



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 17, 2024

FROM: OFFICE OF THE CITY MANAGER WARDS: ALL

SUBJECT: APPROVE A PROFESSIONAL CONSULTANT SERVICES AGREEMENT TO CHERRY BEKAERT, INC., OF RALEIGH, NORTH CAROLINA IN THE AMOUNT OF \$535,000 THROUGH SEPTEMBER 2027 AND A 1% COMMISSION FROM AWARDED FUNDS FOR CONSULTANT SERVICES TO PROVIDE ECONOMIC DEVELOPMENT, PROJECT DEVELOPMENT, AND TAX CONSULTING SERVICES RELATED TO DEVELOPMENT OF A MUNICIPAL PROPOSAL FOR A FEDERAL NEW MARKETS TAX CREDITS PROJECT IN RIVERSIDE BENEFITTING LOW TO MODERATE INCOME AREAS OF THE CITY PURSUANT TO PURCHASING RESOLUTION NO. 24101, SECTION 702 (N) – SUPPLEMENTAL APPROPRIATION

ISSUE:

Approve a Professional Consultant Services Agreement in the amount of \$535,000 through September 2027 plus a 1% commission on awarded funds with Cherry Bekaert, Inc., of Raleigh, North Carolina for consultant services to provide economic development, project development, and tax consulting related to development of a municipal proposal for a federal new markets tax credits project in Riverside benefitting low to moderate income areas of the City in the CY 2025-26 timeframe, pursuant to Purchasing Resolution No. 24101, Section 702(n).

RECOMMENDATIONS:

That the City Council:

1. Approve the Professional Services Agreement (Exhibit A) in the amount of \$535,000 with Cherry Bekaert, Inc., to complete the economic development and tax services related to New Markets Tax Credits;
2. Authorize the City Manager, or designee, to execute the Professional Services Agreement and any and all related documents with Cherry Bekaert, Inc., making minor corrections as necessary; and
3. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record a supplemental appropriation in the amount of \$401,205 from General Fund Infrastructure Reserves to the General Fund, City Manager Professional Services expenditure account.

BACKGROUND:

The City of Riverside has long utilized tax credits to benefit low to moderate income communities in the City. The most common tax credit used in the City is the Low Income Housing Tax Credit, which has contributed to the construction of over 600 units of affordable housing in a number of Riverside neighborhoods. Tax credits are typically used to attract private investment into a project, an investment of capital in exchange for taking the applicable tax credit over a set number of years.

The New Markets Tax Credit Program (NMTC), established in 2000, helps economically distressed communities attract private capital by providing investors with a federal tax credit. Investments made through the NMTC Program are used to finance businesses which invest into neglected and underserved low-income communities. Through the NMTC Program, tax credits are competitively allocated to Community Development Entities (CDEs), who offer tax credits to investors in exchange for equity in the CDE and accompanying project. Using the capital from these equity investments, CDEs can make loans and investments to businesses operating in low-income communities utilizing better rates and terms and more flexible features than available on the market. In exchange for investing in CDEs, investors claim a tax credit worth 39% of their original CDE equity stake, which is claimed over a seven-year period. Tax credit projects must be located in an eligible Riverside neighborhood, and a map that delineates eligible Riverside project areas is presented as Exhibit B of this report.

NMTC's have a variety of uses, from housing to healthcare, to educational and economic development projects that benefit low to moderate income communities. The U.S. Congress has authorized a total of \$91 billion in NMTC allocations between 2001-2025. The NMTC Program was extended in 2021 and it is expected that Congress will reauthorize the program. The last 2023 NMTC round offered \$10 billion in development credits nationwide.

In California, one major NMTC entity, the California Statewide Communities Development Authority, awarded four projects in 2023 (several healthcare centers and a farmworker education project) with NMTC credits valued at \$41.5 million. Individual credit awards varied from \$7.5 million to \$12 million per project.

Although there have been a number of Inland Region NMTC projects in the last decade, the last tax credit project in the city of Riverside occurred in 1998.

DISCUSSION:

On August 2, 2024, the Purchasing Division of the Finance Department released RFP No. 2394 - New Markets Tax Credits Consulting Services seeking a consultant with an economic development and tax credit background, with an emphasis on work in NMTC credits projects in low to moderate income communities. The RFP closed on August 20, 2024, with one (1) response received, which was considered responsive. On August 22, 2024, a non-bidder email was sent to determine reasoning for non-bid, five (5) of the non-bidders responded with various reasons for non-bid, which included technical issues, limitation of resources and other issues. A review panel consisting of staff from the City Manager's Office, Community & Economic Development Division, and Finance Department reviewed the proposal from Cherry Bekaert, Inc., and found it to be both responsive and competitively priced, receiving an overall score of 89.49 of 100.

Cherry Bekaert’s proposal included a request to discuss and redline aspects of Section 11.5 of the contract regarding indemnity. Additionally, they requested acceptance of an A- rating for a policyholder, as opposed to the standard A rating or higher outlined in Section 12.1.2 of the contract. Given the time constraints of this project and the fact that Cherry Bekaert is the sole bidder, the City Manager’s Office believes awarding the project to Cherry Bekaert is in the City’s best interest.

Cherry Bekaert’s Strategic Financing Services team was chosen because it specializes in NMTCs with substantial experience in related local, state, and federal credits and incentives. Cherry Bekaert assists clients to deploy and manage capital in low-income communities across the country, from rural communities to historically disinvested urban neighborhoods. They work with borrowers, lenders and investors to simplify complicated tax credit and incentive financing structures; locate and secure the resources needed; and successfully navigate through the process of a financial closing for a project. To date, Cherry Bekaert has closed more than \$1.4 billion in qualified low-income community investment through 119 transactions that have created/retained more than 30,000 jobs and increased access to critical goods and services to more than 650,000 low-income people.

RFP No. 2394 is written to contemplate two distinct phases of services for Cherry Bekaert to perform for the City. This staff report only requests services for Phase One of a NMTC Project (i.e., NMTC education, project selection, and all project development leading up and including a tax credit allocation application). If NMTC’s are awarded, staff would return to the City Council for Phase two of the RFP, an amendment with additional services for tax and project development advice for the seven-year duration of the project. The breakdown of services is overviewed below.

Description	Detail	Cherry Bekaert LLP - Line Total (not to exceed)
Phase 1 – Monthly Invoicing	All project development services up to and including submission of a NMTC application in the 2025-26 timeframe.	\$535,000 (this request – funded over three fiscal years) <ul style="list-style-type: none"> • <i>Funded by the City</i>
Phase 2 – Monthly Invoicing	All post award tax, compliance, reporting and close out services for the 7-year duration of the tax credit project.	\$1,271,000 - Amendment for future City Council consideration if NMTCs are awarded <ul style="list-style-type: none"> • <i>These costs would be paid through administrative fees budgeted into any awarded NMTC Proposal.</i>
1% Commission on a NMTC Award – Lump Sum	“Success Fee” if NMTC’s are awarded to a project. Contingent on project funding award.	Unknown cost related to a future NMTC award - Amendment for future City Council consideration if NMTCs are awarded <ul style="list-style-type: none"> • <i>These costs would be paid through administrative fees budgeted into any awarded NMTC Proposal.</i>

Cherry Bekaert would assist the City to develop a tax credit eligible project and identify local funding partners leading to an application for tax credits in the 2025-26 timeframe (Phase 1). If awarded, Cherry Bekaert would administer and handle reporting for the tax credits through the seven-year lifespan of the funding (Phase 2). The Consultant would also request a 1% commission on any awarded NMTC deals that would be paid in Phase Two of a NMTC project.

Cherry Bekaert Services to the City of Riverside:

1. Provide general consulting services related to NMTC program/allocation for a project including educating City staff, elected officials, etc., about NMTC program requirements and deal structures including, as applicable, formation or designation of non-governmental entities to own a potential project and how to appropriately achieve an allocation of NMTC for a potential project.
2. Assist with identifying and prioritizing an NMTC project(s) pipeline best qualified to support a City application either in 2025 or 2026.
3. Identify potential NMTC investors and debt providers, and structure NMTC transactions accordingly with City input.
4. Assist the City in presenting a potential project to appropriate Community Development Entities (CDEs) and NMTC investors to obtain commitments of NMTC allocation(s).
5. Assist the City in identifying appropriate legal and accounting expertise and coordinating with these service providers accordingly.
6. If necessary, assist the City in the creation of a certified CDE and subsidiary CDEs.
7. Assist the City in preparing an application and the closing of a NMTC transaction in the 2025-2026 application period with the assistance of City staff.
8. Assist the City to understand compliance with all terms, covenants, and agreements contained in a NMTC Project intake agreement, allocation agreement, and associated, indemnifications, guaranties, and community benefits agreements, etc.
9. On an ongoing basis, provide suggestions for the successful continuation of an NMTC program, including optimizing the opportunity to receive future NMTC allocations.

New Markets Tax Credits Project Examples:

- **\$22,000,000 – Construction of a Food, Youth, and Community Center in Santa Rosa, CA.** Construction of a new facility will provide Santa Rosa with a permanent, centrally located commercial kitchen for medically tailored meal production and distribution; a client resource center for nutrition education programs for individuals living with serious and chronic illness; dedicated volunteer space and offices, workspaces and meeting rooms for staff; and a multi-purpose room for youth development training and community-wide events.



- **\$11,000,000 - Construction of a new Satellite Campus for Collage of the Desert in Indio, CA.** Construction of a 67,000 SF, three-story, state-of-the art education center building adjacent to COD's existing Indio campus building. The new building will include



an enlarged Student Success Center and student health offices. It will significantly expand the instructional facilities with new classrooms, science laboratories, lecture halls, computer labs and a Maker Space, expanded faculty office space, and a student dining commons and study spaces.

- **\$9,250,000 – Preservation of a Historic Carnegie Library in Yreka, CA.** Renovation of the Carnegie Library building and exterior space to create a venue for expanded business education, incubation, and innovation services; conferences and events; and tourism. The project will bring long-term stability to a landmark location in downtown Yreka, and will further efforts to promote investment, support businesses, and create jobs throughout Siskiyou County.



- **\$12,000,000 - Farmworkers Institute of Education & Leadership Development (FIELD) Career Training Center in Bakersfield, CA.** Rehabilitation of an 11.2-acre site in Bakersfield to serve as FIELD’s new headquarters, and a comprehensive Career Technical Education (CTE) campus for adults participating in FIELD’s programs including recycling, construction, firefighting, agriculture, early childhood education, natural resources, business, and solar installation. The campus includes warehouses and



training spaces to support FIELD’s CTE programs, including a Solar Lab and a Recycling Center, along with an Early Childhood Education Center, and classroom space for ESL classes.

Purchasing Resolution 24101, Section 702 (n) states that “Exceptions. Competitive Procurement through the Informal Procurement and Formal Procurement process shall not be required in any of the following circumstances (n) When the Awarding Entity waives bidding requirements under and according to the circumstances set forth in Section 1109 of the City Charter, or when it is determined by the Manager to be in the best interests of the City to do so.”

The Purchasing Manager concurs that the recommended actions comply with Purchasing Resolution 24101, Sections 702(n).

STRATEGIC PLAN ALIGNMENT:

This item aligns the Envision Riverside 2025 Strategic Plan as providing, “High Performing Government,” especially Goal 5.4 to maintain fiscal health by addressing gaps between revenues and expenditures.

This report also touches the five cross-cutting threads:

1. **Community Trust** – Developing a NMTC project will serve the public interest by potentially freeing additional funding elsewhere in the municipal budget that can be used in expanding programs and completing projects with external funding; benefiting the City’s diverse populations, and result in greater public good.
2. **Equity** – Outside funding can be used to allow more City departments to be creative and competitive for grants, resulting in a more equitable distribution of funding opportunity that can reach populations citywide.
3. **Fiscal Responsibility** – The City ensures to maximize outcomes in usage of creative outside funding like NMTC’s offset funds as a way to lessen pressure on the General fund.
4. **Innovation** – This funding provides the City with the ability to create an innovative project for building capacity with the result in receiving greater external funding.
5. **Sustainability & Resiliency** – Riverside builds capacity to allow more departments to apply for grants, and compete for funding that allows the City to adaptively address resident needs.

FISCAL IMPACT:

The total fiscal impact of this agreement through September 2027 is \$535,000, with \$401,250 anticipated to be used during the fiscal year (FY) 2024-2026 adopted budget period, as shown in the table below. Upon Council approval of this item, a supplemental appropriation in the amount of \$401,250 will be recorded from the General Fund Infrastructure Reserves to the General Fund, City Manager Professional Services expenditure account 1100000-421000. There are sufficient reserves to cover the supplemental appropriation. The contract balance of \$133,750 will be included in the department’s budget submission for FY 2026/27 to be presented to the City Council for approval.

Fiscal Year	Amount
2024/25: January 2025 – June 2025	\$ 133,750
2025/26: July 2025 – June 2026	\$ 267,500
2026/27: July 2026 – September 2027	\$ 133,750
Contract Total	\$ 535,000

A proportional share of future tax credits is anticipated to repay the contract costs advanced by the General Fund infrastructure reserves.

Prepared by: Jeff McLaughlin, Grants Administrator
 Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
 Approved by: Mike Futrell, City Manager
 Approved as to form: Jack Liu, Interim City Attorney

Exhibits:

- A. Professional Consulting Services Agreement
- B. NMTC Eligible Areas Map

Exhibit B – New Markets Tax Credits Eligible Areas Map

