

Council of Michigan Foundations

April 23, 1982

18 NORTH FIFTH STREET
GRAND HAVEN, MICHIGAN 49417
PHONE 616/842-7080

Memo to: Board of Trustees

From: Executive Committee

Re: Response to Members' Requests - Project Considerations

In recent weeks CMF has received requests from two Members to consider using CMF as a vehicle to inform, to endorse and/or to fund one or more grant projects or loan programs. The Executive Committee recognizes any such action would be a departure from the traditional services performed by CMF and therefore presents the issue to the Board of Trustees for consideration.

On Wednesday evening, May 5 the projects will be presented by the principals involved. It is envisioned that any formal action on one or more courses of action to be undertaken by CMF will be considered as part of the regular agenda on May 6.

Project

Presentor

State Economic Revitalization Project

Gilbert Hudson
Webber Foundations

Michigan Emergency Cash Flow Loan Fund

Robert Collier
Charles Stewart Mott Fdn.

Michigan Investment Fund

Robert Collier
Charles Stewart Mott Fdn.

The Executive Committee recommends considering one or more of the following courses of action:

1. CMF serve as an information vehicle. Issue bulletins on grant projects or other issues of concern as raised by one or more Members. Such bulletins would describe the need as seen by the Member, the project and where to obtain more information.
2. CMF serve as an endorser of project. CMF endorse particular noteworthy projects of universal interest, concern and appeal as determined by the Board of Trustees.
3. CMF serve as vehicle for joint funding, A group of members interested in a particular project might pool funds and use CMF to expedite grant.
4. CMF undertake none of the above courses of action.

State Economic Revitalization Project

FACT SHEET1. What's Being Proposed?

A mobilization of the top private sector business and labor leadership from throughout the state into a cooperative, action-oriented effort to help the state and its citizens address the difficult economic problems confronting Michigan. The resulting committee would undertake a two-fold charge:

First, identify the key assets and potential advantages of the state's economy; recommend specific actions to encourage more rapid economic expansion and diversification and more effective marketing of the business location advantages offered by Michigan; and propose and carry out strategies for implementation of the recommended actions.

Second, identify the key aspects -- public, private, geographic -- of the Michigan economy that may cause Michigan to be non-competitive with other areas of the nation in terms of the cost of and conditions for doing business; consider and recommend actions to improve Michigan's competitive position; and propose and commit to pursue strategies for implementation of the recommended actions.

2. Who's Making the Proposal?

The proposal stems from discussions amongst a group of top business leaders in Southeast Michigan and with Doug Fraser and Don Ephlin of the UAW. These business and labor principals appointed an 8-member task force of business and labor representatives to develop the proposal. The proposal has subsequently been endorsed by the business and labor principals for further discussion with out-state business and labor leadership. (A listing of business leaders actively involved in the development of the proposal is attached separately.) Once out-state business and labor support and participation is assured, the state's political leadership will be fully briefed.

3. How Would This Differ From Other Statewide "Commissions"?

It would differ in several important ways. First, the genesis comes from the private sector, and responsibility for implementation of recommended actions would rest with private sector participants. Participation at the board level would be limited to top private sector leadership. Although support for the effort from the state's political leadership would be sought, these political leaders would not be directly involved in the development of recommendations. Nor would recommendations be submitted to the Governor for implementation. Second, the emphasis would be on the development and implementation of recommended actions to rejuvenate the state economy. This is not intended to be primarily a research effort. The real work would begin after recommendations had been adopted by the committee. Finally, the climate for serious and constructive cooperative efforts by the state's major economic interests appears to be better than it has been in the past. There appears to be a clearer recognition on the part of both business and labor of common economic interests and intertwined destinies.

4. How Would the Committee Be Structured?

In order to assure adequate representation of the various statewide economic and geographic interests, it is recommended that the committee be approximately 75 members in size. The geographic and economic interests would be represented in as balanced a fashion as possible. Of course, some of the economic interests will tend to be concentrated in particular regions of the state, and be virtually nonexistent in others. The important thing is that the committee, in its entirety, have balanced representation.

In terms of officers, it is recommended that there be two co-chairmen, one representing business and the other representing labor, and six vice chairmen. The co-chairmen would be individuals of considerable stature and capacity who would devote a substantial amount of time to the effort.

The committee would also be expected to develop several task forces -- probably no less than three and no more than six, depending on the final agenda -- to produce recommendations in identified issue areas for full committee consideration. These task forces and their committees would be expected to include persons other than board members.

5. Who Would Staff the Effort?

It is neither necessary nor desirable to structure a large, sophisticated staff for the committee. The emphasis of staff work should be on consolidating existing studies, providing technical competency to committee deliberations, outlining policy options for the committee, and building mechanisms for follow-through of recommendations. Full-time core staff of several persons would be necessary, supplemented by short-term staff who would likely have specific skills in particular areas.

The committee should draw upon some or all of the following sources for supplemental staffing assistance:

- 1) appropriate personnel from the organizations represented on the committee
- 2) accounting and consulting firms
- 3) colleges and universities
- 4) nonprofit organizations such as Citizens Research Council, development organizations, business and labor associations, and others from throughout the state.

6. What is the Projected Start-Up Date and Proposed Term?

Assuming successful recruitment of outstate business and labor leadership during the next several weeks, a target date for the initial meeting has been set for early June. It is expected that the full committee would meet on a bi-monthly basis after that.

It is recommended that the term be 8-12 months, with the possibility of extension based on progress and potential. This should allow sufficient time to analyze problems, make certain recommendations, and initiate the process of implementation.

7. What Are the Estimated Funding Requirements and Proposed Sources of Funding?
Although a budget for the proposed effort has not yet been developed, it is estimated that the financial requirements for the base period of a year or so would be approximately \$500,000.

It is suggested that during this base period no public dollars be solicited or used. Rather, private funds should be used to underwrite operating expenses of the committee. The recommended source of financial support is foundation grants -- preferably from Michigan-based foundations. This would have the virtue of being a relatively neutral source of funding, thereby helping to depoliticize the process.

Beyond the initial base period of a year or so, should a more permanent effort be structured, it is expected that funding mechanisms other than foundation support would be developed.

8. What is Requested of the Council of Michigan Foundations?
An endorsement of the proposed project is requested. It is hoped that such an endorsement may facilitate subsequent fund-raising efforts with Michigan-based foundations. In addition to an endorsement, assistance is requested in initiating the fund-raising effort through providing advice and counsel on: the content of the proposal that necessarily must be prepared; questions of grant recipient eligibility; and the foundations that most likely would be interested in and respond favorably to a request for funds.

April 12, 1982

PRINCIPAL BUSINESS LEADERS ACTIVELY
INVOLVED IN DEVELOPMENT OF PROPOSAL

Philip Caldwell
Chairman
Ford Motor Company

Robert E. Dewar
Chairman of Executive Committee
K Mart Corporation

David K. Easlick
President
Michigan Bell Telephone Company

Joseph L. Hudson, Jr.

Fred C. Matthaei
Chairman
Arco Industries Corp.

Walter J. McCarthy, Jr.
Chairman
Detroit Edison Company

Philip J. Meathe
President
Smith, Hinchman and Grylls Associates, Inc.

Thomas A. Murphy
Retired Chairman
General Motors Corporation

Donald Petersen
President
Ford Motor Company

James M. Roche
Retired Chairman
General Motors Corporation

Alan Schwartz
Senior Partner
Honigman, Miller, Schwartz & Cohn

Fred G. Secrest
Retired Executive Vice President
Ford Motor Company

Arthur R. Seder, Jr.
Chairman
American Natural Resources Company

Roger B. Smith
Chairman
General Motors Corporation

Robert M. Surdam
Chairman
National Bank of Detroit

Stanley J. Winkelman
Chairman
Winkelman Stores, Inc.

MEMORANDUM

TO: Dorothy Johnson, Executive Director
Council of Michigan Foundations

FROM: Robert Collier, Program Officer
C. S. Mott Foundation

RE: Michigan Emergency Cash Flow Loan Fund

DATE: April 22, 1982

I respectfully request that the Board of the Council of Michigan Foundations, after appropriate review, endorse the concept behind this project and encourage its member organizations to consider participating in this project based on their individual priorities.

Description of Project

The purpose of the Michigan Emergency Cash-Flow Loan Fund is to provide short-term loans to nonprofit organizations in the state which are experiencing cash flow problems as a result of the economy and cutbacks in government funding. The fund will assist nonprofits with cash flow problems caused by delayed or reduced reimbursements or payments of grants and contracts, unforeseen cash requirements and inadequate cash-flow planning -- problems that threaten immediate shut down or dramatic curtailment of services.

It is proposed that requests for assistance in this two-year pilot program shall be considered only from human service agencies whose services are critical to the maintenance of employment, family life and the health needs of the residents of Michigan. Although it may provide programs with strong human service components, an agency with a basic arts and cultural enrichment orientation does not qualify as a human service agency. A loan recipient must also be a Michigan nonprofit organization whose services are performed in Michigan and nonreligious in nature. The organization must have current public charity status under IRC Sections 501(c)(3) and 509(a) and the proceeds of the loan used to carry out a charitable activity as defined in IRC Section 170(c)(2)(b). The organization must have exhausted all other available resources for a loan before applying to this program.

The Fund has three overall objectives:

- 1) To make available short-term funds to nonprofit organizations unable to secure loans from commercial banks or other traditional sources at affordable rates.
- 2) To stabilize budgets, and consequently program activities for existing nonprofit organizations.
- 3) To improve the overall financial management skills of nonprofit organizations.

MEMORANDUM

Dorothy Johnson

April 22, 1982

Page two

How Will The Project Accomplish Its Purpose

For the first two years of this program, the goal will be to make \$500,000 in loan funds available -- all of which will be guaranteed by the Michigan League for Human Services. The Michigan League will secure commitments from foundations and corporations, to cover any losses. The maximum loan will be for \$30,000 with the anticipated average loan being \$15,000. The maximum time limit will be 180 days with the average for the entire portfolio of loans being 60 to 90 days. In some cases recipients of loans will need an interest subsidy. A loan committee (see below) will be authorized to approve a lesser amount of interest or no interest at all, if such action is necessary to keep the loan within the affordable limits of the borrower. Besides being responsible for securing the letters of guaranty for the \$500,000, the Michigan League will be responsible for raising a fund of \$50,000 annually to be used as interest reduction grants to loan recipients recommended by the loan committee.

Applications will be submitted to the Michigan League for Human Services whose staff will be responsible for working with the applicant to determine the proper amount to borrow, the affordable interest rate and the reasonable date for repayment. Staff will also assist the organization in completing the loan application papers and in filling out an evaluation sheet for the loan committee.

There will be a loan committee responsible for all policy decisions concerning the Fund. Each contributing foundation or corporation will have a seat on the committee. The committee will be convened on a monthly basis in Lansing at the offices of the League and will review and make final decisions on all loan applications. When a loan is in default, the committee will be responsible for drawing on the guarantees, taking into consideration the geographic orientation of some of the guarantors. The Mott Foundation's "geographic orientation" for this program will be statewide, whereas the Kalamazoo Foundation would be restricted to Kalamazoo if it chose to participate.

Because of its network of statewide offices, Michigan National Bank is being recommended as the participating lending institution. Michigan National would provide a bank officer to the loan committee as a non-voting advisor and will agree to make the loans specified by the committee. Michigan National would handle the servicing of all of the loans at no charge. When the loan committee makes a favorable decision on an application, a letter will be sent to the applicant outlining the conditions attached to the loan and requesting them to contact the nearest Bank office to formalize the loan.

If defaults were to exceed the level of \$100,000, the Michigan League for Human Resources and loan committee would halt the loan program and reevaluate the program's criteria. In order to not create a run on the Fund, dissemination activities in this two-year pilot program will be held to a minimum. All recipients of loans must agree to participate in a training program administered by the Michigan League in order to strengthen skills for dealing with cash-flow problems.

Is the Project Needed?

The nonprofit organizations in the state have been affected by the economy and cutbacks in government funding. To determine if an emergency loan program would help them, the Council of Michigan Foundations with support from the Mott and Webber Foundations contracted with the Michigan League for Human Services to do a Statewide Survey of Need in the Summer of 1981.

The League surveyed 75 organizations which included local agencies, local umbrella organizations and statewide umbrella organizations. The survey results indicated an overwhelming need for an emergency loan program. (76% of the agencies surveyed had experienced substantial cash-flow problems.) The majority of organizations surveyed needed less than \$10,000 for a period of 30 days or less, once or twice a year. A large number of the agencies surveyed cope with their cash-flow problems by delaying payments and payrolls, obtaining loans from lending institutions, obtaining advances from their funding sources and/or receiving reserve funding from their parent organization. A few resorted to layoffs of staff. Most (80%) indicated a definite or probable benefit from the establishment of an emergency loan fund. Their recommendations for the operating of a fund focused on quick processing of loan applications, interest below market levels, clear guidelines, accountability of loan seekers, and the provision of management and planning assistance to agencies experiencing cash-flow problems.

There are emergency loan fund programs now in existence in most major cities in the country. Most are operated on strict criteria where the loan is secured by some type of government contract. The Foundations-Corporations Emergency Fund Committee in San Francisco made 60 no-interest loans worth \$759,633 in the period July 1, 1980 to June 30, 1981 and one is now in default. The Committee reports it is expanding its definition of human services and focusing more on at-risk populations as a result of the policies of the Reagan Administration. In two years the Corporations/Foundations Emergency Fund of Los Angeles has provided \$1.8 million in loans to 65 agencies with an estimated interest savings to them of \$47,486 and only five defaults. The Los Angeles Fund has rolled over its \$565,000 emergency fund three times. Staff there predict a decrease in requests because there are fewer agencies contracting with the government.

The Donors Forum Emergency Loan Fund is administered by the Community Renewal Society in Chicago. It anticipates two defaults totaling \$7,000 out of 35 loans totaling \$295,000 made in 1981. The Fund starts charging a 1% interest fee after 90 days on the unpaid balance of any outstanding loan but is considering going to a higher interest rate. The Arts and Education Council of St. Louis has made \$60,000 in loans in two years with no defaults. This is in part because the loans are personally guaranteed by members of the Council. The Fund for the City of New York has made 580 loans since 1976 with two defaults -- loans made only against government grants or contracts.

This proposed Michigan Emergency Loan Fund will be the first attempt to operate such a program on a statewide basis.

The above examples illustrate how most funds are being operated. The proposed Michigan Fund is modeled after the Community Cash Flow Program of Denver developed by the Piton Foundation with the Technical Assistance Center and United Bank of Denver. The Denver program is unique because of the role of the Bank in servicing the loans. It is also unique because 48% of the loans made in the first year (1981) were made based on expected payback from the general cash flow of the organization as opposed to a specific secured grant or contract as most of the other Fund programs require in their criteria. Despite this higher level of risk, the Denver program has only had one default out of its first 25 loans made in 1981.

As the other examples indicate, most fund programs do not require an interest payment. In the Denver program they do, but also offer an interest subsidy on the basis of the individual applicant. Interest subsidies amounted to \$3,036 on those initial 25 loans. Even though this proposed Fund will operate on the higher risk level like Denver, the default rate should not reach 10%. Based on an average loan of \$15,000, the proposed loan pool of \$500,000 could serve up to 33 nonprofit organizations. The \$50,000 interest subsidy fund will amply cover the need those nonprofits have for interest-reduction grants.

What Is The Michigan League For Human Services

The Michigan League for Human Services is a statewide citizen organization whose goal is improvement of human services. The League gives priority to meeting the needs of the unemployed, welfare reform, children and youth, social services to needy families, employment and manpower programs, health and nutrition and housing.

The League emphasizes aid to local communities, and working through citizen committees, researches health and welfare problems and develops recommendations for solving these problems. The League has indicated that it would look for staff for this program who will have experience in both the banking and nonprofit communities.

Funding

<u>Projected Budget</u>	<u>1st Year</u>	<u>2nd Year</u>
Personnel (1 1/2 staff)	\$28,601	\$31,462
Program Expenses (travel, WATS line, etc.)	13,227	14,133
Interest Reduction Subsidy	50,000	50,000
Total	\$91,828	\$95,595

Letters of guaranty: \$500,000 for the two years.

MEMORANDUM
Dorothy Johnson
April 22, 1982
Page five

Mott Funding

The Trustees of the Foundation have authorized the President to make the following two actions subject to the Michigan League for Human Services securing an additional \$50,000.00 for program administration and an interest subsidy fund by September 1, 1982.

- a) A grant of \$50,000.00 to the Michigan League for Human Services for the Michigan Emergency Cash-Flow Loan Fund for the period September 1, 1982 to August 31, 1983.
- b) Commit the Foundation to participate with other organizations in jointly guaranteeing bank loans made through this program which were initiated and fall due in the period September 1, 1982 to August 31, 1984 -- the Mott Foundation liability not to exceed a total of \$100,000.00.

RSC:dmm