

# Investing for Impact

*A deep dive into program related  
investing for TwispWorks*

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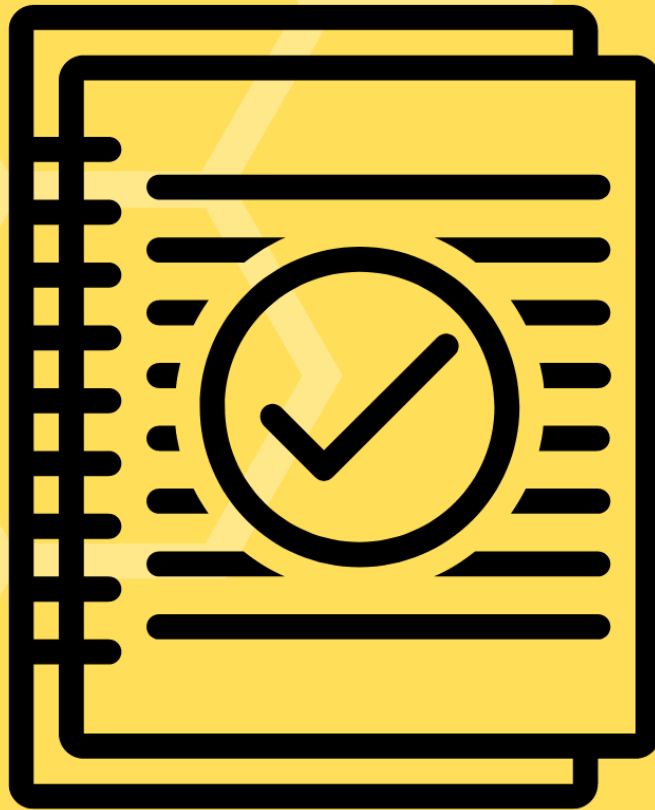
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# Executive Summary

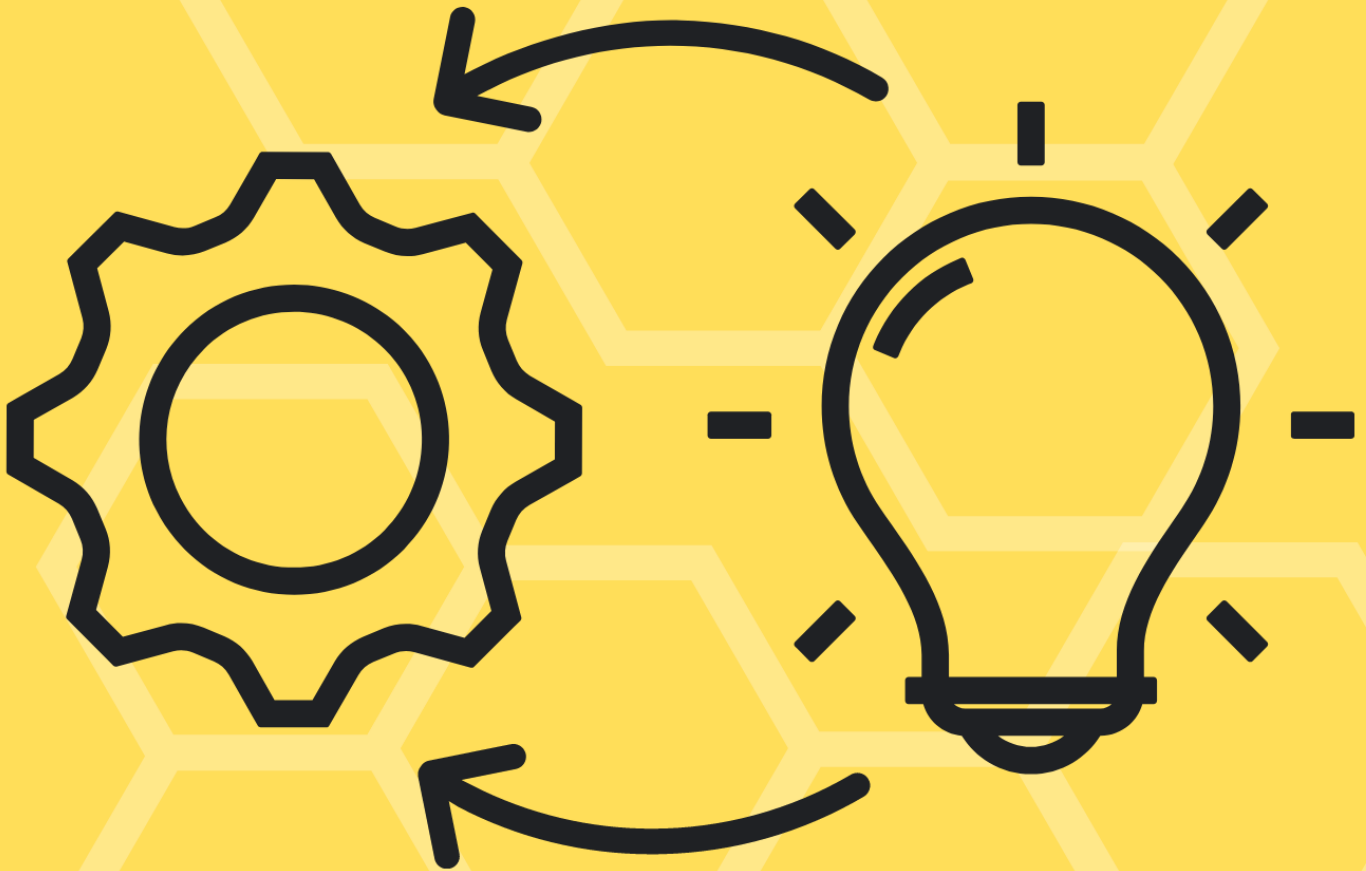


TwispWorks is a 501c3 nonprofit organization located in Twisp, Washington, and has been an important gathering place for artists, creators, and community members alike throughout the Methow Valley and surrounding areas for almost 14 years. TwispWorks provides space for local artists to showcase their work, small business owners to sell their craft, and members of the community to gather and learn about the land they are inhabiting. As of now, the organization is also used as a connector for investors. People can come to TwispWorks looking for help from investors, and TwispWorks can connect them with people looking to invest. TwispWorks is operating solely on money from donors and grants. They are currently looking into the opportunity to start a program-related investment (PRI) fund. Program-related investing will mean that as there are groups donating to TwispWorks, TwispWorks is directly investing that money back into the community, and receiving a below-market rate of return on that investment. TwispWorks is seeking information on how to start the PRI, current examples of other organizations that are successfully using PRIs, and recommendations on what they should consider using their investment towards.

The goal of this report is to provide the information for the three prompts previously stated, and we accomplished this by both conducting interviews and benchmarking. Interviews were conducted with stakeholders that currently play an important role in TwispWorks and their current investment practices. We used benchmarking- a way to evaluate something based on a certain standard, to compare other foundations that use PRIs as well as others that have similar demographics to Twisp, in order to find which standards will be best for TwispWorks to use when they eventually set up their investment fund. Looking into other foundations also gave us important insight into which recommendations would be best for TwispWorks when thinking of what they should invest in.

The recommendations we found for TwispWorks include investing largely into housing, childcare, or resilience, with an additional recommendation of investing small amounts of money into several different businesses as they come with their different needs. Something all of these recommendations do have in common, is that anything they invest in will have the hope to better the community in some way. Whether it is providing childcare facilities to a community that currently only has one preschool, or helping a small business have air conditioning installed to help make both customers and employees more comfortable, TwispWorks has a goal of helping people and expanding their organization to continue doing so for many years to come. Program-related investments will help TwispWorks continue to grow, the economy of the Methow Valley, and community members alike, and we hope this report will assist TwispWorks in making the first step towards starting their investment fund.

# Introduction



The name of Twisp is believed to have come from the Okanagan language, and roughly translates to wasp. This small rural town is a vibrant community that is passionate about sustainability, the arts, and the local youth. What is now the campus of TwispWorks, used to be a ranger station. The community saw the potential of this space, and it has become a hub to support local businesses, artists, organizations, and producers. The local economy relies heavily on the tourism industry, and jobs tend to be seasonal. There is a need for affordable housing, a more sustainable economy, child-care services, and equity. Twisp is a community that is ready to transform.

## **Statement of Need**

With more funding, TwispWorks can help build the foundation for a localized economy. As a 501c3 nonprofit organization, TwispWorks has the opportunity to start a program-related investment fund, in which they can take money that they receive from donors and invest it directly back into their community, while also getting a below-market rate of return back on that investment. This will help TwispWorks grow as well, increasing their outreach and impact in the valley.

Recently TwispWorks has become motivated and excited about the possibility of program-related investing. They need help starting it up, learning about other foundations who have used this kind of fund, and what sort of community needs could be met with TwispWorks' help.

## **Project Goals**

This report is divided into three main deliverable goals for our group. The first is looking at the logistics of what it takes to set up a PRI fund in the state of Washington. The goal with this is to assist TwispWorks in building the necessary foundation for getting this project started, while supporting the initial research required. The second is diving into examples of other organizations that have successfully utilized PRIs, such as the Gates Family Foundation. The outcome of this will be to provide TwispWorks with insight into how other non-profit organizations with similar scales and targeted missions maximize their impact in the community.

They can utilize this resource as a guideline for how to successfully adapt to the PRI after it is established. The third goal is to maximize impact in the valley. This was done by looking at the Economic Study written by TwispWorks in 2020. From this recommendations have been formed for where the valley needs assistance the most, and how a PRI can provide that assistance. This ranges from low-income housing to providing more child care services. With

these three goals, we hope to set TwispWorks up to make an even larger impact in the community.

## **Background Research**

In researching other non-profit organizations it was found they have large success with PRI funds. One example found was that of the F.B. Heron Foundation, based in New York, has been working with PRI funds since 1997 (Ragin, 2010). This foundation has a large reach, making 77 separate PRIs totaling \$38 million (Ragin, 2010). This is just one example of a large non-profit seeing success using PRIs, but it is on a much larger scale than TwispWorks. In the results section, we dive deeper into examples that more closely reflect the scale and reach of TwispWorks.

The reach of non-profit organizations can be vastly increased with successfully adapted PRIs. There is a large area of need in the Methow Valley that could benefit from a better-funded TwispWorks. According to the TwispWorks Comprehensive Economic Study, 46% of business owners in the valley agree that affordable housing is the largest obstacle for their employees (Tate-Libby, 2020). With the establishment of this program, there is a potential to help relieve the housing crisis currently occurring in the valley. The results go more in-depth into potential solutions, and how they could be effectively implemented.

# Methodology





To get our results we used the research methods of interviews and benchmarking. We interviewed Patrick Law, the economic project director for TwispWorks. This was useful as he has a stake in the future of TwispWorks and the investment side of the organization. We asked him for insights into TwispWorks' goals and its internal workings. These insights were used to guide our recommendation section. We used benchmarking to compare other program-related investments to help get information about how PRIs work and how they compare on a number of metrics. This can be used by TwispWorks to guide them in setting up and running their future PRI fund by providing examples of success.

Our benchmarking was supposed to include start-up capital, rate of return, uses and investees, investment partners, percent of total funding, geographic reach, internal structure, how they decide uses, and how they decide acceptable risk rate. Unfortunately most of the organizations do not report on these metrics, and we were only able to report on: rate of return, uses, investees, geographic reach, internal structure. TwispWorks should record these metrics and utilize them for monitoring.

Start-up capital is how much money they had to start their PRI today. The rate of return is the percent of interest on the loan and why they decide that rate. Uses and Investees are how they decide to use the PRI fund and what sectors they want to invest in. Investment partners are other funding sources that will be investing in the same things as the PRI fund. Percent of total funding is how much the PRI fund will be investing out of the total cost. Geographic reach is how far the PRI will reach. The internal structure is how the PRI is set up and employees. How they decide on uses is about the internal workings of how investments are prioritized and chosen. How they decide the risk is about the internal structure and how risk is calculated and acceptable level decided.

# Results



## Establishing a PRI

### What is a PRI?

The IRS describes a program-related investment as:

1. The primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. Production of income or appreciation of property is not a significant purpose, and
3. Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose. (Program-related investments, 2022)

These are the requirements the IRS uses to categorize what counts as a program-related investment.

An additional source, NonProfit Quarterly, defines a PRI as a “*loan, equity investment, or guarantee made by a foundation in pursuit of its mission, rather than to generate income*” (Ji 2021).

A final source from GrantCraft describes a PRI as, “investments made by foundations in support of charitable purposes, with the explicit understanding that those investments will earn below-market returns, adjusted for risk and mission” (Carlson, 2006).

With these definitions, it is clear that the purpose of a PRI is to further a foundation's ability to achieve its purpose. TwispWorks' current mission statement is *to improve the economic and cultural vitality of the valley*. With this broad mission statement, there is a large spectrum of potential programs that TwispWorks has the opportunity to invest in. The goal of the PRI is always to further the mission of a foundation, and never for profit. With this in mind, we suggest adopting the phrase, “Investing for impact” as this project's catchphrase.

### Requirements for a PRI

PRIs were created in the Tax Reform Act of 1969 (Carlson, 2006).

The first requirement is that a Program-Related Investment must fit within the three criteria defined by the IRS, aforementioned above. For the purposes of transparency, we will break those criteria down further.

1. The primary purpose is to accomplish one or more of the foundation's exempt purposes,
  - a. Essentially, the program/company that is being invested in must have a mission that aligns with the foundations. Grantcraft breaks this down further, by stating: “The foundation has to show that it would not have made an investment but for the relationship to the foundations tax-exempt activities” (Carlson, 2006).
2. Production of income or appreciation of property is not a significant purpose.
  - a. Profit can not be the primary motif of the investment being made. If you think in terms of an investor, solely looking for a profitable return, if they would make the same investment then it is likely outside the boundaries of a PRI.

3. Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.
  - a. The PRI can not be used for lobbying.

The second requirement is the establishment of PRI accounting. As mentioned before, the PRI will count towards the foundation's required 5% yearly charitable distribution. "PRI repayments count as negative distribution against the foundation's payout requirement in the year the principal is repaid - in other words, a \$500,000 repayment must go out again in grants or new investments in the year it is repaid. Interest, dividends, and capital appreciation count as regular income." (Carlson, 2006).

The third requirement is legal compliance with the IRS. While we can make some suggestions, a disclaimer should be made that this is not legal counsel. The authors of this report are all undergraduate college students, none of which have studied law in any capacity. The best recommendation for this section is to consult with a lawyer when the PRI is ready to be implemented. The lawyer then can confirm that you are legally compliant moving forward. For maintenance, having the portfolio checked yearly alongside the annual report would be in best practice, at least for the first few years until the nuances of the IRS are firmly understood.

## **How do I make a PRI?**

Establishing a PRI has been described to be similar to grant writing, with a lot more numbers. Writing a PRI will require a deep dive into how the foundation achieves its mission. One of the most effective ways to use a PRI is to incorporate it into the strategic planning of the foundation. From the beginning, here is a recommended list of steps to get started with a PRI.

### **1. Appropriate Staffing and Skill Allocation**

- a. A PRI is an investment. Solid knowledge of financing and investing is a requirement to have an impactful PRI fund. It is recommended that the fund is managed by more than one person and that each member brings an important aspect to the team. "Broadly speaking, PRI making requires three sets of skills: programmatic, financial, and legal" (Carlson, 2006). When acquiring these skills there are a few options for a foundation. Two of which are:

- i. Purchase expertise
- ii. Build expertise

Providing proper training to staff to manage the fund will only increase the likelihood of success.

### **2. Engage the Board from the onset**

- a. A PRI with Board backing is a necessary step. One of the best ways to do this is to incorporate the PRI into the strategic planning of the foundation. The first few discussions should be targeted at educating the board on what a PRI is. This report can serve as a good baseline to share. Introduce the idea using methods that

are engaging, and that encourage generative ideas that are compelling and actionable (Carlson 2006).

- b. Being prepared and having a well designed plan is key. Education in the beginning should be informal, and the education process is never ending. Focus on the positives with examples, and the vision of TwispWorks. How will establishing a PRI now, change the town of Twisp in 15 years?

### 3. Finding good deals

- a. Again, approach with a similar mindset to grant writing. Advertise to the community that TwispWorks is open for business, and be prepared to educate the community as to what a PRI is. A large event to celebrate and fundraise would be a great idea. To generate awareness about what a PRI is, and help establish capital to build a portfolio.
- b. The best way to get started, is to get started. Start making PRIs, and be ready to learn how to swim. Grantcraft categorized the different potential PRIs you may encounter.
  - i. **Common loans** - a sum of money lent by a foundation to a borrower, which agrees to repay the money at a below-market rate of interest at a specified date.
  - ii. **Cash Equivalent Deposits** - a savings certificate, typically issued to a foundation by a community development bank or low-income designated credit union, that entitles the foundation to receive a below-market rate of interest at a specified maturity date. A CD may be issued in any denomination.
  - iii. **Linked Deposit** - an arrangement in which a foundation agrees to make a deposit in a bank or credit union at a below-market interest rate. In exchange, the financial institution agrees to make a below-market loan to a certain borrower. Essentially a subsidized loan.
  - iv. **Common Stock** - a security representing a share of ownership in a corporation or project with a direct charitable purpose. In the event of liquidation, holders of common stock are at the bottom of the priority ladder for repayment.
  - v. **Preferred Stock** - a class of ownership in a corporation or project with a direct charitable purpose that entitles shareholders to a stated dividend and higher spot on the repayment priority ladder in the event of a liquidation. Unlike common shareholders, the holders of preferred stock usually do not have voting rights.
  - vi. **Loan Guarantee** - an arrangement by which a foundation agrees to repay a loan with interest in the event that a borrower defaults.  
(Carlson, 2006)

#### 4. Structuring the Deal

##### a. Analysis

- i. Consider the risk. Look at the program and how it aligns with the mission statement.
- ii. There are six recommended documents to gather at this stage:
  1. Concept Paper
    - a. Describe borrower, request, proposed amount, term, use of funds, interest rate.
  2. Financial Statements
    - a. Previous three years recommended.
  3. Organizations current fiscal year budget
  4. Current business plans
    - a. Staffing, fundraising, finances, future ideas, etc.
  5. Staffing chart and background
  6. Additional background materials
    - a. Financial projections, management plans, business procedures, etc.

(Carlson, 2006)

##### b. Deciding interest

- i. This range is always below-market, and is decided per PRI. As of writing this report, the current annual average is 14.7% which gives a lot of range to play with. For most foundations, they attempt to remain between 0%-3%.
- ii. Factor in impact, and set a ceiling. A ceiling will be the highest interest rate you would use in this situation. Each investment requires a deep analysis of the situation. What is the purpose of this program? How big of an impact will this make?
  1. For example: Investing in Low-Income Housing typically has an interest rate of 0-1%. The reason is to keep the repayment as low as possible, so the rent can remain as low as possible.

##### c. The terms

- i. Repayment terms - how will you be paid
- ii. Security - collateral
- iii. Recourse - what the lender can do if the borrower defaults on a loan
- iv. Loan Position - the order in which multiple lenders get paid back if the borrower defaults and assets are liquidated

(Carlson, 2006)

## PRI Success in Other Foundations

For our benchmarking standards, we chose to look into other foundations that both use PRIs, and have similar demographics to TwispWorks. Most of the first organizations we looked at were functioning at a much larger geographic scale, so we found it important to find ones that could really be beneficial to TwispWorks to use when looking to compare themselves to other standards. The standards we chose to look at include the rate of return these organizations are receiving, what they are investing towards, what kinds of foundations they are investing in, what their geographic reach is, and what means they use to decide to fund. We found that these would all be most helpful to TwispWorks both now when only starting the fund, and in the future, once the fund is well established.

	Gates Family Foundation	Gaylord and Dorothy Donnelly Foundation	Cleveland Foundation	Alleghany Foundation	Winthrop Rockefeller Foundation	Grand Rapids Community Foundation
<b>Rate of Return</b>	"Below market rate"	3%	2-3% (subsidized)	"Below market rate"	"Below market rate"	"Below market rate"
<b>Uses</b>	Education, natural resources, community development, informed communities	Conservation, arts, collecting organizations	Arts & culture, economic and workforce development, education, environment, health and human services, neighborhood revitalization and engagement, youth development and social services	Housing community development, increasing jobs, building sustainable communities	Community and economic development, business development, affordable housing, access to financial services	Affordable housing, health care, commercial redevelopment

<b>Investees</b>	Colorado Community Media, Dearfield Fund for Black Wealth, First Southwest Community Fund, Palmer Land Conservancy, etc.	American Rivers, Aerial Dance Chicago, About Face Theatre, etc.	Alliance for the Great Lakes, Western Reserve Land Conservancy, A Vision of Change Inc. etc.	Mountain Soil and Water Conservation District, Dolly Parton Imagination Library, Total Action Against Poverty	Communities Unlimited, FORGE, Southern Bancorp	Capital Fund Services, Habitat for Humanity
<b>Geographic Reach</b>	Colorado	Chicago and lowcountry South Carolina	Greater Cleaveland, OH area	Alleghany Highlands of Virginia	Arkansas	Grand Rapids/West Michigan
<b>Internal Structure</b>	Impact Investments Team	Related Program Director, Finance Director, and Finance & Investment Comitee	Finance Department	Board of Directors	Board of Directors	Program and Community Investment staff

Through our benchmarking standards, we were able to find more information on other organizations currently using program-related investing. We looked specifically at foundations that have a smaller amount of reach and might have more similar demographics to Twisp so that TwispWorks will be able to use the examples as a standard once they start investing. The foundations we were able to look at include the Winthrop Rockefeller Foundation (*Program-related investments*), the Alleghany Foundation (*Program related investments, 2021*), the Gates Family Foundation (*Impact investments, 2020*), the Gaylord and Dorothy Donnelly Foundation (*Program related investments 2019*), the Cleveland Foundation (*Social Impact Investing*), and the Grand Rapids Community Foundation (*Impact investments, 2017*). We were able to provide information on most of our benchmarking standards, but we chose in the end not to include start-up capital, investment partners, percent of funding, and acceptable risk. However, we think the standards we provided will help TwispWorks be able to track their progress on how they are doing with their investing.



# Recommendations



Most of the PRI examples that we looked at for the benchmarks had many similarities. From the examples we recommend that TwispWorks provide interest rates at around 2-3% or what is below market rate. Many uses had overlap but they were dependent on each organization's goals. TwispWorks should develop their own goals of impact of investment that would guide decisions on what sectors to invest in. The documents used to guide these goals were the TwispWorks Economic Survey (Tate-Libby, 2020), the Methow Climate Action Plan (Resilient Methow planning team, 2021) and TwispWorks Mission statement (*TwispWorks increases the economic and cultural vitality of the Methow Valley*).

#### Example of goals for consideration

1. Supporting youth and elderly
2. Increasing affordable housing
3. Livable wages
4. Supports a thriving local culture through supporting the arts
5. Resilience as defined by the Methow Valley Methow Valley Climate Action Plan
  - a. Water to sustain nature and people
  - b. Resilient, Healthy and abundant natural systems
  - c. A community prepared and safe in the event of adversity
  - d. A low-carbon, efficient, livable and resilient/affordable built environment
  - e. A thriving, place-based economy with equity for all
  - f. A vibrant future for agriculture.
  - g. A carbon-neutral Methow Valley

TwispWorks could use the goals they decide on as social impact goals which they could compare with the likelihood of economic return on investment, also known as risk. If the social impact, as aligned with the goals, outweighs the risk then it should be considered further for receiving a PRI loan from TwispWorks. Also these goals could be listed for the public so businesses and organizations could know what sort of things should apply to receive a TwispWorks PRI loan.



To help youth under 18, which make up 21% of the valley, TwispWorks should look into investing into affordable childcare and vocational schools (Tate-Libby, 2020). Affordable

childcare would free up many people in order to reenter the workforce as well as promoting childhood development. Childcare has high employee turnover, which in an area with minimal population may become an issue of finding employees at all. Also most childcare has very small profit margins of around one percent with most of the costs going towards salaries. TwispWorks should also consider looking into non-profit childcare as they tend to be more financially stable (U.S. Department of the Treasury, 2021).

Vocational schools could help reduce the issue of young adults leaving the area to receive post secondary education by providing an option that would allow young adults to gain skills that could benefit them and the community. A possible issue with this could be the scale of if enough young adults in the area would be interested in said program. Also Wenatchee Valley College in Omak already provides some vocational training. Also providing training for jobs that do not exist would only push the problem of young people leaving the area down the road a few years.



There is also a need for many different services that allow for community members to age in place. These are important for the health of the community as 40% of the community is over the age of 60 (Tate-Libby, 2020). These services range from nurses to cleaners and lawn care professionals and many other services that the elderly may need help with. The rural nature of the place may reduce the profit as travel may take longer and be more of an expense than in more urban or suburban areas. TwispWorks should look into investing into programs or non-profits that could connect those who need help and have extra room with those who can provide the services they need and need housing.



Affordable housing could be on any scale from helping fund a building project with Methow Valley Housing Trust or helping a homeowner create or convert part of their house to become an accessory dwelling unit. Building new housing would allow for more housing for workers of the valley. Building new could allow for the opportunity for home ownership which can provide stability that renting does not allow. However building new housing can receive backlash as it changes the area in which current residents live. This can lead to fears of reduced property values or fears of changing neighborhood character. New construction can have an increased environmental impact and the area has a limited water supply. All new construction should be mindful of its impact on neighbors and the environment overall. Also a concern around construction that TwispWorks should keep in mind is turn on investment turnaround time as building can be a lengthy process and is dependent on supply chains.

A rental company could utilize the seasonally or yearly unoccupied by providing a service of dealing with renters for the homeowners. The company could run background and credit checks, collect rent for the owners as well as providing a layer of security for their properties. A business like this could look into increasing profits by reducing cost by not having a physical office location if possible. A rental company does not increase the overall housing stock and does not provide the same level of stability that longer term rentals or homeownership. This would rely on homeowners willingness to rent and trust in the rental company. There is also fear of short term and vacation rentals making the housing shortage worse as highlighted by the short term rental moratorium in the Town of Twisp. This company would have significantly lower cost and environmental impact than building new construction. Rent might still be cost prohibitive to many workers in the area who get their income from within the area (P. Law, personal communication, 2022). TwispWorks should look over the results of a housing inventory when it is done most likely in the next year by Twisp and Winthrop so TwispWorks can better understand the housing shortage and which method to promote housing would be more optimal for the area.



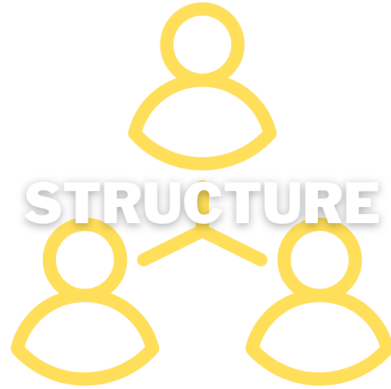
Loans for resilience could be any number of smaller loans. Since these loans would most likely be to existing businesses or organizations there would be less unknowns about the risk of the loans. It would also make the whole community more resilient by making elements of the

economy or community more resilient to things like heat and smoke by providing loans for heat pumps or air purifiers. This could also include things that prevent issues like electric heaters to replace wood burning stoves that worsen the Valley's air quality in the winter. These loans would not directly create profit but it would prevent the business from losing money. Loans to farms for any number of purposes could help promote a localized food system that is more resilient. Farms also tend to struggle securing seasonal operational loans as they are more stringent and harder to apply for. The TwispWorks PRI fund could fill this need by providing loans to local farms for operational costs (Bill and Craig, 2010).

The Investees should be businesses and organizations that meet goals of social impact and meet economic goals. These will become more apparent once the PRI is created and businesses and organizations apply for loans. TwispWorks may be surprised by the connections that can be made with PRIs to further local needs if they are open to even more ideas than me listed above as community needs will become apparent if a possible solution is provided.



The geographic reach of PRI funds and their investments varies widely from investments that impact all over the global to having a focus on a much smaller scale such as loans that focus on neighborhoods. We know from the examples that we looked at through benchmarked that PRI funds from smaller regions can be very successful even if they are less known than those who provide loans on a larger economic scale. The geographic region that loans will be given to businesses and organizations should be the Methow Valley but with possible exceptions for the other areas within the county (P. Law, personal communication, 2022).



How the PRI fund decides what to fund should use a board, team or committee of people who have interest in the economic and social impact of TwispWorks. This is how all the examples are structured as well as the structure that is recommended by legal websites. The people on this board or other structure should have knowledge of the needs of the community as well as being knowledgeable in investing and TwispWorks structure and goals.

# Monitoring and Evaluation



There are several ways that TwispWorks could work to monitor and evaluate their progress with their PRI fund, some that TwispWorks could do directly, and others that the organizations TwispWorks invest in could report on so that they can see what effect they are truly having in the community. Firstly, TwispWorks can set up an excel spreadsheet, similar to the benchmarking table, to track similar standards and compare them to foundations of their choosing. A financial advisor would be advised to help accurately monitor the fund, and to track progress on growth, returns on investment, and general notes on total investment amounts. From there, TwispWorks will be able to evaluate the financials and make any changes where needed to help expand the growth and outreach of their investments. TwispWorks could also create a system to track the organizations they are helping, and what those organizations' main focus in the community is. This way, if TwispWorks chooses, they can diversify more to include other types of community impacts, or they can decide to focus on one and make that their main priority.

The organizations that TwispWorks invests in will also be able to do some monitoring and evaluation. They can work to find more specific numbers of community members they are helping, and what different impacts they are making throughout the valley. If their organization is more focused on the housing crisis, they may be able to measure the amount of affordable housing they were able to create. If they are centered around childcare, they can keep track of the number of children and families that use their services. If TwispWorks decides to do several smaller projects that may help individual businesses, they might be able to track the number of customers, or even the number of employees that were impacted by their assistance. This type of monitoring will then be given back to TwispWorks for more evaluation. They can use these numbers to decide if the organization is something they want to continue investing in, or if they might want to invest more to help further these organizations' projects. Organizations may also be able to decide if they still need funding from TwispWorks, or if they no longer need to be invested after these evaluations.

With these recommendations, TwispWorks will be able to accurately and effectively determine how they would like to use their PRI fund in the future, as well as see the progress it makes from the start to once they have more established investing. They will be able to see how they are both bettering the community, and themselves.



# Budget



*Actual figures will not be represented in this section, as each category is highly variable. This an anticipation of needed assets.*

## **Preparations**

- a. Training Staff
  - a. This ranges from formal to informal staff training. The primary staff members in charge of the fund should have a good grasp within the three recommended categories found in the results section, which are:
    - i. Programmatic
    - ii. Legal
    - iii. Financial
2. Hire expert consultation
  - a. This will be to fill the gaps in staff knowledge. The two most important are Financial and Legal.
    - i. Financial
      1. This will be establishing an account, and setting up the portfolio for the PRI.
      2. Utilizing a banking system to track current investments, payment due dates, etc.
      3. Advice and consultation on loan repayments, managing finances, and paperwork.
      4. Assistance with Taxes.
    - ii. Legal
      1. Guidelines for all the forms and paperwork, finalizing copies that can be utilized.
      2. Insuring the fund and the programs are IRS compliant.
      3. Checking the loan repayment system for any potential complications.
3. Marketing
  - a. Think about how you are going to prepare to reveal this program to the public. Will you want to do a large event? Budgeting in marketing and advertising. Potentially outsourcing to designers to help create an informational pamphlet for the public.

## **Sustainment**

1. Maintenance of fund
  - a. Investing in a yearly consultation for legal and financial advice and inspection of the fund.
  - b. Continual community updates and events to keep the public engaged and excited
2. Growth of fund

- a. Marketing and outreach for fund expansion
- b. Hiring more staff to manage a more expanded fund

There are likely areas that are missed. When establishing the budget it is recommended to have additional funds than what is anticipated, for unexpected expenses.

# Conclusion



As shown by our report, PRIs are a way TwispWorks could make a bigger impact on the community and further their goals as a non-profit organization. From our benchmarking we learned that PRI funds that have a smaller geographic reach are not only possible but can make a big impact in the local community. The report suggests that TwispWorks takes its mission statement and expands upon it to create goals for the PRI funds that can be used to provide metrics for success. It also provides information to the public of what would be likely eligible for a TwispWorks PRI fund. These goals should be derived from the needs of the community. These needs can be found in TwispWorks Economic Survey and the Methow Climate Action Plan.

The loans will prioritize social impact as found in these future goals. Impact is prioritized over profit. TwispWorks should still insure the investments allow for the fund to grow, allowing for further impact in the future. This report also recommends that TwispWorks hire a consultant to help start the PRI and to train any staff that would be a part of the PRI process. This consultant could help TwispWorks prevent any possible legal issues as well as make the process more smooth and painless for everyone. TwispWorks can create a greater impact with the use of program related investments.

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## Appendix A

### Interview with Patrick Law

Patrick Law, Economic Program Director at TwispWorks

Interview conducted Monday 07/25/2022

Patrick Law is not only a successful small business owner, but he is the newly hired Economic Program Director at TwispWorks. Patrick will have some great insight for us moving ahead with the project. Not only that, but it is also possible that Patrick will be on the team managing the PRI fund in the future. All of this makes Patrick the perfect stakeholder to interview.

#### Contact Information:

Patrick Law

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Phone: 509.997.3300 ext. 4

#### Questions:

Austin: "Can you describe how the investment network, works?"

Patrick: "I should preface all of this by saying I am relatively new, and still getting a grasp on everything. The Methow Investment Networks is a peer-to-peer lending model. It is a group of people who have expressed interesting in investing with the local economy and with local businesses. People do have to apply to become members. Then once they are members, they receive pitches either in person or online from people who are looking for capital investments to either gross, or expand, or acquire businesses. TwispWorks just plays the role of facilitator. Partly because this is our specialty and also because of different laws on what role a non-profit can play with investments. So, what TwispWorks does is try to bring people together, the people who have funds available for investment and people who are looking for funds for their goals. We connect those people through pitch nights or through the online pitches and then we take a step back and whether a business is funding or people are loaning out money that is completely up to them."

Austin: "Would the PRI fund be integrated in the investment network?"

Patrick: "I think that it would separate. There is some crossover, but the PRI would work, from my understanding, is that people would give charitable donations to us and that money would go into a fund that we can use to loan out and receive a small return on investment below market rate. So people who were looking for investors and needing money for their businesses, they might get funneled the same way through the investment network. So say I am starting a business and looking for investors, I am going to come to TwispWorks and say hey I need this to start a business. There are some instances where we will send them to the investment network, and others where it would be better as a PRI borrower. As the organization managing this fund it is exciting as we could kind of pick and choose what we want to prioritize. If there is a significant gap in the local economy, such as somebody looking to open up a child

care center, we can offer them a loan at a highly favorable rate, because we need this service in our local economy. In the investment network, there is not as much of a community impact lenses. They will think what is my return on investment, and look for favorable investments.”

Is the outreach contained within Twisp, or how far do we anticipate the programs to be in?

Patrick: “I don’t think this has been established. Based on the service we provide through other programs it would be valley wide. That’s not to say.. if.. under certain circumstances it could extend further, but the primary area is the valley. Some people say Mazama to Methow. If a really compelling opportunity came in Pateros that would not necessarily exclude them.”

How much capital is possible/realistic to reach to begin investing?

Patrick: “That I don’t necessarily know. Yeah, I am not sure and do not know enough about PRIs to know what is needed to start, or have a foundation or baseline. An advantage of a PRI is that it can be smaller amounts. Somebody going to investment network is typically a larger investment of say \$500,000 where somebody needing a microloan might approach the PRI. As far as the funds coming in I am not really sure.”

Any suggestions for where we can get started or who to get in contact with?

Patrick: “Well yeah, I would say Stu but he just went to Mongolia. That might be another question for Sarah, as I do not know who has been involved in the conversation.”

What do you consider a smart for TwispWorks to invest in? We are looking at lower-income housing, do you have any other ideas that would be good for the community.

Patrick: “Making more impact investments instead of profit driven, rather than profit drive, there is definitely gaps in the local economy that we have all been talking about where we could potentially leverage that money to help people start businesses. Housing is certainly one, childcare is another. There is demand for property management companies the people that can be the go between for people that having space to rent and people looking to rent. There is a lot of people that do not want to screen applicants and check credit, so they would be interested in having a service provider who could perform that service for them. There is more service orientated stuff like handypeople and landscaping. If you were to ask people, they would say food. That might not be in the model of biggest impact. Stuff like childcare ripples out quite a bit.”

What would you like to see from us at the end of this project?

Patrick: “I think it would be cool to first get a really good understanding and definition of PRI> Looking into other case studies of other communities and non-profits that have successfully established a program would be super helpful, especially since we are just at the start of this. I think getting a better understanding of the types of projects that PRIs typically fund would be helpful. We could talk about where the impact investments are, but tot get real world examples of those in practice would be cool to see.”

Who is going to be managing and running the PRI portfolio after it is established?

Patrick: "I think it would be a whole management structure that would involve more than just one person. I would be involved, Sarah would be involving, the Business Finance Manager, probably a board member, it is yet to be seen though."

Do you have any general economic knowledge that could assist us?

Patrick: "I think that like in the context of the Methow Valley, there is, although it is fairly homogenous in a lot of ways, there is a diversity in backgrounds. That translates to casting as wide of a net as possible. With the food truck (Fork) that means having a widespread menu, staying neutral as far as political opinions go. This is important as you have a limited supply of potential customers."