



City of Riverside Nonprofit Resilience Fund
A proposal for hosting the Fund by Inland Empire Community Foundation
3700 Sixth St., Riverside, CA, 92501 - 2.26.24

The Need

Nonprofits in the Inland Empire (IE) are carrying forward many efforts to improve conditions in our communities, including in the City of Riverside. Across the IE, nonprofits are generally small, with small budgets and limited staff, due in part to the very limited philanthropic capital available to the IE. During COVID, nonprofits took on big responsibilities and became visible, trusted partners for making our communities safe, healthy and resilient. Many have grown to take on larger projects, serve more people, and help others succeed through collaboration with public sector partners.

To meet this moment requires that Riverside nonprofits have access to capital and technical assistance that can support their growth. Currently nonprofits struggle to access larger sources of funding, state and federal especially, because of reimbursement requirements. There is almost no seed capital to innovate around new ideas or market-based strategies like social enterprises. And nonprofits that want to improve or purchase properties can find it difficult to access private capital due to a lack of collateral or the bank's difficulty identifying a nonprofit's repayment method. For nonprofits led by and serving Black, Indigenous, and people of color, accessing capital and support for growth is even more difficult.

The Opportunity

A grant is a one-time investment into a nonprofit, whereas establishing a revolving loan fund and building the infrastructure for impact investing in the City of Riverside could perpetually provide benefits and opportunities for nonprofit growth. This sustainability factor is a promising way to use one-time federal dollars for long-term nonprofit resilience in Riverside.

The Inland Empire Community Foundation (IECF) proposes establishing an impact investment fund, called the Riverside City Nonprofit Resilience Fund (the Fund) that would provide loans that focus on local nonprofit organizations serving the City's most vulnerable populations, including seniors, youth ages 0-5, and those living in low-income communities.

Seeded by \$2.6 M in American Rescue Plan Act (ARPA) funding, The Fund would provide flexible financing to nonprofits 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 to real estate projects in the city's low-income communities and serving low-income families;
- 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. For example, Pay for Success models that allow nonprofits to expand and have the loan repaid from cost-savings at the City or other institutional partner.

The concept IECF is proposing is not new, but it is an instrument that does not currently exist for nonprofits in Riverside. Funds of this type have occurred in many other communities, especially in partnership with expert loan fund managers like the Nonprofit Finance Fund and Mission Driven Finance. Two fund examples IECF has been researching are:

1. The Metro Denver Nonprofit Loan Fund, <https://www.denvernonprofitloanfund.org/>, in partnership with the Nonprofit Finance Fund, and
2. The San Diego COVID-19 Nonprofit Loan Program, in partnership with Mission Driven-Finance, <https://www.sdfoundation.org/news-events/sdf-news/transformative-loans-san-diego-countys-covid-19-nonprofit-loan-program-yields-5-2m-repayment-and-reinvestment-in-community/>

About IECF

Established in 1941, IECF stands as the oldest community foundation in the Inland Empire, dedicated to serving Riverside and San Bernardino Counties and its many cities. With a mission rooted in fostering racial, gender, and economic equity, the foundation has become a transformative force in our communities, driving funding and strategy for a more resilient and collaborative region. Stewarding \$130 million in assets, IECF collaborates with donors of all sizes to channel more than \$35 million in gifts and distribute over \$24 million in grants and scholarships (2022). The foundation places a strong emphasis on using data to unveil disparities, driving its grantmaking, programs, and partnerships. By empowering and 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.

IECF believes impact investing is a key tool and needed infrastructure to grow nonprofit capacity. It has hosted a subcommittee of its Investment Committee to research this idea over the last two years, connecting with foundations and consultants, and attending trainings and seminars to better understand how to accomplish this. This opportunity is a perfect start for Riverside and the region to learn and do impact investing.

Goals and Objectives

The primary goal of this Fund is to provide a permanent source of flexible financing to support the City's nonprofits to:

- a) Expand their reach in the City, and
- b) Quickly access larger sources of funding for facility improvements; and,
- c) Access larger grants through federal and state funding, such as Inflation Reduction Act and Greenhouse Gas Reduction Fund.

In addition, IECF would use this one-time funding as catalytic capital to:

- d) Provide flexible financing that would be repaid so that there would be a continuous source of capital for future needs, and
- e) 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.

Proposed Structure

a) Loan Fund Structure and Governance

The City of Riverside Nonprofit Revolving Loan Fund would be situated at the Inland Empire Community Foundation.

Investment Committee: A five- to seven-person investment 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 would be the decision-making body for approving loans. IECF would be a member of the committee.

Loan Manager: The Fund would be managed by a qualified team 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 the Inland Empire, will be prioritized.

b) Proposed Financing Roles and Structures

i) Catalytic Role: The Fund's objective is to be as catalytic as possible, i.e. to the extent that its funds could be used to leverage and access other sources of capital and reduce the costs of capital to borrowers. This includes taking a subordinate position to senior lenders, and providing credit enhancement to enable commercial lenders to participate.

ii) Direct Funding Role: Seeded by ARPA funding, during the first year, Phase I of the Fund would prioritize direct investments in a range of loan sizes that ensure deployment and return of capital. Initial investments will focus on real estate (owned and leased), acquisition and improvements, including green energy improvements to reduce operating costs; investments to expand impact quickly with repayments coming from increased savings by institutional partners; and working capital loans based on incoming revenue.

- 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 would depend on underlying use of proceeds and repayment sources (e.g., working capital tied to contracts versus a bridge loan for a nonprofit facility);
- Unfunded guarantees 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 size could vary, depending on demand, but loans in the range of \$150,000-\$200,000 and up to \$1 million could be possible.
- IECF proposes ensuring 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.

Loan Manager

A key determinant of success would be an appropriately qualified loan manager with sufficient investment underwriting and fund management infrastructure, networks and understanding of the Riverside context to be able to:

- a) Work with the Fund committee to source and complete due diligence on potential borrowers and projects, and
- b) Optimally structure the financings to meet the borrowers' needs, leverage other sources of capital, and ensure highest likelihood of repayment and accomplishment of the impact objectives.

IECF would seat the committee and develop a Request for Proposals to share with prospective loan managers. The committee would vet proposals and finalize a contract.

Fund Management Cost

Based on information provided by two fund managers and the Denver Metro Nonprofit Loan Fund, costs can range based on the fund manager and services provided, including technical assistance. IECF estimates operating costs annually of roughly \$150,000 per year, with a one-time set up fee of roughly \$150,000.

The Funds' local investment committee will build a budget and financial modeling as part of its work to build towards fund deployment.

A small portion of operating costs would remain with IECF to market the Fund and manage the Investment Committee, but the majority of operating would go to the fund manager.

IECF has spoken with several private foundations who are aware of and potentially interested in supporting the operations of the Fund, ideally with three years of support in place. Local bank partners are another source of potential capital for investments as well as operating.

On the capital investment side, the IECF Investment Committee (which oversees IECF's fund manager, Verus, and produces IECF's investment policy), may consider an investment into the Fund as part of its mission and the interests of its donors.

4. ARPA Specifics

While City staff confirmed that it is possible to use ARPA funding to make loans, repayments and/or interest would need to be directly recapitalized into the program. The City would also need to document how the project partners were chosen to prove the Riverside received the best possible program terms for the use of Federal funds. The money must be obligated by December 2024 and spent by 2026.

5. Timeline

If approved, the seed funding for the Nonprofit Resilience Fund would be allocated to the Inland Empire Community Foundation by July 2024. The Inland Empire Community Foundation would

immediately set up the Investment Committee that would meet in early September 2024 to vet an external loan manager. With the loan manager on board, the Request for Proposals for the proof-of-concept loans would open in December 2024. The first loans would be awarded by end of first quarter 2025.