



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MARCH 12, 2024
FROM: OFFICE OF THE CITY MANAGER WARDS: ALL

SUBJECT: AUTHORIZATION TO ESTABLISH A REVOLVING LOAN FUND IN PARTNERSHIP WITH THE INLAND EMPIRE COMMUNITY FOUNDATION TO BENEFIT CAPITAL AND PROGRAMMATIC EXPANSION ACTIVITIES FOR RIVERSIDE NOT-FOR-PROFIT AGENCIES; INCLUSIVE OF \$450,000 IN START-UP AND TWO YEARS OF MANAGEMENT COSTS FOR A TOTAL EXPENDITURE OF \$2,813,766; AND AUTHORIZE THE CITY MANAGER OR DESIGNEE TO PREPARE A SUBRECIPIENT AGREEMENT WITH THE INLAND EMPIRE COMMUNITY FOUNDATION AND ALL OTHER NECESSARY LEGAL DOCUMENTS RELATED TO THE PROGRAM, RETURNING TO CITY COUNCIL FOR REVIEW WITHIN 90-120 DAYS– SUPPLEMENTAL APPROPRIATION AND INTERFUND TRANSFER

ISSUE:

Consideration of a new program that would establish a revolving loan fund in partnership with the Inland Empire Community Foundation to benefit capital and programmatic expansion activities for Riverside not-for-profit agencies, inclusive of \$450,000 in start-up and two years of management costs for a total of \$2,813,766 total; and authorize the City Manager or designee to prepare a subrecipient agreement with the Inland Empire Community Foundation and all other necessary legal documents related to the program, returning to City Council for review within 90-120 days.

RECOMMENDATIONS:

That the City Council:

1. Authorize the establishment of a new Nonprofit Revolving Loan Fund—the Riverside Nonprofit Resilience Fund--under the general parameters specified in this report; and
2. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to:
 - a. Record a reallocation of funds from various American Rescue Plan Act Expenditure Plan Projects to General Fund revenue replacement in the amount of \$1,363,766;
 - b. Allocate American Rescue Plan Act Expenditure Plan interest earnings in the amount of \$1,000,000 to General Fund revenue replacement;
 - c. Record a supplemental appropriation in the Grants and Restricted Fund, American Rescue Plan Act accounts in the combined amounts of \$2,363,766 and record an interfund transfer of the same amount to the General Fund to effectuate the

American Rescue Plan Act revenue replacement allocation;

- d. Record a supplemental appropriation in the General Fund the amount of \$2,363,766 and record an interfund transfer of the same amount to the Grants and Restricted Fund, Nonprofit Revolving Loan Fund Account; and
 - e. Record a supplemental appropriation in the Grants and Restricted Fund, Nonprofit Revolving Loan Fund Account in the amount of \$2,363,766 to establish a revolving loan fund; and
 - f. Record a supplemental appropriation in the General Fund in the amount of \$450,000 of previously transferred ARPA revenue replacement dollars and record an interfund transfer of the same amount to the Grants and Restricted Fund, Nonprofit Revolving Loan Fund Management Account; and
 - g. Record a supplemental appropriation in the Grants and Restricted Fund, Nonprofit Revolving Loan Fund Management Account in the amount of \$450,000 of previously transferred ARPA revenue replacement dollars for start-up and ongoing management costs directly related to a Nonprofit Revolving Loan Fund); and
3. Authorize the City Manager or designee to establish a partnership with the Inland Empire Community Foundation for a nonprofit revolving loan fund and prepare a subrecipient agreement and all other necessary legal documents related to the program, returning to City Council for review within 90-120 days.

LEGISLATIVE HISTORY:

On February 7, 2023, the City Council approved a revised American Rescue Plan Act (ARPA) expenditure plan which reallocated funding to ensure that all federal funds would be spent by mandated deadlines (ARPA fund encumbered by the end of 2024 and full funding expenditure by the end of 2026) and that critical and eligible local projects and programs be completed. Among the approved expenditure allocations was “Nonprofit Partner Community Programs,” which mandated, “Community servicing programs provided by nonprofit organization partnerships. Nonprofit subrecipients will provide social service programs to impacted and disproportionately impacted communities per ARPA guidance.”

The approved ARPA spending plan was part of a \$73.5 Million in two federal allocations to the City which allowed it to carry out essential operations during the pandemic and to assist the local economy as the Country emerged from pandemic shutdowns. ARPA also statutorily allowed the City to create cost offsets in the General Fund due to “revenue loss” which would allow the City, if desired, to fund projects and programs that meet the spirit of the City Council’s ARPA guidance. The City Council previously designated \$3.7 million in allocation one and \$12.2 million in allocation two (\$15.9 million total) for this purpose.

Subsequently, on October 10, 2023, the City Council approved a reallocation of \$1.0 million from various spending plan items to allowable revenue loss, bringing General Fund revenue replacement funds to a total of \$16.9 million. With ARPA revenue replacement, the City was able to replace lost revenue, creating stability in the General Fund. Additionally, in alignment with ARPA statute, the City was able to provide benefits to local businesses, nonprofits, and performing arts organizations.

ARPA is a limited term federal allocation linked to a national pandemic, the effects of which still reverberate in the Riverside community. The Program does not contemplate ongoing programs or projects that last beyond 2026. Any long-term programmatic activity that meets the spirit of ARPA guidance (and the City Council's intent) would need to be funded via cost offsets and other financial mechanisms needed to establish an ongoing program. As such, ARPA revenue replacement is the funding basis for the proposed revolving loan program, which would support local nonprofit organizations serving the City's most vulnerable populations, including seniors, youth ages 0-5, and those living in low-income communities.

BACKGROUND:

With City Council direction to utilize ARPA funding to assist nonprofits, conversations were held with local nonprofits discussing how best to utilize the ARPA funding, including the Inland Empire Community Foundation (IECF) and others. Based on successful programs in other cities, discussions were had regarding the establishment of a revolving loan fund to benefit nonprofit organizations in Riverside. Local nonprofits often struggle to quickly access capital to deliver essential services to Riverside residents. This has impeded the ability for nonprofits to acquire or renovate space for their work, compete for larger grants or to expand critical services to Riverside's most vulnerable residents.

Forming a Riverside-based nonprofit loan fund creates a self-sustaining community resource. Loan repayment proceeds can be loaned out again and again, providing an ongoing benefit to Riverside and building resilience in Riverside's nonprofit sector.

Continued discussions with the nonprofit community led to the Inland Empire Community Foundation submitting a formal Proposal to host a nonprofit revolving loan fund—named the Nonprofit Resilience Fund-- which is presented as Exhibit A of this report. The vision and broad program parameters for a proposed program are presented below.

DISCUSSION:

City staff sees a financial opportunity to invest one-time dollars into a regenerating loan fund that builds nonprofit resilience for years to come. Timing is of the essence, so the City doesn't lose ARPA funding. The process to encumber the funding for a loan program of this nature must be carefully followed.

- 1) To provide the most financial flexibility to establish a nonprofit revolving loan fund, staff proposes reallocating ARPA funds (\$1,363,766 of existing Council-approved ARPA nonprofit allocations and \$1M of interest earned on ARPA Funds) to General Fund revenue replacement.
- 2) Once placed in the General Fund, these dollars (\$2,363,766) will be restricted to a nonprofit revolving loan fund.
- 3) Finally, staff recommends restricting an additional \$450,000 to the nonprofit revolving loan fund. This proposed \$450k would come from ARPA dollars that were previously transferred to the general fund but that remain unprogrammed. This will be used for loan fund start-up and management costs for the first two years.

In total, \$2,813,766 will be allocated to a nonprofit revolving loan fund, which would be hosted by the Inland Empire Community Foundation. Proposed funding sources are further outlined in the chart below:

Funding Source	Amount
Reallocate ARPA Spending Items:	
Nonprofit Development Programs	\$ 240,000
Nonprofit Grant Support	123,766
Nonprofit Partner Community Programs	1,000,000
Subtotal	\$ 1,363,766
Allocation Request:	
ARPA Program Interest Earned	\$ 1,000,000
Previous ARPA revenue replacement funds:	
Loan Fund Start-Up Costs	150,000
Operational Costs for two years	300,000
Subtotal	\$450,000
Total Funding Request	\$ 2,813,766

Goals and Objectives:

The primary goal of the revolving loan fund would be to provide a permanent source of flexible financing to support Riverside’s nonprofits serving vulnerable populations such as seniors, youth ages 0-5, and those living in low-income communities. to:

- Expand service reach in the City and the capacity to serve Riverside residents;
- Quickly access larger sources of funding into the City for facility improvements and innovation;
- Provide flexible financing that would be repaid so that there would be a continuous source of capital for future nonprofit needs; and
- Attract other sources of capital to leverage the city’s initial investment into a financially sustainable funding vehicle for the City’s nonprofits, particularly to address persistent capital gaps in low-income communities.

Program Overview:

The fund would work with 501(c)(3) non-for-profit entities that are located in the city of Riverside. The loan fund would provide financing for the following uses:

- Working capital and bridge loans that would be repaid with the receipt of earned revenues from government or corporate contracts;
- Pre-development, acquisition and improvement loans to real estate projects in the city’s low-income communities;
- Loans to finance energy retrofits and improvements that reduce energy costs, with repayments based on the cost savings from reduced energy costs; and
- Other uses of funding that enable eligible nonprofits to develop and expand services and products that meet the needs of the City’s residents, particularly its low-income residents.

Loan Fund Structure and Governance:

- The Riverside Nonprofit Resilience Fund would be hosted by the Inland Empire Community Foundation (IECF).
- IECF would establish a 5–7-person Investment Advisory Committee, composed of one representative from the city, two from the community and at least two people with commercial, community development or impact financing experience. This Committee would be the decision-making body for approving loans. IECF would be a member of the committee.
- The revolving loan fund would be managed by a qualified loan manager from an external partner with a track record of managing, underwriting, structuring, and monitoring similar types of financing opportunities for nonprofit organizations. Teams with presence, or at the very least, prior experience in Riverside will be prioritized.

Financing Structure:

Phase I of the revolving loan fund would prioritize direct investments in a range of loan sizes that ensure deployment and return of capital.

Initial investments would focus on:

- Real estate acquisition;
- Real estate improvements, owned or leased, including green energy improvements to reduce operating costs;
- Investments to expand impact quickly from new revenue or contracts; and
- Working capital and bridge loans to access City, State and Federal grants.

Potential financing structures would include:

- Loans which are senior or subordinated loans at interest rates as determined by the investment committee, and depending on the prevailing interest rate environment and relevant benchmarks;
- Loan terms that depend upon underlying use of proceeds and repayment sources (e.g., working capital tied to contracts versus a bridge loan for a nonprofit facility);
- Guarantees which could be made by the Fund to provide credit enhancement to facilitate loans from local banks and other financial institutions into the nonprofits or projects that would not otherwise meet lenders' underwriting criteria;
- Loan sizes that vary, depending on demand and each nonprofit's capacity, but will likely be in the range of \$150,000- \$200,000.

Based upon best practices, IECF proposes offering technical assistance to both applicants and successful borrowers to ensure positive results.

Investment criteria would include:

- Economic, social, and/or environmental impact to the services or solutions provided by the borrower;
- Repayment method and likelihood of return of capital;
- Benefit to the nonprofit for growth, stability, and impact in the City of Riverside;
- Results that close equity gaps for communities of color, women, youth 0-5, and seniors.

Setup, Ongoing Fund Management, and Maintenance:

- It is estimated that the Fund will cost \$150,000 to set up (e.g., for initial legal documents, drafting an Investment Policy Statement/Investment Guidelines and fund administrative processes and systems) and \$150,000 annually to manage. Some costs could potentially be offset by the interest rate charged by the Fund.
- It will be critical to grow the fund over time as larger revolving funds can become more self-sufficient in operating costs. Therefore, it is expected that IECF will take a proactive approach to finding outside funding to merge with the City's seed dollars in order to service more clients and sustain itself over time.

Nonprofit Revolving Loan Funds – Regional and National Examples:

While it would be new to the City of Riverside, the concept of a revolving loan fund that benefits nonprofits is not new. Some programs have a broad footprint, while others are tailored to assist specific groups. Although not an exhaustive list, several regional and national nonprofit loan funds are detailed below.

The Metro Denver Nonprofit Loan Fund - Seeded with \$3 million in capital from regional organizations and governments in the Denver area, the Denver Nonprofit Loan Fund provides financing and consulting to help regional nonprofits and their funders better connect money to mission results. The Fund supports the recovery and sustainability of the Metro Denver nonprofit ecosystem with technical assistance and no-interest loans, prioritizing organizations led-by and/or serving Black, Indigenous, and people of color. <https://www.denvernonprofitloanfund.org/>

San Diego COVID-19 Nonprofit Loan Program- A partnership between the San Diego Foundation and San Diego-based Mission Driven Finance, provided \$5.2 million in loans to nonprofits during the COVID-19 pandemic. The fund provided zero-interest gap financing, particularly for nonprofits providing front-line care to affected communities, with a priority on those serving communities disproportionately affected by the global pandemic and its economic consequences. The partnership recently announced that loans were successfully repaid with less than one-tenth of one percent in losses.

California Community Foundation Loan Fund - Builds the capacity of local nonprofits to obtain financing so they can continue to address critical needs in the community. Loans support the work of nonprofit organizations in the core areas of health, housing, education, and related programs serving low-income Angelenos. Common uses are for real estate purposes such as acquisition of a building to operate or expand programs, as well as for working capital to support program expansion or stabilization. Loans terms are from two to three years and typically secured by real estate in first priority position, but other structures may be considered depending on project sponsor, deal structure and other guarantees.

About The Inland Empire Community Foundation:

This City requests a partnership with the Inland Empire Community Foundation (IECF) as the financial host for the proposed revolving loan fund.

Established in 1941, IECF is the oldest community foundation in the Inland Empire, dedicated to serving Riverside and San Bernardino Counties. Stewarding \$130 million in assets, IECF collaborated with donors of all sizes to channel more than \$35 million in gifts and distribute over

\$24 million in grants and scholarships in 2022. The foundation places a strong emphasis on using data to unveil disparities, driving its grantmaking, programs, and partnerships. By investing in communities most affected and cultivating a culture of philanthropy, IECF envisions a future marked by positive, transformative, and community-led change.

Some recent examples of IECF's commitment to positive change include:

- Establishing new board-driven Signature Funds for veterans, Latinos, the arts, Coachella Valley, and media and journalism;
- Producing new research on veterans, Latinos, the arts, and African Americans in the IE;
- Managing state investments into the IE Black Equity Fund and advocating for state attention to the IE;
- Hosting the IE Policy Forum in 2023 with over 400 participants including state partners;
- Incubating and launching Inland Economic Growth and Opportunity (IEGO) as its own nonprofit focused on economic development functions, while managing California Jobs First funding;
- Bringing \$4.7 million into the region for artists and the arts, through the California Arts Council.

Due to its meaningful and measurable results and the Foundation's ability to leverage significant investments from other foundations, donors, and government sources, the City Manager chose the Inland Empire Community Foundation as the proposed partner for the Revolving Loan Fund.

Sole Source Bid Justification

Purchasing Resolution 23914 Section 702(c) states that Competitive Procurement through the Informal Procurement and Formal Procurement process shall not be required, "When the Procurement can only be obtained from a sole source and the Manager is satisfied that the best price, terms and conditions for the Procurement thereof have been negotiated." The City has made the following findings regarding the award of a sole source bid:

1. The Inland Empire Community Foundation was chosen because of the unique ability of the organization to host a nonprofit loan fund and implement a lending program to benefit the nonprofit community, and for the Foundation's ability to potentially grow the Revolving Loan Fund over time with other alternative funding sources.
2. It is believed that the pricing offered by the Community Foundation in establishing a Revolving Loan Fund, and the ongoing maintenance and operation of the fund is reasonable and consistent with other organizations in this unique lending space.
3. The Community Foundation's previous experience in nonprofit fund management and lending will offer the City cost savings over time in comparison with market rate lending institutions.

The Purchasing Manager concurs that the recommendation is in compliance with Purchasing Resolution 23914

Next Steps:

City staff and representatives of the Community Foundation will take approximately 90-120 days to codify Nonprofit Revolving Loan Fund legal terms into a Subrecipient Agreement. Staff will return to the City Council with all contracts and other necessary legal documents related to the Program startup during fall of this year for consideration. The Program will need to develop specific operational and outreach documents, form the investment advisory committee, and hire

a loan manager. Program advertising and outreach would begin in late fall of this year. It is estimated that the first loans under the Program would occur in late 2024 or early 2025.

STRATEGIC PLAN ALIGNMENT:

The Second Expenditure Plan is interwoven throughout the entire Envision Riverside 2025 Strategic Plan and Goals. The item aligns with each of the five Cross-Cutting Threads as follows:

- 1. Community Trust** – Riverside is committed to providing a transparent process and gathering community input to support how funds will be used. To assist with these efforts, the City has developed an ARPA webpage that includes program information, a public survey and dedicated ARPA email address.

- 2. Equity** – Riverside is supportive of the ongoing evaluation of potential programs and projects that ensure a response to disproportionately impacted groups and the exacerbation of health inequities along racial, ethnic, and socioeconomic lines.

- 3. Fiscal Responsibility** – this item ensures fiscal responsibility of ARPA funds by identifying a need or negative impact and identifying how the project/program addresses the identified need.

- 4. Innovation** – Riverside is committed to responding to the community’s changing needs and preparing for the future through developing ARPA funded projects/programs that build on collaborative partnerships.

- 5. Sustainability & Resiliency** – Having weathered a global pandemic, Riverside’s nonprofits have identified the need for multiple funding sources that allow them to grow, adapt, and best serve Riverside’s most vulnerable residents in the long term. A revolving loan fund allows financing at accessible rates for nonprofits to acquire real-estate assets, make capital improvements on existing assets, create a proof of concept for new ideas, and provide critical services to vulnerable Riverside residents.

FISCAL IMPACT:

The fiscal impact of this action is \$2,813,766, funded by ARPA revenue replacement funds. With Council approval, staff will reallocate \$1,363,766 from various American Rescue Plan Act Expenditure Plan Projects to General Fund revenue replacement and allocate \$1,000,000 of ARPA interest earnings to General Fund revenue replacement. These funds, totaling \$2,363,766, will be transferred to the Grants and Restricted Programs Fund, Nonprofit Revolving Loan Fund Account and used to establish a revolving loan fund. Additionally, \$450,000 of former ARPA funding will be transferred to the Grants and Restricted Programs Fund, Nonprofit Revolving Loan Fund Management Account for start-up costs (\$150,000) and the ongoing management and maintenance (\$300,000) of the loan fund for two fiscal years.

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: Phaedra Norton, City Attorney

Attachments: A - Program Proposal - Inland Empire Community Foundation