



# City Council Memorandum

*City of Arts & Innovation*

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**TO: HONORABLE MAYOR AND CITY COUNCIL                      DATE: OCTOBER 22, 2024**

**FROM: OFFICE OF THE CITY MANAGER                              WARDS: ALL**

**SUBJECT: GRANT AGREEMENT WITH THE INLAND EMPIRE COMMUNITY FOUNDATION TO MANAGE A NON-PROFIT REVOLVING LOAN FUND TO PROVIDE CAPITAL AND PROGRAMMATIC EXPANSION ACTIVITIES FOR NOT-FOR-PROFIT AGENCIES LOCATED IN, OR BENEFITTING RESIDENTS OF THE CITY OF RIVERSIDE WITH AN AGREEMENT CONSISTING OF LOAN CAPITAL, STARTUP AND TWO YEARS OF OPERATIONAL COSTS FOR A TOTAL EXPENDITURE OF \$2,813,766; AND AUTHORIZE THE CITY MANAGER TO SIGN ALL APPLICABLE DOCUMENTS**

**ISSUE:**

Finalize the grant agreement with the Inland Empire Community Foundation to manage on behalf of the City a \$2,363,766 million revolving loan fund to benefit capital and programmatic expansion activities for not-for-profit agencies located in, or benefitting, the City of Riverside; with \$150,000 in start-up legal, technology, and other related costs and two years of costs associated with loan underwriting, risk management, financial counselling and other required loan costs of \$300,000, all totaling \$2,813,766; and authorize the City Manager to sign all applicable documents to establish the proposed Fund. Start up and operating costs are intended to secure third party legal counsel and a Loan Manager to ensure the fund is effectively managed.

**RECOMMENDATIONS:**

That the City Council authorize the City Manager or designee to sign any-and-all associated contracts, extensions, and associated documents to establish a revolving loan fund and to establish a partnership with the Inland Empire Community Foundation for this purpose, making minor corrections as necessary.

**LEGISLATIVE HISTORY:**

On March 11, 2021, President Biden signed into law the American Rescue Plan Act (ARPA) to facilitate the recovery from the devastating economic and health effects of the COVID-19 pandemic. The American Rescue Plan Act established the Coronavirus State Fiscal Recovery Fund and Coronavirus Local Fiscal Recovery Fund, which provided a combined \$350 billion in assistance to eligible state, local, territorial, and Tribal governments to assist in the economic and health recovery by providing resources to address impacts resulting from the crisis.

On February 7, 2023 the City Council approved a revised ARPA expenditure plan which included among the approved expenditure allocations was “Nonprofit Partner Community Programs,” benefitting, “Community servicing programs provided by nonprofit organization partnerships. Nonprofit subrecipients will provide social service programs to impacted and disproportionately impacted communities per ARPA guidance.”

## **BACKGROUND:**

With City Council direction to utilize ARPA funding to assist area non-profits, the City Manager's Office began discussions regarding the establishment of a revolving loan fund to benefit non-profit businesses in Riverside City. Negotiations were focused on the best means to honor the intent of ARPA funding to fuel COVID recovery, to keep the funding local past the 2024 deadline, and to develop an innovative concept that could benefit residents of Riverside well into the future. The concept of a revolving loan fund was appealing because although nonprofits are businesses, they are not afforded the same opportunities to borrow capital through traditional means and the program strengthens nonprofit organizations which largely support low-income residents, quality of life, and community-building. Because of weak collateral to borrow or limited knowledge about how to become investment ready, as well as the challenge of public contracting and repayments which are almost universally reimbursable and can take more than half a year to be paid, nonprofits do more with less and struggle to meet the demands of our community. Related, government struggles to partner with nonprofits due to a lack of capacity.

As a result of these discussions, the City Manager began talks with the Inland Empire Community Foundation (IECF) to create a vision and broad operational parameters for a new revolving loan fund. IECF stewards over \$130 million of individual, business, and public funds, distributed over \$30 million to students and nonprofits in 2023. Its Board-led investment Committee manages these funds and is supportive of the potential for impact investing to assist nonprofit businesses. Ongoing discussions led to the Community Foundation submitting a formal Proposal to the City in January of 2024 with a vision and broad program parameters for a revolving loan fund to serve the Riverside non-profit community.

On March 12, 2024 the City Council approved the funding of the Nonprofit Resilience Fund or nonprofit revolving loan fund, and the financial transfers necessary to establish a Non-Profit Revolving Loan Fund. Per the City Council's direction, staff is returning with a negotiated agreement that sets forth the administrative parameters for operating the Non-Profit Revolving Loan Fund, specifies certain startup and operational documents, sets a timeline for implementation, and gives broad programmatic parameters for the proposed Program. This Grant Agreement is presented as Exhibit A to this report.

## **DISCUSSION:**

The primary goal of the Loan Fund is to provide a permanent source of flexible financing to support the City's non-profit businesses that specifically serve Riverside residents to:

- Expand service reach and capacity in the City;
- Access funding for City organizations that need facility improvements and innovation;
- Provide flexible financing that would be repaid so that there would be a continuous source of capital for future non-profit needs, and
- Attract other sources of capital to leverage the City's initial investment into a financially sustainable funding vehicle for Riverside nonprofits.

### Program Overview:

The fund would work with 501(c)(3) non-for-profit entities that are located in, or serving target populations within, the city of Riverside. The goal of the program is to create programmatic activities and resource development that benefit the greatest number of Riverside residents. With this goal in mind, if a non-profit headquartered outside the city limits could prove a substantial Riverside benefit in applying for a loan, then their application would be considered by the Program's loan committee. Loans for sustainability or infrastructure improvements would be approved for in-city headquartered non-profits. The goal of the Program's loan committee would be to maximize the benefit to Riverside residents.

The loan fund would provide financings for the following types of 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 for real estate projects that build non-profit program capacity (in city only);
- Loans to finance energy retrofits and improvements that reduce energy costs, with repayments based on the cost savings from reduced energy consumption (in city only); 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 and senior residents.

### Loan Fund Structure and Governance:

- The City of Riverside Nonprofit Revolving Loan Fund will be situated at the Inland Empire Community Foundation. The Community Foundation would operate as the fiscal overseer of the Loan Fund and will partner with another regional organization such as a Community Development Finance Institution to advertise, manage, underwrite, work with applicants, and otherwise run an ongoing loan program.
- Loans will be reviewed by an investment committee to be established and composed of representatives from the City, community, and people with commercial, community development, or impact financing experience. The committee will be the decision-making body for approving loans.
- The Loan Fund will be overseen by a qualified team with a track record of managing, underwriting, structuring, and monitoring similar types of financing facilities for nonprofits. Preference will be given to management teams with presence, or at the very least, prior experience in the Inland Empire.

### Financing Structure:

- The Fund's objective is to be a catalyst to utilize funds creatively and effectively and potentially merge the City's investment with other sources of capital to reduce borrowing and costs of capital to non-profit borrowers. Loans from the Fund may take a subordinate position to senior lenders and provide credit enhancement to enable commercial lenders to participate.
- Phase I of the Fund could support 3-5 investments in the first year of operation as a proof-of-concept.
- Initial investments could focus on real estate (owned and leased), acquisition and

improvements, including green energy improvements that reduce operating costs; programmatic improvements that directly benefit Riverside residents; investments to expand impact quickly with repayments coming from increased savings by the City; and working capital loans based on incoming revenue.

### Potential Financing Structures:

To meet the need for flexible financing options in a city that has limited access to capital relative to larger metropolitan areas in other parts of the State. While Loan terms would depend on the underlying use of proceeds and repayment sources.

The Loan Fund's capital could be used in the following structures:

- Senior or subordinated loans at a rate of between [0-5%] depending on the prevailing interest rate environment and based on relevant benchmarks that are as comparable as possible.
- Guarantees 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.

In all cases, a key investment criteria would be the likelihood of repayment to ensure the Loan Fund can be maintained and financially sustainable.

### Setup, Ongoing Fund Management, and Maintenance:

- The Loan Fund is estimated to cost approximately \$150,000 to set up (e.g., for initial legal documents, drafting an Investment Policy Statement/Investment Guidelines, fund admin processes and systems, and the related technology necessary to administer the loan fund and related financial documents). IECF will manage this process, including engaging legal counsel and a outside Loan Manager to complete the necessary documents.
- Estimates are based on discussions with the Nonprofit Finance Fund, the Denver Metro Fund, the San Diego Foundation, and impact investing consultant Jackie Khor.
- The Loan Fund would cost approximately \$100,000-\$150,000 annually to manage, principally to engage the services of an experienced loan fund manager capable of assessing loan applications, risk of repayment, negotiate loan terms, provide technical assistance and training to nonprofit businesses, assessing investment readiness, underwriting loans, managing decision-making with the NPRF Loan Committee, handling collections and repayment issues, ongoing technical support to borrowers, and reporting.
- Estimates are based on discussions with the Nonprofit Finance Fund, the Denver Metro Fund, the San Diego Foundation, and impact investing consultant Jackie Khor.

Future years' management costs would be covered from the interest charged, any fees, area banks seeking Community Reinvestment Act credit, philanthropic grants, and other funding by partner lending institutions, as well as by expanding the fund

Building on the Riverside Nonprofit Loan Fund, IECF will seek to grow the fund to provide greater sustainability and self-sufficiency in its operating costs. IECF manages over 430 unique funds at costs ranging from 1.5%-3.5%. IECF will seek to recoup up to 2% of the cost of managing this fund either through interest earned on fund management or through philanthropic partners and donations. That cost, roughly \$48,000 per year, includes financial management, fundraising/fund development, reporting, convening the Loan Committee, advertising the fund and its borrowers, managing the Loan Manager contract, and reporting to the City of Riverside.

### The Inland Empire Community Foundation:

Since the City is not staffed nor desires to become nonprofit business lenders, the Inland Empire Community Foundation has been engaged as the main financial partner for the proposed revolving loan fund. The Foundation is a California 501(c)(3) nonprofit corporation and serves as a leader, catalyst, and resource for philanthropy and seeks to improve the lives of individuals in Riverside and San Bernardino Counties. The Foundation accomplishes this by developing partnerships with philanthropic individuals, community leaders, and the non-profit sector to ensure that they can be a catalyst to solve community concerns and strengthen nonprofit organizations.

Established in 1941 as a community trust, the Foundation is an independent, publicly supported philanthropic organization founded for the purpose of improving the quality of life in Riverside Counts through grants to tax-exempt organizations and through educational scholarships.

Since its founding, the Inland Empire Community Foundation has awarded more than \$231 million to nonprofit organizations that are doing vital work in health and human services; support to children and families, arts and culture, education; and for civic and environment benefit, efforts that are essential to shoring up our most vulnerable residents. 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.

City Council approved funding for this new program as it is a sustainable use of funding that creates synergies on the City's original investment. The program helps non-profit businesses develop greater capacity to grow and operate in Riverside and thereby provide even greater social and economic benefits to the City and its residents.

### **STRATEGIC PLAN ALIGNMENT:**

The Loan Fund 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:

**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 worked closely with the nonprofit community and taken this program back to the City Council twice to maximize public comment. The funds are being allocated to the nonprofit community as they were originally considered in the City's ARPA budget.

**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. The revolving loan fund supports equity by strengthening nonprofit organizations that serve the City of Riverside's most vulnerable residents.

**Fiscal Responsibility** – this item ensures fiscal responsibility of program funds by identifying a need or negative impact and identifying how the project/program addresses the identified need. The revolving loan fund is fiscally responsible by maintaining the intent of the funding, retaining the funds for Riverside City residents, and replenishing the fund for perpetuity.

**Innovation** – Riverside is committed to responding to the community's changing needs and preparing for the future through developing projects/programs that build on collaborative

partnerships. This fund is innovative as the first of its kind in the region and in the City, by providing seed funding for an innovative concept that will help nonprofit businesses become investment ready and grow, and by retaining funds for perpetuity. The loan fund goes beyond traditional grantmaking and philanthropic dollars to focus on an important gap in the nonprofit business model.

**Sustainability & Resiliency** – this item ensures sustainability through ongoing evaluation of projects and programs to allow adaptation to meet the current and future needs ensuring the City’s capacity to persevere, adapt, and grow. The revolving loan fund takes one-time ARPA funding and makes it sustainable beyond the 2024 expiration date. In addition, the structure of the agreement ensures resilience through the establishment of the Investment Committee, which will include representatives from the City of Riverside.

**FISCAL IMPACT:**

The total fiscal impact of this action is \$2,813,766, which is funded by ARPA revenue replacement funds approved by City Council on March 12, 2024. Funds are budgeted and available in Grants & Restricted Programs Fund, Non-Profit Revolving Loan Fund Account number 9927700-421000 for the proposed agreement.

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 – Grant Agreement - Inland Empire Community Foundation