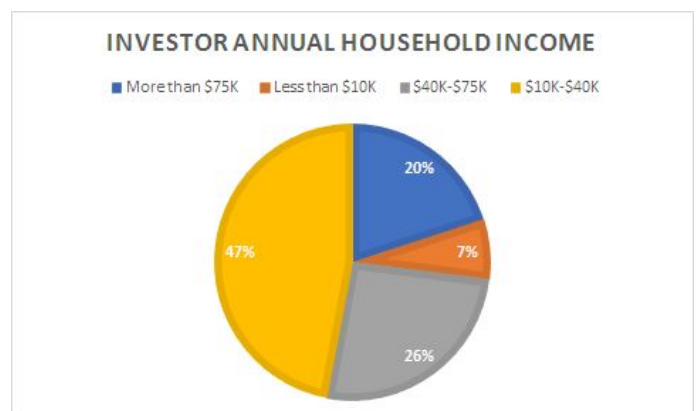
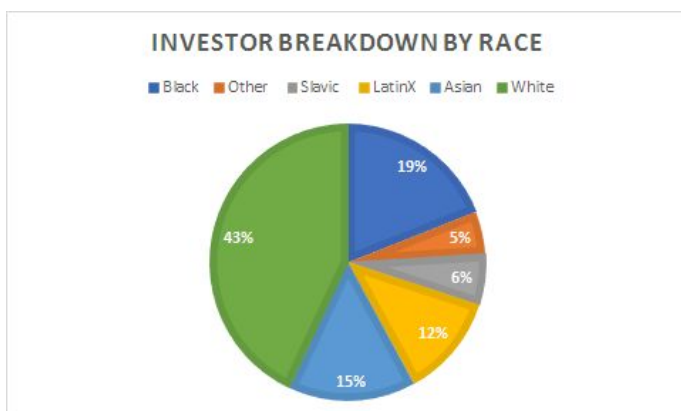
1. Decrease asset poverty and increase community capital
2. Increase the financial status of the Southeast community through equitable development
3. Community members gain financial literacy and confidence in their investment skills
4. Community members are motivated to shop at the businesses in the CIT/Southeast because they have invested in it
5. Build and maintain community-based ownership

## Portland Case Study & Financial Sustainability:

When beginning to understand the financial feasibility of a Community Investment Trust in Southeast Colorado Springs, it is crucial to first understand how the Portland model has fared since inception only a few years ago. As an innovative and creative financial instrument, the CIT will ultimately be unique to the community of SE COS, but in understanding both the short and long-term outlook, it stands to reason that the Portland CIT will be a good basis for financial projections.

The first and only CIT in the nation was launched in Portland, after several years of initial groundwork and research, in late 2017. Over the past two years, it has been proven incredibly successful in terms of not only reaching a significant portion of the community, but also in creating sustained community buy-in from residents. Following are some key statistics and metrics tracked by the Portland CIT.

### CIT Investor Demographics



As shown above, the investors come from incredibly diverse backgrounds and are quite representative of the neighborhood that the CIT is meant to serve. Just as important, however, are some other key statistical breakdowns.

- Approximately 70% of CIT investors are [first-time investors](#), learning how to safely and intelligently utilize their income.
- [Women](#) make up a stark majority (63%) of the investor pool.
- Over 20 [countries of origin](#) are represented amongst the residents investing.

## Financial & Societal Impact

Within its first year and a half of operation, the CIT has already showcased significant positive contributions to the East Portland community. Its impact has been accounted for through various surveys of investors as well as the fiscal growth of the financial instrument as a whole.

- 96% of investors reported that they had been utilizing learnings from the financial literacy “Owing to Owning Class” in order to better [fulfill their financial goals](#).
- 1 in 3 investors articulated that their [credit score had increased](#) since partaking in the CIT.
- 65% expressed increased [involvement in the local community](#) via events, organizations, etc.
- Almost 50% of investors supported a [business/organization](#) located within the CIT after becoming fiscally invested.

## Fiscal Sustainability & Growth of CIT

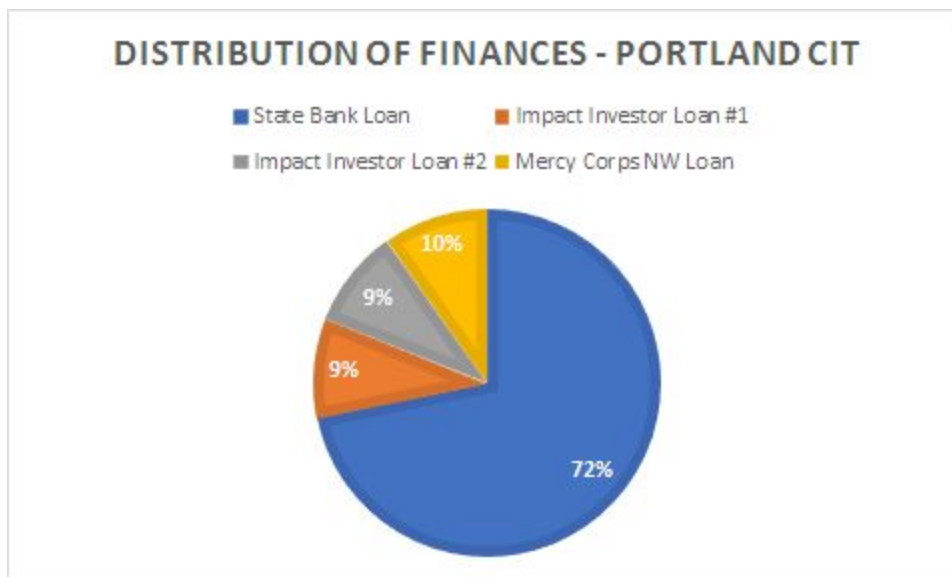
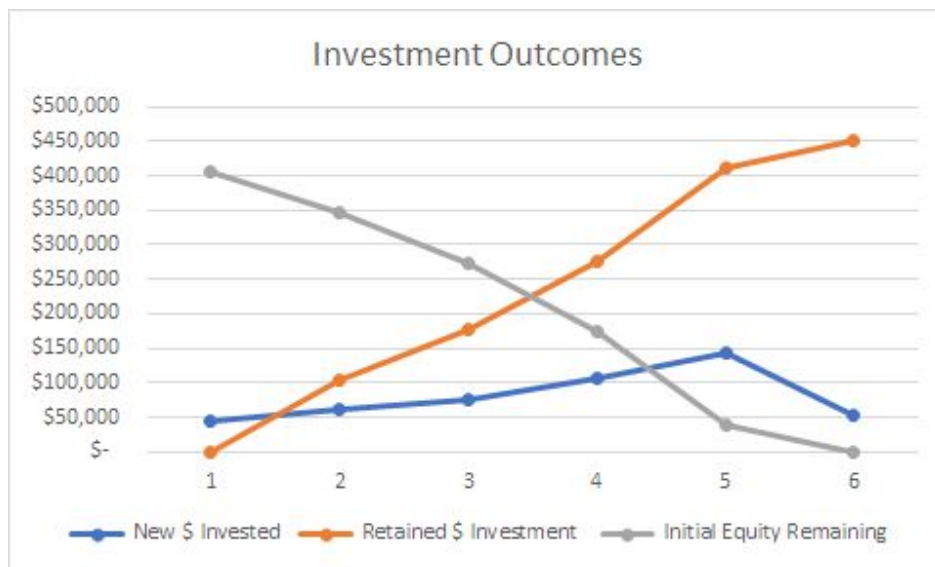
In projecting the financial growth and success of the Portland CIT, there are several key considerations that one must account for. These important figures are outlined below and allowed for the creation of the various financial documents provided.

- Within year 1, the Portland CIT had obtained ~ 100 [investors](#).
- 98% of investors have decided to [retain their stake](#) interest in the CIT.
- Approximately 82% of investors [resubscribed](#) their “monthly shares” for fiscal year 2.
- The [dividend](#) for year 1 was ~ 9% and the [share price](#) grew from ~ \$10 to \$14.50 (year 1 to 2).
- The total property is valued at approximately \$1.4M, of which \$900K was obtained via a [commercial bank real estate loan](#) that will be paid back via tenant rent.

- Ultimately, the Portland CIT aims to distribute the \$450K in initial equity amongst 300-500 investors over a number of years.

Example of Investor Growth / CIT Buy-Out

Year	% Growth of Investors	Number of Investors	Estimated Share Price	New \$ Invested	Retained \$ Investment	Initial Equity Remaining
1	N/A	100	\$ 10.0	\$ 45,000	N/A	\$ 405,000
2	20%	120	\$ 14.5	\$ 60,000	\$ 104,100	\$ 345,900
3	33.33%	160	\$ 18.0	\$ 76,800	\$ 176,100	\$ 273,900
4	50.00%	220	\$ 22.0	\$ 105,600	\$ 276,114	\$ 173,886
5	36.36%	300	\$ 25.0	\$ 144,000	\$ 411,448	\$ 38,552
6	16.67%	350	\$ 30.0	\$ 54,000	\$ 450,660	\$ -



# Benefits & Impact of CIT in SE COS:

Through speaking with the developers/operators of the Portland Community Investment Trust as well as conducting research about the model (as outlined above), it is evident that the project has been proven successful and has the capacity to positively impact the Southeast Colorado Springs community. With the guidance and support of various key stakeholders, there will be significant benefits for various groups of individuals that will be invested in the CIT.

1. Southeast Colorado Springs Residents at Large
  - a. Increased financial literacy via the implementation of effective classes
  - b. More resident involvement within the Southeast community
  - c. Support of local businesses via local residents and external benefactors
  - d. Development of a communal and collaborative community space
  - e. Motivated residents incentivized to save and invest funds leading to increased familial financial savvy
2. Southeast COS Small Businesses & Entrepreneurs
  - a. New opportunities to begin small business and a supportive location to do so
  - b. Increased community buy-in and support of businesses within the SE region
  - c. Potential for subsidized rent after financial stability and repayment of any loans
  - d. Free marketing and promotion of business via the implementation of the CIT
3. Impact Investors (Funders of Necessary Capital and/or Land)
  - a. Ability to safely store capital investments in a new and empowering financial vehicle
  - b. Transfer wealth and community capital to SE residents over time
  - c. Educate local community residents to self-sustain themselves and their families
  - d. Tackle grassroots and systemic issues while maintaining financial sustainability
4. Various Key Stakeholders (i.e. Pikes Peak Community Foundation)
  - a. Increase community trust of the organization, paving the way for effective future philanthropy
  - b. Innovative financial instrument that can successfully measure direct impact of philanthropic funds & resources
    - i. In turn, data and impact can be used to garner future donations and more interest in philanthropy as a whole

- c. Proven project that is extremely effective at targeting root causes of SE under-development

## Next Steps & Implementation Process:

In fully understanding the complexities associated with beginning a CIT and the fact that it took Portland and Mercy Corps NW several years to conduct background research and navigate legal complexities, it is in the best interest of Southeast COS to follow several action items in order to bring this model to fruition.

1. There is a survey that has been created in order to garner interest within SE residents. Local leaders should attempt to spread this survey to 250+ residents to gauge community concerns.
2. Pikes Peak Community Foundation & Supporting Organizations should organize the funds (approximately \$15-25K) to bring John Haines (Mercy Corps NW) to COS in order to conduct a feasibility study utilizing tools from the Portland CIT.
  - a. His feasibility study will be based around the context of the established CIT  
Replication Principles and Goals:
    - i. Identify replication partners in places of need
    - ii. Maintain focus on improving financial decision making
    - iii. Increase financial inclusion, equitable development and reduce asset poverty
    - iv. Improve community health
    - v. Maintain and build local community oversight to companion community ownership
  - b. Part of the consulting services provided will also include several tools that will be critical in the beginning stages of the project.
3. Identify key organizations/local leaders that will play a key role in the project and its implementation.
4. Identify a viable timeline that takes advantage of the current momentum in SE COS.
5. Proceed with the creation of the CIT, having consulted legal and financial experts in order to mitigate any foreseeable challenges.

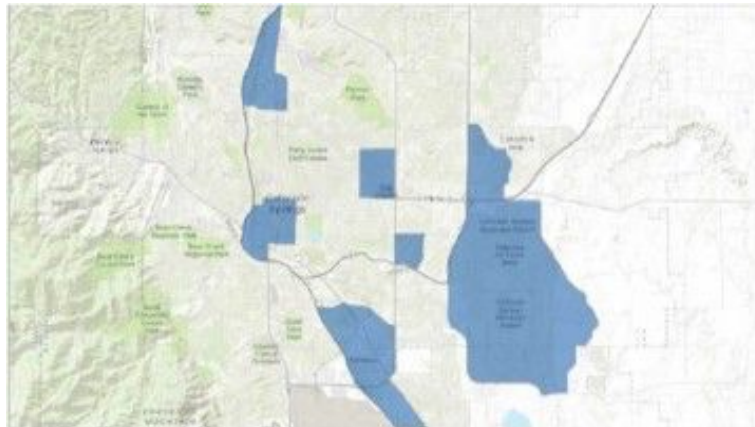
# Additional Opportunities

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## Federal Opportunity Zone:

### **Background:**

New federal tax incentive to draw long-term private investment in low-income areas created by Tax Cuts and Jobs Act of 2017. The Department of Treasury has identified 8 opportunity zones in the Pikes Peak Region.



### **Tax Incentives:**

1. *Temporary Deferral of Capital Gains until 12/31/2026*

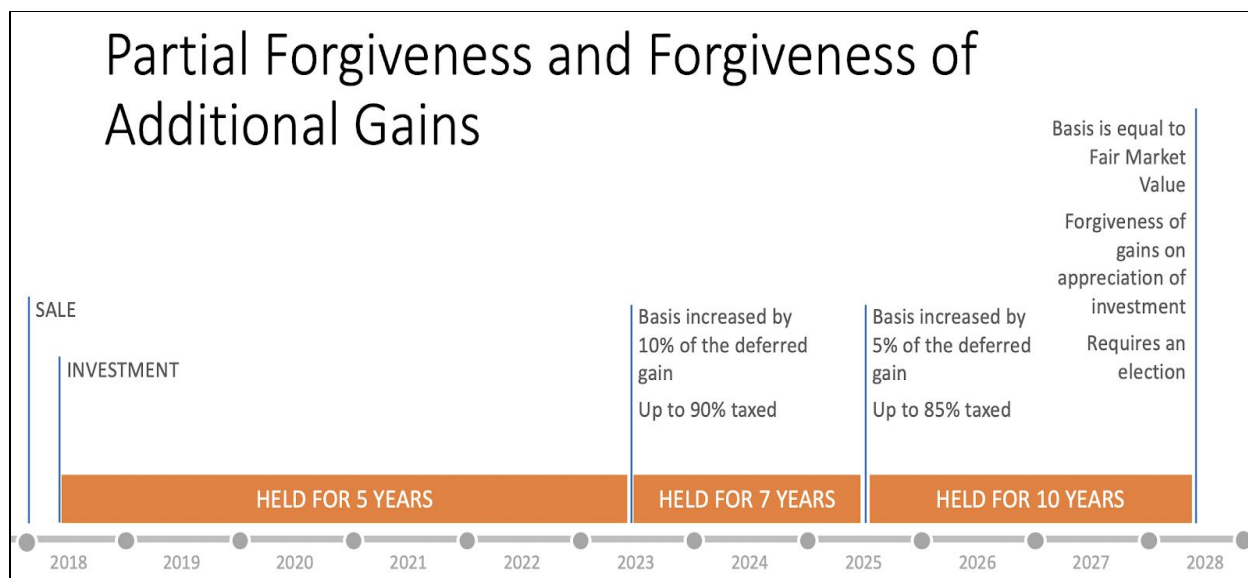
Applies to any capital gain from sale to exchange of any property to an unrelated person

2. *Forgiveness of Additional (NEW) Gain*

Forgiveness of additional gains if investment held for at least 10 years

3. *Partial Reduction of Deferred Gains*

Basis increased by 10% if investment in Fund health at least 5 years and increases an additional 5% if held at least 7 years (15% total possible).



### Opportunity Zones Relationship with CIT:

Unfortunately, it is not possible to house a CIT in an Opportunity Zone (OZ) in Southeast as the original investor in the property will be bought out by the community before any tax incentives can be utilized. However, there is a large potential for a CIT in Southeast to work in conjunction with an Opportunity Zone (OZ) in the future. If a CIT is successfully established in a Southeast location resulting in an increase in community capital in the area, there is the potential for other projects located OZs to build off of this momentum, such as affordable housing projects.

### Enterprise Zones:

The Enterprise Zone Program is a state incentive to encourage new and established business to locate and expand in economically distressed areas of the state. Businesses can save thousands of dollars on Colorado income tax bill for the following: making capital investments, hiring new employees, providing training for employees, rehabilitating old buildings, conducting research and development. These Enterprise Zones, similar to Opportunity Zones, also have potential to be used in conjunction with a CIT.