

# **Kalamazoo Community Foundation**

## **Program and Business Related Investment Policy**

Adopted August 14, 2000  
(Parent Company Name Update 11-17-2000)  
(Holding Company Name Update 2-28-2001)  
(Cap/Floor Update 9-9-2002)  
(Cap/Floor Update 1-8-2007)

The Kalamazoo Community Foundation asserts there are key issues within the greater Kalamazoo area that are critical to the overall vitality and health of the community that in turn support growth opportunities for its citizens. In fulfilling its overall mission within the charitable purposes of the IRS code, program related investments (PRIs) are available social tools for the Board of Trustees to carry out charitable decisions. At times those decisions may involve private enterprise. Additionally, creating a vital and stable platform for growth may involve non-charitable business related investments (BRIs) in private enterprise.

PRIs and BRIs are a set of community growth tools to:

- I. Provide no or low interest loans to assist short term non-and for-profit business needs.
- II. Provide loan guarantees
- III. Make available long-term venture capital loans to assist non-and for-profit business expansion or business start-ups.
- IV. Purchase equity interests through Kalamazoo Community Foundation Real Estate Holdings, Inc. (KCFREHI)
- V. Utilize the strengths of the Foundation to improve general areas of the community.

### **Program Related Investments-Principal Issues**

PRIs are an investment in non and for-profit businesses the purpose of which is charitable in nature with the goal of bettering the community. PRIs come in the form of one or more of the growth tools I through V above and must meet the varied charitable tests.

In addition:

- ❑ PRI's, unlike managed assets under the foundation's Investment Policy, are proactive actions of the Board of Trustees, which like grants, are made for specific community benefits. Additionally, PRI's are for charitable purposes rather than for the production of income where, again like grants, community good is the measurement of return.
- ❑ PRIs would be recorded as separate business assets and not mingled with managed assets for performance reporting given their being specific tools like grantmaking and the timing issues involved in quarterly reporting. Funding would be derived from unspent appreciation of discretionary fund principal. Managed investments would be administratively liquidated in sufficient amounts to provide the necessary cash for investments.

- ❑ Excepting a PRI to KCFREHI, where a PRI loan or loan guarantee is utilized, the Board would decide upon the type of debt instrument, interest, collateral, debt repayment schedules etc. In cases of an equity investment, the Board would decide upon the appropriate equity instrument and any requirements of the Foundation's role in the particular business venture. (also see applicable section under BRI)
- ❑ If the organization receiving the benefit of a specific PRI were not located in the greater Kalamazoo area, any PRI decision would be dependent upon satisfactory substantiation as to the positive and favorable impact to the Foundation's service area.
- ❑ In each case, the basic principles of grant determination would apply as well as any other applicable standards. Certain tests may be followed if the PRI involves private enterprise and various levels of due diligence would be applied depending on the type of debt or equity transaction involved.
- ❑ The PR/BRI Cap is \$22,500,000.

PRI's may involve private enterprise. In these instances, one of the following specific charitable purposes outlined in a legal opinion from Attorney Duane Tarnacki dated September 15, 1999 must be met:

- Lessening the burdens of government For a grant or PRI involving private enterprise to meet the standard of "lessening the burdens of government," the functions constituting the burdens of government must be identified and a determination made as to the conditions the Kalamazoo Community Foundation's activities are recognized to lessen those burdens.
- Relief of the poor and distressed or of the underprivileged For a grant or PRI to private enterprise to qualify as "relief of the poor and distressed or of the underprivileged," an activity of the Kalamazoo Community Foundation need not be inherently charitable or educational if it accomplishes exempt purposes such as the relief of the poor and distressed or underprivileged. The Kalamazoo Community Foundation must demonstrate that the benefits to private enterprise and other beneficiaries are incidental to the project's charitable purpose.
- Combating community deterioration including activities calculated to prevent such deterioration by improving communities In utilizing a grant or PRI in conjunction with private enterprise to "combat or prevent community deterioration," the Kalamazoo Community Foundation's goals must be broader than merely aiding economic development. The activities must be calculated to result in community improvement, and the community interests served must truly be public in scope and not merely the private interests of a narrow class of residents or businesses.

### **Business Related Investments-Principal Issues**

A BRI is an investment in a for-profit business the direct purpose of which is to foster economic opportunities through business development and growth. While community

betterment is the goal, BRIs are not charitable under the tax code. A BRI could also utilize one or more of the growth tools I through V above except charitable tests would not be required. However, the Foundation would incur unrelated business tax liability on any income distributions from such investments. All BRI's would be transacted by KCFREHI via PRI's from the Kalamazoo Community Foundation.

In addition:

- ❑ Like PRIs, BRIs do not function like managed assets as they are proactive actions of the Board of Trustees, which like grants, are made for specific community benefits. While BRI's are intended to produce income and may be reinvested, the community good, as with PRIs, is the principal measurement of return for the Foundation.
- ❑ BRIs would be recorded as separate business assets of KCFREHI. Therefore, they also would not be mingled with managed assets for performance reporting given their being specific tools like grantmaking and the timing issues involved in quarterly reporting. Funding would be derived from Kalamazoo Community Foundation PRI's from unspent appreciation of discretionary fund principal. Managed investments would be administratively liquidated in sufficient amounts to provide the necessary cash for the PRI.
- ❑ In the case of a BRI loan or loan guarantee, KCFREHI would decide upon the type of debt instrument, interest, collateral, debt repayment schedules etc. In cases of an equity investment, KCFREHI would decide upon the appropriate equity instrument and any requirements of the Foundation's role in the particular business venture. Reporting to the Board of Trustees would occur.
- ❑ If the organization applying for the benefit of a BRI were not located in the greater Kalamazoo area or if they were located in the service area but transact business beyond the service area, any BRI decision would be dependent upon satisfactory substantiation as to the positive and favorable impact to the Foundation's service area and or to the strengthening of the local business.
- ❑ While the principals of grant determination as to community betterment would be applied as well as other applicable standards, certain other tests involving private enterprise may also be applied. In addition, various levels of due diligence would be applied depending on the particular debt or equity transaction.
- ❑ The PR/BRI Cap is \$22,500,000.

KCFREHI and the Board of Trustees will exercise due care and judgement on these unique community growth tools for critical situations that may either call for making grants from the available discretionary grant budget or a PRI or BRI from unspent appreciation. Loans or investments thereunder will be carefully monitored and regular status reports given to KCFREHI and the Board of Trustees.