

PROGRAM-RELATED INVESTMENT (PRI) QUALIFICATION ANALYSIS

Civic Engine Guaranty Fund LLC

DRAFT MEMORANDUM FOR TAX COUNSEL

Date: [DATE], 2026

To: [Tax Counsel Name], [Firm Name]

From: Arnold Development Group

Re: PRI Qualification Analysis for Civic Engine Guaranty Fund LLC

DRAFT — FOR DUE DILIGENCE PURPOSES ONLY | This document is under active development and has not been reviewed by legal counsel. It is provided solely for preliminary due diligence and does not constitute a binding offer.

PURPOSE

This memorandum provides background information and analysis to support the preparation of a formal tax opinion regarding the qualification of investments in Civic Engine Guaranty Fund LLC (the "Fund") as Program-Related Investments ("PRIs") under Section 4944(c) of the Internal Revenue Code. This analysis is prepared for use by tax counsel in rendering a formal opinion for the Fund and its foundation investors.

EXECUTIVE SUMMARY

Based on our analysis, we believe the Fund satisfies all requirements for PRI treatment under IRC Section 4944(c):

PRI Requirement	Fund Characteristic	Assessment
Primary purpose is charitable	Affordable housing (1,600 LIHTC units) + carbon reduction (8,000 tons/year) + energy savings (\$4.8M/year)	Satisfied
No significant purpose of income/appreciation	~4.35% return is below market for comparable risk; ~0.15% effective investor cost strengthens this finding	Satisfied
No lobbying purpose	None	Satisfied
No political campaign purpose	None	Satisfied

We request that tax counsel review this analysis and prepare a formal opinion letter for use by the Fund and prospective foundation investors.

PART I: LEGAL FRAMEWORK

1.1 Statutory and Regulatory Background

IRC Section 4944(c) - Definition of PRI

Under IRC Section 4944(c), a "program-related investment" is an investment:

*"(1) the primary purpose of which is to accomplish one or more of the purposes described in section 170(c)(2)(B), and
(2) no significant purpose of which is the production of income or the appreciation of property, and
(3) no purpose of which is to accomplish one or more of the purposes described in section 170(c)(2)(D) [lobbying] or (4) [political campaigns]."*

Section 170(c)(2)(B) Purposes

The charitable purposes described in Section 170(c)(2)(B) include:

- Relief of the poor and distressed
- Advancement of education
- Lessening the burdens of government
- Promotion of social welfare by combating community deterioration
- Elimination of prejudice and discrimination

- Defense of human and civil rights
- Environmental protection and conservation

Treasury Regulation Section 53.4944-3

The Treasury Regulations provide additional guidance:

Primary Purpose Test: An investment's primary purpose is considered to be charitable if the investment significantly furthers the accomplishment of the private foundation's exempt activities and would not have been made but for its relationship to the accomplishment of such activities.

No Significant Purpose of Income: An investment is not a PRI if a significant purpose of the investment is the production of income or the appreciation of property. The fact that an investment produces significant income is not conclusive evidence that a significant purpose is the production of income.

Examples: The regulations include nine examples of qualifying PRIs, including investments in housing for the poor and investments in environmentally beneficial projects.

1.2 Relevant IRS Guidance

Revenue Ruling 74-587 (Housing for Poor)

The IRS has ruled that investments to provide housing for low and moderate-income persons can qualify as PRIs, even if the investments also generate income.

Private Letter Rulings

While not precedential, numerous PLRs have approved PRIs for:

- Affordable housing developments
- Community development financial institutions (CDFIs)
- Environmental and conservation projects
- Mixed-use developments with affordable housing components

2016 PRI Regulations Update

The 2016 final regulations clarified that PRIs can be made to for-profit entities and can earn market-rate returns, as long as the primary purpose is charitable.

PART II: FUND DESCRIPTION

2.1 Fund Overview

Element	Description
Fund Name	Civic Engine Guaranty Fund LLC
Structure	Delaware limited liability company
Size	Initially \$30 million, scaling to \$200 million at full deployment
Term	15 years (plus extensions)
Investment Strategy	Treasury-backed guarantee facility

2.2 Investment Mechanism

The Fund invests 100% of its capital in U.S. Treasury securities and uses its Treasury portfolio as collateral to provide credit enhancement guarantees to construction lenders financing the Civic Engine project. This guarantee enables favorable financing terms for a development that combines:

1. **Affordable Housing:** 1,600 LIHTC units at 30-80% AMI
2. **Passive House Construction:** 70% energy reduction vs. conventional buildings
3. **Carbon Reduction:** 8,000 tons CO₂ avoided annually
4. **Thermal Energy Network:** ~104 MW geothermal system serving ~4,000 housing units

2.3 Return Profile

Metric	Value
Target Net Return	~4.35% annually
Gross Treasury Yield	~4.5%
Management Fee	0.25% cost-recovery (excess returned to Fund)
Effective Investor Cost	~0.15%
Guarantee Fee	0.25% from projects → Manager → Fund as capital
CF Contribution	20% after-debt project CF (net of tax) → Arnold Holdings LLC → Fund as capital
Carried Interest	None
Performance Fee	None

Note on Fee Structure and PRI Implications: The Fund's 0.25% cost-recovery management fee results in an effective investor cost of only ~0.15%, far below market norms. The guarantee fee (0.25% paid by projects) and CF contribution (20% of after-debt cash flow) flow through the Manager back into the Fund as additional capital—not as investor income. This structure further strengthens the PRI argument: investor returns are incidental to the charitable purpose, and the capital-building mechanism ensures the Fund's resources grow to support its charitable mission rather than enriching investors.

2.4 Charitable Activities Enabled

Activity	Annual Impact	Charitable Purpose
Affordable Housing	1,600 units at 30-80% AMI	Relief of poor; combating community deterioration
Rent Savings	\$9.6 million	Relief of poor
Carbon Reduction	8,000 tons CO ₂	Environmental protection
Energy Savings	\$4.8 million (~4,000 families)	Relief of poor; environmental protection
Job Creation	Construction + permanent positions	Combating community deterioration

PART III: PRI QUALIFICATION ANALYSIS

3.1 Primary Purpose Test

Standard

Under Treas. Reg. § 53.4944-3(a)(2)(i), an investment's primary purpose is charitable if:

- It significantly furthers the foundation's exempt purposes, AND
- The investment would not have been made but for its relationship to those purposes

Analysis

Significantly Furthers Exempt Purposes:

The Fund's investment activity directly enables the creation of:

1. **1,600 Affordable Housing Units:** This is a core charitable purpose recognized by the IRS in multiple rulings and regulations. The LIHTC structure ensures that units will serve households at or below 80% of Area Median Income for a minimum of 15 years (with extended use covenants to 30 years).
1. **Environmental Protection:** The projects achieve:
 - 70% energy reduction through Passive House construction
 - 8,000 tons of CO₂ avoided annually
 - ~104 MW Thermal Energy Network (geothermal) serving all ~4,000 units
 - \$1,200/year utility savings per household (\$4.8M total)

Environmental protection is explicitly recognized as a charitable purpose under Section 170(c)(2)(B).

1. **Combating Community Deterioration:** The North Loop and Crossroads Arts District areas are targeted for revitalization in Downtown Kansas City. The project revitalizes underutilized land across both districts into productive mixed-use development, creating economic opportunity.

"But For" Test:

The Fund's structure demonstrates that the investment would not be made "but for" its charitable purposes:

- The ~4.35% return is below market for comparable development finance risk

- The effective investor cost of ~0.15% (after cost-recovery fee) further demonstrates charitable intent
- Purely financial investors would require higher returns (equity IRRs of 15%+)
- The Treasury-backed structure sacrifices return for security
- Foundation investors are the primary target audience

The Fund was explicitly designed to attract foundation PRIs and mission-driven capital. Purely financial investors would not invest in a ~4.35% return fund when higher-yielding alternatives exist. Moreover, the guarantee fee and CF contribution flow back into the Fund as capital contributions—not as investor income—further demonstrating that income production is not a significant purpose.

Conclusion: The Fund's primary purpose is charitable.

3.2 No Significant Purpose of Income or Appreciation

Standard

Under Treas. Reg. § 53.4944-3(a)(2)(iii), a significant purpose may not be the production of income or the appreciation of property. However:

- The fact that an investment produces significant income is not conclusive evidence that a significant purpose is income production
- The investment may still qualify if income is incidental to the charitable purpose

Analysis

Return is Below Market:

Investment Type	Typical Return	Fund Return
Comparable development loans	8-12%	~4.35%
Private equity real estate	15-25%	~4.35%
Impact bond funds	5-7%	~4.35%
U.S. Treasury securities	4.5%	~4.35% (net)

The Fund's ~4.35% net return:

- Is below what a profit-maximizing investor would accept for comparable risk
- Is slightly below the gross Treasury yield (with no additional risk premium)

- Reflects the Foundation's willingness to accept below-market returns for charitable impact
- Results in an effective investor cost of only ~0.15% after the cost-recovery management fee, further demonstrating that income production is not a significant purpose

No Appreciation Component:

- The Fund invests in Treasury securities, which mature at par
- There is no equity interest in the underlying project
- There is no upside participation or carried interest
- Returns are fixed, not variable based on project performance

Income is Incidental:

The income generated (Treasury interest) is:

- A natural byproduct of the Treasury portfolio required for the guarantee structure
- Not the purpose of the investment
- Necessary to sustain the investment's charitable function over 15 years

Conclusion: No significant purpose of the investment is income production or appreciation.

3.3 No Lobbying or Political Campaign Purpose

Standard

Under IRC Section 4944(c)(3), no purpose of the investment may be to influence legislation (lobbying) or participate in political campaigns.

Analysis

- The Fund's investment activities are limited to acquiring Treasury securities and issuing guarantees
- The Fund does not engage in any lobbying activities
- The Fund does not participate in or contribute to political campaigns
- The Operating Agreement prohibits such activities

Conclusion: The Fund has no lobbying or political campaign purpose.

3.4 Comparison to Regulatory Examples

Treasury Regulation Section 53.4944-3(b) provides examples of qualifying PRIs. The Fund is analogous to several:

Example (3) - Housing for the Poor:

A foundation makes a below-market-rate loan to a nonprofit organization to construct housing for low-income families. This qualifies as a PRI.

The Fund's guarantee enables construction financing for projects that include 1,600 affordable housing units for families at 30-80% AMI—directly analogous to this example.

Example (5) - Environmental Protection:

A foundation makes an investment in a for-profit company that develops pollution control technology. The primary purpose is environmental protection, and the investment qualifies as a PRI despite being in a for-profit entity.

The Fund enables projects that achieve significant environmental benefits (8,000 tons CO₂ reduction annually, \$4.8M utility savings) through Passive House construction and ~104 MW Thermal Energy Network (geothermal).

Example (7) - Social Welfare:

A foundation invests in a business that provides employment in an economically depressed area. This qualifies as a PRI.

The Fund enables development across the North Loop and Crossroads Arts District in Downtown Kansas City, both targeted revitalization areas, creating an estimated 2,400 construction jobs and 1,600 permanent jobs.

PART IV: SUPPORTING DOCUMENTATION

4.1 Documents for Counsel Review

The following documents are available for tax counsel's review:

Document	Description
Operating Agreement	Full fund operating agreement
Private Placement Memorandum	Complete offering document with risk factors
Impact Methodology Framework	Detailed impact measurement methodology
Project Description	Civic Engine project specifications
Project Specifications	Civic Engine development details
LIHTC Structure	Affordable housing financing summary

4.2 Key Charitable Purpose Evidence

Affordable Housing:

- 1,600 units restricted to 30-80% AMI
- 15-year LIHTC compliance period
- 30-year extended use covenant
- \$9.6 million annual rent savings to residents
- Professional property management with income verification

Environmental Protection:

- Passive House certification specifications showing 70% energy reduction
- Thermal Energy Network engineering (~104 MW geothermal system)
- Carbon calculation methodology (EPA Social Cost of Carbon)
- Third-party verification planned

Community Development:

- North Loop and Crossroads Arts District locations (Energy Community designation)
- Economic impact analysis (jobs, tax revenue)
- Local government support (Port KC, City of Kansas City)

PART V: OPINION REQUEST

5.1 Requested Opinion

We request that tax counsel prepare a formal opinion letter addressing:

1. **Fund-Level Opinion:** An opinion that investments in the Fund are eligible for treatment as Program-Related Investments under IRC Section 4944(c), based on the analysis set forth herein.
1. **Foundation Investor Reliance:** Confirmation that foundation investors may rely on this opinion in determining that their investment qualifies as a PRI.
1. **Limitations and Assumptions:** Any assumptions, qualifications, or limitations on the opinion.

5.2 Intended Use

The opinion will be:

- Included in the Fund's Private Placement Memorandum (or as an exhibit)
- Provided to prospective foundation investors during due diligence
- Used by foundation investors in their own PRI determinations (subject to their own counsel's review)

5.3 Timing

We request that the opinion be completed by [DATE] to support the Fund's fundraising timeline.

PART VI: EXPENDITURE RESPONSIBILITY FRAMEWORK

6.1 Overview

Foundation investors making PRIs are subject to expenditure responsibility requirements under IRC Section 4945(h) and Treasury Regulation Section 53.4945-5. The Fund's structure is designed to facilitate compliance.

6.2 Pre-Investment Requirements

Before making the PRI, the foundation should:

1. Obtain a written commitment from the Fund specifying the charitable purposes
2. Conduct reasonable investigation of the Fund's management and structure
3. Determine that the Fund is financially responsible

Fund Commitment: The Fund will provide a written commitment letter confirming that Fund proceeds will be used exclusively for charitable purposes (credit enhancement enabling affordable housing and environmental protection).

6.3 Ongoing Reporting

The Fund will provide foundation investors with annual reports including:

Report Element	Description
Use of Funds	Description of how invested capital was deployed
Charitable Progress	Status of affordable housing and environmental impact
Compliance	Confirmation of compliance with charitable purposes
Diversions	Report on any diversions from charitable purposes (expected: none)

6.4 Form 990-PF Reporting

The Fund will provide information sufficient for foundations to complete Schedule H of Form 990-PF, including:

- Name and address of recipient (Fund)
- Purpose of grant/investment
- Amount invested
- Terms of investment
- Progress toward charitable purposes

PART VII: JEOPARDIZING INVESTMENT ANALYSIS

7.1 Overview

Under IRC Section 4944(a), private foundations are subject to excise taxes if they make investments that jeopardize the carrying out of their exempt purposes. PRIs are excluded from this jeopardizing investment analysis, but foundations should still assess prudence.

7.2 Risk Assessment

Risk Factor	Assessment
Liquidity Risk	Illiquid for 15-year term; foundations should size appropriately
Credit Risk	Low—100% Treasury-secured principal
Interest Rate Risk	Moderate—Treasury yield fluctuations affect return
Project Risk	Limited—Fund has subrogation rights; 50% guarantee coverage provides cushion
Manager Risk	Moderate—dependent on Manager performance

7.3 Prudent Investor Standards

Factors supporting a finding of prudence:

- Treasury security backing minimizes credit risk
- Diversification within foundation's overall portfolio
- Term matches typical foundation investment horizon
- Below-market return is accepted for charitable purposes
- Professional management by Civic Engine Fund Management LLC

CONCLUSION

Based on the analysis set forth herein, we believe that investments in the Civic Engine Guaranty Fund LLC satisfy all requirements for treatment as Program-Related Investments under IRC Section 4944(c). We respectfully request that tax counsel review this analysis and prepare a formal opinion for use by the Fund and prospective foundation investors.

APPENDICES

Appendix A: Charitable Purpose Certification (Template)

CHARITABLE PURPOSE CERTIFICATION

Civic Engine Guaranty Fund LLC (the "Fund") hereby certifies to [Foundation Name] (the "Foundation") that:

1. The Fund's primary purpose is to accomplish charitable purposes described in Section 170(c)(2)(B) of the Internal Revenue Code, specifically:

- Relief of the poor through affordable housing
 - Environmental protection through carbon reduction
 - Combating community deterioration through economic development
1. The proceeds of the Foundation's investment will be used exclusively for:
 - Acquiring U.S. Treasury securities
 - Providing credit enhancement guarantees to enable construction financing for the Civic Engine project
 - Paying reasonable fund operating expenses
 1. No part of the Foundation's investment will be used for:
 - Lobbying or attempting to influence legislation
 - Participating in political campaigns
 - Any purpose other than the charitable purposes stated above
 1. The Fund will provide the Foundation with annual reports on the use of funds and progress toward charitable purposes, sufficient for the Foundation to satisfy its expenditure responsibility obligations.

CIVIC ENGINE GUARANTY FUND LLC

By: Civic Engine Fund Management LLC, its Manager

By: _____

Name: Jonathan Arnold

Title: Managing Member

Date: _____

Appendix B: Impact Metrics Summary

Metric	Annual Value	15-Year Total
Affordable Housing Units	1,600	1,600
Rent Savings	\$9.6 million	\$144 million
CO ₂ Avoided	8,000 tons	120,000 tons
Carbon Value (@ \$51/ton)	\$408,000	\$6.12 million
Energy Savings (Passive House + TEN)	\$4.8 million	\$72 million
Total Social Value	\$14.8 million	\$222 million

DOCUMENT CONTROL

Version	Date	Author	Status
Draft 1.0	January 17, 2026	ADG	For tax counsel review

IMPORTANT NOTICE: This memorandum is prepared as background for tax counsel and does not constitute a legal or tax opinion. The Fund and foundation investors should obtain a formal opinion from qualified tax counsel before relying on PRI qualification. Foundation investors should conduct their own PRI analysis with the advice of their own tax counsel.