



City of Arts & Innovation

City Council Memorandum

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

FROM: OFFICE OF THE CITY MANAGER WARDS: ALL

SUBJECT: GRANT AGREEMENT WITH THE INLAND EMPIRE COMMUNITY FOUNDATION TO ESTABLISH A NON-PROFIT REVOLVING LOAN FUND TO PROVIDE CAPITAL AND PROGRAMMATIC EXPANSION ACTIVITIES FOR NOT-FOR-PROFIT AGENCIES LOCATED IN, OR BENEFITTING, 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:

Authorization of a grant agreement with the Inland Empire Community Foundation to establish 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; authorize \$150,000 in start-up costs and two years of maintenance and \$350,000 in operational costs (\$2,813,766 total); and authorize the City Manager to sign all applicable documents to establish the proposed Fund.

RECOMMENDATIONS:

That the City Council:

1. Reaffirm the establishment of a Riverside Non-Profit Revolving Loan Fund under the general parameters specified in this report;
2. Authorize a Grant Agreement with the Inland Empire Community Foundation to provide approximately \$2,363,766 in loan capital, \$150,000 in startup costs and \$300,000 in operational costs for programmatic years one and two (\$2,813,766 total) to establish a revolving loan fund to benefit not-for-profit agencies located in, or benefitting, the City of Riverside; and
3. 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 organizations in the Inland area that serve the city and its residents. Because of resource development funding scarcity, local non-profits are often burdened in delivering essential services to Riverside residents. As a result of these discussions, the City Manager began talks with the Inland Empire Community Foundation to create a vision and broad operational parameters for a new revolving loan fund. 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 loan fund to serve the Riverside non-profit community.

On March 12, 2024 the City Council approved a program-in-concept 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 establishes 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 would be to provide a permanent source of flexible financing to support the City’s non-profits and organizations that specifically serve Riverside residents to:

- Expand service reach and capacity in the City;
- Quickly 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, particularly to address persistent capital gaps in low-income communities. Although the fund’s primary benefit is to low-and-moderate income communities, loans may also be made to benefit the arts and other organizations that enrich the lives of municipal residents.

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 nexus 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 residents.

Loan Fund Structure and Governance:

- As proposed, the City of Riverside Nonprofit Revolving Loan Fund would be situated at the Inland Empire Community Foundation. The Community Foundation would operate as the fiscal overseer and manager of the Loan Fund but might also partner with another regional organization to advertise, manage, underwrite, work with applicants, and otherwise run an ongoing loan program.
- Loans would 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 would be the decision-making body for approving loans.
- The Loan Fund would be overseen by a qualified team with a track record of managing, underwriting, structuring, and monitoring similar types of financing facilities for nonprofits. Preference would 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, the Loan Fund's capital could be used in the following structures:

- Senior or subordinated loans at a rate of between [3-15%] depending on the prevailing interest rate environment and based on relevant benchmarks that are as comparable as possible.
 - Loan terms would depend on the underlying use of proceeds and repayment sources.
- Unfunded 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, in addition to value-added social, community and/or environmental impact to services or solutions provided by the borrower, a key investment criteria would be the likelihood of repayment to ensure the Loan Fund can be financially sustainable.

Setup, Ongoing Fund Management, and Maintenance:

- The Loan Fund will cost approximately \$150,000 to set up (e.g., for initial legal documents, drafting an Investment Policy Statement/Investment Guidelines and fund admin processes and systems).
- The Loan Fund would cost approximately \$100,000-\$150,000 annually to manage. The agreement that is the subject of this report requests \$150,000 a year for the first two years of programmatic operation of the fund.

Future years' management costs could potentially be covered from the interest charged, (e.g., if the Fund earns at least an average of 7% on annual loans – lending the entirety of the Loan Fund - over time would raise approximately \$150,000 annually). Additional costs could potentially be offset by the interest rate charged by the Fund and by commitments of Community Revitalization Act, philanthropic grants, and other funding by partner lending institutions.

- Critical Loan Fund sustainability is to grow its endowment over time so that it can become more self-sufficient in operating costs. Therefore, it is expected that the operational partners in the Loan Fund 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.

The Inland Empire Community Foundation:

The Inland Empire Community Foundation as the main financial partner for the proposed revolving loan fund. The Foundation is a California 501(a)(1) 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 and San Bernardino Counties through grants to tax-exempt organizations and through educational scholarships. The Foundation operates in the largest geographic territory of any community foundation in the nation - more than 27,000 square miles, covering Riverside and San Bernardino Counties. While part of the Los Angeles media market, the Inland Empire has its own identity and is made up of 52 cities and towns and numerous unincorporated and rural areas. Combined, these counties have a population of 4.5 million residents.

Since its founding, the Inland Empire Community Foundation has awarded more than \$127 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. In 2021, the Foundation gave more than \$19 million in grants, of which nearly \$4 million were for scholarships and education. 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 staff has proposed this new program as it is a sustainable use of funding that potentially creates synergies on the City's original investment. The program also serves the non-profit community which provides social and economic impacts 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:

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 taken this program back to the City Council twice to maximize public comment.

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 program 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 projects/programs that build on collaborative partnerships.

5. 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.

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