CITY OF STOUGHTON
FINANCE DEPARTMENT
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Date: April 22, 2021

To: Finance Committee

From: Jamin Friedl

Subject: EDA-RLF Participation

The City of Stoughton has been asked by Madison Region Economic Partnership (MadREP) to consider participating in a partnership of regional counties and municipalities to take advantage of COVID relief funding expected to be offered by the US Economic Development Administration (EDA). MadREP is currently seeking participation from all 8 MadREP counties to satisfy the 80:20 match requirement. MadREP's current target is $10 million in funding to establish a Revolving Loan Fund program, which will require $2 million in matching funds ($8 million provided by EDA).

During the first two years of the program, the primary objective would be to save and retain businesses adversely impacted by the COVID crisis. During the RLF period, the primary objective would be to make investments that positively impact the workforce, support new product development and innovation, and grow the regional tax base.

MadREP is in the preliminary stages of preparing its proposal to EDA. As part of that process, MadREP is requesting how much (if any) individual municipalities and counties are willing to commit as part of the required matching funds.

Here are some additional points to consider:

- While we know EDA stands to receive a $3B allocation from the ARPA (the CARES Act was $1.5B for comparison), we have yet to see enough guidance to know what may or may not qualify as an eligible use of funds. MadREP has been told by EDA Chicago staff to expect the NOFO will be issued in late May or early June. A couple of things we will be looking for in the document is whether RLF's are eligible and the matching requirement (50:50 or 80:20 same as the CARES Act).

- Dane County is also considering using ARPA funds to help stand up the RLF, and we all have the same question whether they qualify as Federal funds for purposes of meeting the match requirement. MadREP is working with the County Executive's office to try and figure this out.

- MadREP is planning to convene some type of Summit of all the region's municipalities to help convey details about the program and understand local priorities. They are looking to generate some alignment on projects that might benefit the region and create capital efficiencies (avoid duplicate spending, fund transformational projects, etc.).

- MadREP has also reached out to banks through the Wisconsin Banker's Association and think they may have an interest in participating in some type of fund. It helps that they have had a positive experience working with MDC on a Venture Debt Fund. The question here is whether they want to comingle their contributions with EDA funding, or create a private fund with potentially more flexibility. MadREP has been talking about replicating MDC's Venture Debt Fund on the regional level and has had several communities, including Dodge County, tell them they would be more interested in contributing to this type of fund. They just closed out their CDBG loan fund program (through the CDBG Close program offered by DOR) and are reluctant to get back into the RLF game using EDA funding.

City staff is requesting a recommendation from the Finance Committee as follows:

- Is the City willing to commit funding to this program if successful?
- If so, what amount is the City willing to commit at this point in time?
- If so, is the City willing to commit reserves, ARP funding or both to this program?
- Is the City interested in going the private fund route if that became the preferred option?

We are not asking for an immediate answer, but we wanted to keep the Committee informed of how this potential program is evolving as we continue to learn more about the American Rescue Plan.

Respectfully,

Jamin Friedl

City of Stoughton
General Fund Unassigned Fund Balance Analysis
As of December 31, 2020 and previously

NOTE - THE FORECASTED 2020 AFTER ADJUSTMENTS COLUMN MATCHES THE DRAFT AUDITED FINANCIAL STATEMENTS

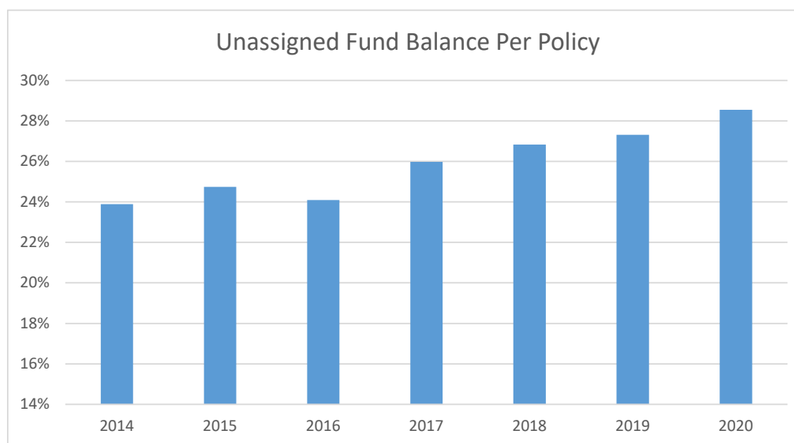
	Forecasted 2020 After Adjustments	*Forecasted 2020*	2019	2018	2017	2016	2015	2014
General Fund								
Fund Balance								
Nonspendable	$ 1,458,338	$ 1,524,912	$ 1,394,058	$ 1,159,444	$ 1,016,502	$ 991,095	$ 1,052,968	$ 947,919
Restricted	$ -	-	-	-	-	-	-	-
Committed	$ -	-	-	-	-	-	-	-
Assigned	$ 1,090,151	1,160,151	1,160,595	1,206,970	1,119,700	1,069,756	1,038,261	1,017,182
Unassigned	$ 4,482,473	4,412,471	4,248,928	3,884,355	3,743,097	3,364,758	3,231,239	2,930,387
	$ 7,097,534	$ 7,097,534	$ 6,803,581	$ 6,250,769	$ 5,879,299	$ 5,425,609	$ 5,322,468	$ 4,895,488

Adjustments include moving the $70,000 Liability Insurance Loss amount to Unassigned and forgiving the $67,000 advance to the RDA.

Other Governmental Funds								
Unassigned Deficit Fund Balances								
- Potiental funded by General Fund's unassigned category (does not include TIF Deficits the City has already setup Advances between General Fund and TIF's).								
The amount of advances are shown within Nonspendable Fund Balance in the General Fund.								
Opera House (***Note A***)	$ (432,723)	$ (432,723)	$ (361,299)	$ (285,304)	$ (331,496)	$ (247,842)	$ (215,827)	$ (129,534)
	$ (432,723)	$ (432,723)	$ (361,299)	$ (285,304)	$ (331,496)	$ (247,842)	$ (215,827)	$ (129,534)

General Fund								
Available Unassigned Fund Balance	$ 4,049,750	$ 3,979,748	$ 3,887,629	$ 3,599,051	$ 3,411,601	$ 3,116,916	$ 3,015,412	$ 2,800,853
Budgeted Expenditures	$ 13,942,314	$ 13,942,314	$ 13,924,094	$ 13,068,988	$ 12,826,246	$ 12,468,698	$ 12,110,204	$ 11,665,862
Compliance								
with Minimum Fund Balance Policy	**29.0%**	**28.5%**	**27.9%**	**27.5%**	**26.6%**	**25.0%**	**24.9%**	**24.0%**
Availability to 25% with unassigned monies	**$ 564,172**	**$ 494,169**	**$ 406,606**	**$ 331,804**	**$ 205,040**	**$ (259)**	**$ (12,139)**	**$ (115,613)**
Availability to 20% with unassigned monies	**$ 1,261,287**	**$ 1,191,285**	**$ 1,102,810**	**$ 985,253**	**$ 846,352**	**$ 623,176**	**$ 593,371**	**$ 467,681**

Note A **- Actual Unassigned Fund Balance for the Opera House at 12/31/20 was ($228,519); however, for a more conservative approach we have reduced that value by the amount of CARES funding received in 2020.**



NOTE - THE CONSOLIDATED GENERAL FUND BOTTOM LINE MATCHES THE DRAFT AUDITED FINANCIAL STATEMENTS

INCOME STATEMENT FOR STOUGHTON CITY - GENERAL FUND - *INCLUDING RDA FOREGIVENESS*

PERIOD ENDING 12/31/2020

DESCRIPTION	2020 AMENDED BUDGET	YTD BALANCE 12/31/20	AVAILABLE BALANCE	2020 % BDGT USED	2019 % BDGT USED
Fund 100 - GENERAL FUND					
REVENUES	13,936,134	13,912,996	23,138	99.83	101.30
EXPENDITURES	13,927,314	13,683,310	307,551	97.79	98.87
	8,820	229,686	(284,413)		

DESCRIPTION	2020 AMENDED BUDGET	YTD BALANCE 12/31/20	AVAILABLE BALANCE	2020 % BDGT USED	2019 % BDGT USED
CONSOLIDATED GENERAL FUND					
REVENUES	14,104,164	14,092,101	12,063	99.91	102.44
EXPENDITURES	14,110,314	13,864,721	245,593	98.26	98.93
	(6,150)	227,380	(233,530)		

Margin		12/31/19		12/31/20
Actual Revenues	$	13,348,918	$	13,912,996
Less: Transfers	$	(4,063,593)	$	(4,668,505)
	$	9,285,325	$	9,244,491
Actual Expenditures	$	13,048,897	$	13,683,310
Less: Transfers	$	(4,063,593)	$	(4,668,505)
	$	8,985,304	$	9,014,805
	$	300,021	$	229,686
Less: CARES Funding	$	-	$	(118,511)
	$	300,021	$	111,174
Calculated 12/31/20 Margin		**3.23%**		**2.48%**
Less: CARES Funding		**3.23%**		**1.20%**

TITLE PAGE

Title page: Include with the RLF Recipient's name and the date of the draft (for draft plans being submitted for review) or date the Recipient's Board adopted the RLF Plan (for submittal of final plans).

Proposed $10M total program with $8M provided by the EDA and $2M provided from regional counties and municipalities (satisfying EDA's 80:20 match requirement).

Target geography would be all 8 of MadREP's counties. I think we need to make this clear as the CEDS includes only 6 of the 8 counties.

Implementation and administration of the Fund would be provided by an "Operational Partner" under contract with MadREP.

PART I:

REVOLVING LOAN FUND STRATEGY

Part I should summarize the Comprehensive Economic Development Strategy (CEDS), or other comparable document, and discuss the use of the RLF financing as part of the broader business development strategy developed to support achievement of the goals and the objectives established through the CEDS process. The sequence of subsections of this part are designed to lead the reader from the general to the more specific, providing an explanation of how the RLF strategy was arrived at, and establishing the strategic, organization, and programmatic context for the proposed use of the RLF. The minimum content and format of this Part I is as follows:

A. ECONOMIC ADJUSTMENT OVERVIEW

This section addresses the state of the local and regional economy. A short description of the area's CEDS, or other comparable document, should be provided, outlining the full range of economic development activities planned and being implemented and then describe how the RLF will be used to support those activities.

1. Describe the cause, nature and scale of the economic adjustment problem(s) and economic distress to be addressed by the RLF.

2. Identify the plan(s) or strategies developed to deal with the economic adjustment problem(s) and economic distress, and discuss elements of the CEDS or economic adjustment strategy, as appropriate. See 13 CFR 307.9(b)(1).

3. Describe how the RLF will be used to support specific economic adjustment activities identified in the CEDS or economic adjustment strategy for the area. See CFR 13 307.9(b)(2).

CEDS document adopted in March 2019.

The pandemic was not anticipated during the development of the CEDS, but due to flood activity that occurred in late 2018 and early 2019, the plan did include strategies supporting economic resiliency and recovery. A key program implemented by MadREP during the flood recovery period in 2019 was the disaster recovery microlending (DRM) program. Staff used $750,000 in state resources to originate zero interest loans up to $15,000 to 53 borrowers. MadREP would recruit an Operational Partner to enhance this experience.

Initial loans during the first two years of the EDA-RLF program would focus on regional lending in support of COVID recovery efforts. During the RLF period, we would focus on funding regional start-up and expansion projects that have a positive impact on:

- Reducing the economic disparity between Dane and the outer counties.
- Supporting Madison region start-ups as a means of encouraging innovation and entrepreneurship.
- Supporting foreign direct investments efforts (recent examples include MacDon Industries, Canada, Little Potato Company, Canada, and Eurofins, Belgium).
- Supporting economic gardening efforts as a means of fostering the growth of small and mid-sized companies.
- Supporting future flood recovery and other resiliency efforts.
- Supporting the start-up and growth of companies owned and operated by women and individuals of color.

B. BUSINESS DEVELOPMENT STRATEGY

This section addresses the Business Development Strategy developed through the CEDS or other economic development planning process. The Business Development Strategy enables the community to determine the need for the RLF and the type of RLF investments that would be most effective in combination with partner business assistance programs. The following features of Business Development Strategy should be addressed:

1. Objectives:
   Identify the objectives of the Business Development Strategy (i.e. an increase in the capacity of local business to supply parts and services to a major local manufacturer, encourage the creation of firms to develop and commercialize products that add value to a local employer, assist small manufacturing firms to integrate new production technologies or the development of new market clusters).

   During the first two years of the program, the primary objective would be to save and retain businesses adversely impacted by the COVID crisis.

   During the RLF period, the primary objective would be to make investments that positively impact the workforce, support new product development and innovation, and grow the regional tax base.

2. Targeted Businesses:

Identify the appropriate characteristics of the businesses in the economic sectors targeted by the Business Development Strategy that the RLF would target as prospective borrowers such as; number of employees, age, ownership, management structure, products, existing markets, local industry cluster participation, competitiveness, production process, capital, type of jobs, consistence with RLF Plan.

Initial loans would target all industry sectors in an effort to mitigate the adverse impacts of COVID.

Loans during the RLF period would be targeted toward the Region's five key industry sectors; namely, advance manufacturing; information and communications technology (ICT); biosciences; health care; and agriculture, food and beverage.

3. Business Needs:
   Describe the types of assistance that would be needed by your targeted businesses such as access to technical information, other forms of technical assistance, financing and incubator space and what process was undergone to identify these needs.

4. Other Programs & Activities:
   Describe the other programs and activities undertaken by the public sector and/or local economic development organizations to address the needs of afore mentioned targeted business.

I would suggest that we use this space to describe the honeycomb which identifies the types of assets available in the Region to support business start-up and expansion activities. We can make the point that many of these assets and services are centered in the City of Madison. Two problems we are solving with the RLF is a lack of risk capital, particularly in Dane outside of the City and in the outer counties, and the need to expand the provision of technical assistance services to all areas of the Region.

C. FINANCING STRATEGY

This section addresses the Financing Strategy for the RLF based on the sources of financing (both public and private) available to support the Business Development Strategy. This includes the many different types of financing tools needs by the business targeted as borrowers. An analysis of the characteristics of the demand for and supply of public and private financing will determine the appropriate niche for the RLF to fill. Please address this in terms of the following:

1. Financing Needs:
   Describe the type of financing needs and opportunities for target businesses identified in the Business Development Strategy.

2. Local Capital Market:
   Provide an assessment of the local capital market discussing the area's financial needs. Discuss the impact this condition has had on the area's economic and business development activities including:
   - ► The current availability of private financing and the prevailing commercial

lending policies and restrictions.

- ► The current availability of public financing including any other RLF's or other similar lending programs.
- ► The role of public and private lenders in supporting the community's Business Development Strategy.

3. Any other financing problem(s) or gaps in the local business finance capital market.

4. RLF Financing Niche:
   This section addresses the financing niche that your RLF will fulfil and should include the types of businesses or firms (start-ups, business expansions, size of business, etc.), types of financing (fixed asset, working capital, etc.), and the schedule of terms (repayment terms, collateral requirements, interest rates, etc.)

Other programs active in our market include: MDC, WBD, WWBIC, and Forward Community Investments (FCI). Loan types that I think we could focus on that might help us differentiate from these existing programs:

- Disaster and resilience lending for flood and economic recovery
- Business turnarounds
- Specialized real estate
- Specialized equipment
- Working capital
- New markets and/or product innovation

MadREP would be in a unique position based upon our business intelligence and BRE efforts to identify and support this type of deal flow.

We will work to recruit an Operational Partner with local experience in implementing similar programs from this listing.

D. FINANCING POLICIES

This section addresses the RLF specific policies designed to guide your financing activities with the specific objective of prudent management and lending practices. Discuss the standard lending terms and any special financing techniques that the RLF may utilize. The financing policies must be consistent with EDA policies and requirements. See 13 CFR 307.9(b)(2)(ii).

1. Eligible Lending Area:
   Define the geographic lending area. Applicants representing a larger area than the RLF eligible area (for example: a multi-county planning district with an RLF for only some of its counties) may target to the smaller area, but it should clearly state that other eligible lending areas may be added in the future with EDA's prior written approval.

   All 8 counties of the MadREP Region.

2. Allowable Borrowers:
   Indicate the allowable type of borrower (for profit, nonprofit, start-up businesses, business expansions, business retention, etc.) and allowable sectors (retail, commercial service, industrial, etc.)

   All types of borrowers, including both for-profit and non-profit businesses, focused on all sectors during the COVID recovery period (first two years of the program), and then migrating to the Region's five target sectors during the RLF period.

3. Allowable Lending Activities:
   Indicate the allowable lending activities.

   Focus on real estate, equipment and working capital. COVID loans would in theory skew heavily toward working capital used to cover expenses like inventory, payroll, rent and utilities.

4. Prohibited Lending Activities:
   The RLF Plan should also list the prohibited uses of RLF capital. At a minimum, the prohibited uses outlined in EDA regulations should be included. See 13 CFR 307.12(b).

   No alcohol, gambling and/or other illicit activity. Micro-breweries, wineries and distilleries could qualify for funding if 50% or more of their revenue is generated from the restaurant side of the business. Restaurants would qualify as AFB target businesses. We will stay away from retail in the RLF period.

5. Loan Size:
   Indicate the range of loan sizes that the RLF will consider. A maximum loan size must be indicated. In order to protect the initial capital base, the maximum loan size should not exceed 25% of the RLF. As the RLF capital base grows, the Recipient may consider amending the RLF Plan to increase the maximum allowable loan size.

   Maximum loan size of $500,000.

   The average loan size would probably be small to start (when we are dealing with restaurants and small service companies) and increase during the RLF period (as we migrate to our target sectors and expansion projects).

6. Interest Rates:
   Indicate the range of allowable interest rates the RLF will change borrowers. The RLF Plan must include the language from the EDA minimum interest rate regulations. See 13 CFR 307.15(c).

   Initial loan period (COVID recovery): 0% to 5% maximum interest rate.

   RLF period: 4% to 5% maximum interest rate. For comparison, the prime rate is

currently 3.25%.

7. Terms:
   Indicate the standard and maximum repayment terms for each type of loan.

Working capital	3 to 5 years
Equipment	5 to 10 years
Real estate	20 to 30 years

8. Fees:
   Indicate standard loan fees which will be charged to borrowers and the amount or percent in the case of an origination fee that is percentage based.

   Loan closing fees of 2.0%, which can be financed by the borrower.

   Fess would be used to pay for:
   - Staffing
   - Marketing
   - Environmental review
   - Attorney's fees
   - Accounting services
   - Audit fees
   - Legal searches and UCC filings
   - Credit reports, appraisals and other background checks

9. Equity & Collateral:
   Indicate the type and form of any equity or collateral to be required of borrowers.

   Convertible debt (or debt which can be converted to equity) would be allowed when assets are not generally available for collateralization purposes (See 11 below).

   Otherwise the program will seek to perfect standard collateral (GBSA, SBSA carve out on equipment if we can get it, and mortgage). Seek the best security position possible, realizing we will most often be the second position junior lender. We would be willing to take a third position on the right deal.

   The program will try and avoid requiring personal guarantees unless they are deemed necessary by the Loan Administration Board to properly secure the loan. They will only be required from owners with 20% or more equity. The owner must have assets with discernible real value for the program to pursue the guarantee. We will use clawback provisions in the Loan Agreement versus personal guarantees as a protection from fraud.

10. Moratoria:
    Indicate whether loan moratoria will be permitted on principal payments, and if so, indicate the maximum moratorium. Also, state the process, criteria or procedures for determining whether a moratorium will be permitted for a particular loan.

Moratoria will be permitted on both principal and interest for a maximum of 6 months on COVID related lending. Interest will still accrue during this period.

Moritoria on principal only will be considered, for again up to a maximum of 6 month, during the RLF period. Interest only payments will be required during this period.

11. Start-ups:
    Indicate ALL policies that are different for loans to start-ups businesses versus loans for retention or expansion of an existing business.

    Convertible debt is permitted for start-ups where their only, or a majority of the, collateral value is represented by the company's intellectual property.

12. Working Capital:
    Indicate whether working capital loans will be permitted with the RLF.

    Working capital loans up to 100% of the loan value would be permitted during the initial two year period for COVID recovery.

    During the RLF period, the working capital loans would be permitted up to 80% of the loan value, recognizing that many financial gaps in the capital stack originate from primary lenders not be willing to finance working capital.

13. Credit Not Otherwise Available:
    The RLF Plan must include a policy that RLF capital cannot be used to substitute for otherwise available private capital. Any potential borrower must demonstrate that credit is not otherwise available. See 13 CFR 307.15(b)(2)(viii), and the Standard Terms and Conditions Part III.A.2. This would typically be in the form of a bank "turn-down" letter or letter indicating that the bank can only finance a portion of the needed capital.

    This provision is waived for COVID, but will be in effect during the RLF period.

E. PORTFOLIO STANDARDS AND TARGETS

The RLF Portfolio Standards and Targets are used by EDA to measure the economic performance of the loans made by each RLF. The Portfolio Standards and Targets must be consistent with EDA Policies and Requirements. See 13 CFT 307.9(b)(2)(ii).

1. Target Percentages:
   Indicate the targeted percentage of RLF investments based on:
   - Land Use (i.e. industrial, commercial, service commercial, etc.)
   - Business Status (start-up, expansion, retention)
   - Loan Type (fixed asset loans vs. working capital loans)

   During the initial two year COVID recovery period, we will focus on primarily working capital lending (approaching 100%) with the intent to retain existing businesses. Our

investment level targets would be based upon business status as follows:

- Retention 60%
- Start-up 20%
- Attraction 20%

During the RLF period, we would migrate to loan type targets as follows:

- Working capital 50%
- Equipment 40%
- Real Estate 10%

2. Private Sector Leverage:
   Indicate the minimum ratio of private sector capital to be leveraged by RLF capital. EDA requires a base ratio of $2 in private financing for every $1 in RLF financing, for the portfolio overall. See 13 CFR 307.15(d).

   Match requirement waived for COVID lending.

   During the RLF period the program will require a minimum 1:1 match per loan. The portfolio target will be the EDA requirement of 2:1. (Note: In my experience most, if not all, of the loans will be closed with participatory lenders meaning there will always be match.)

3. Job Cost Ratio:
   Indicate the RLF's minimum job/($)cost ratio.

   $25,000 to $30,000 per job.

F. RLF LOAN SELECTION CRITERIA

This section addresses the economic impact criteria to be used to evaluate proposed loans. EDA endorses the following criteria:

1. Is the proposed loan and all activities consistent with the RLF Plan? See 13 CFR 307.17(a).
2. Does the proposed loan application capitalize on existing regional assets?
3. Will the proposed loan support and advance innovation, increase productivity in a particular industry or emerging sector of the economy?
4. Is the potential borrower part of an existing industry cluster?
5. To what extent will the project leverage private investment that would not otherwise come to fruition without the RLF's investment?
6. Will the proposed loan result in the creation or retention of higher-skilled, higher-wage jobs?

   All seem reasonable.

E. PERFORMANCE ASSESSMENT PROCESS

This section addresses how the RLF Administration will assess the performance of the RLF.

1. Discuss how the overall performance of the RLF will be evaluated. Include the frequency of evaluation and the staff or entity responsible for the assessment. Finally, provide the process for distribution and feedback on the results of the evaluation.

   Semi-annually as part of the EDA reporting process (4 times during the initial 2 year disbursement period).

2. Discuss the process for intergradation of the results of the performance review as described in the section above and evaluating and updating the RLF Plan. Ensure the EDA requirement of updating the RLF Plan every five years is included in this section. See 13 CFR 307.9(c)(1).

   Changes will be incorporated by amendment.

PART II:

REVOLVING LOAN FUND OPERATIONAL PROCEDURES

This section serves as the Recipient's internal operating manual and will inform staff of the approved set of administrative procedures for operating the RLF. All operating procedures will conform to the most current "Prudent Lending Practices," as defined in 13 CFR 307.8. In administering the RLF, the Recipient shall adopt procedures to comply with and ensure that potential borrowers comply with applicable Federal, State and local laws and regulations including, but not limited to, 13 CFR Part 307. The minimum content and format of this Part II is as follows:

A. ORGANIZATION STRUCTURE

1. Critical Operational Functions:
   Describe the organizational structure under which the RLF will be operated. For each of the functions critical to the RLF's lending activities listed below, identify the responsible parties including those from outside the organization:
   - Marketing the RLF (identifying and developing appropriate financing opportunities)
   - Business assistance and advisory services to prospective and actual borrowers (identify the types and sources of services available in approved lending area)
   - Environmental review
   - Loan processing (reviewing applications, conducting credit analysis, preparing loan documentation and recommendations)
   - Loan closings
   - Loan servicing (monitoring repayment activities, referring troubled loans to the appropriate technical assistance provider, administering loan collections, handling defaulted loans and foreclosures)
   - Organizational administration (financial record keeping, ensuring compliance with all EDA requirements)

   Operational functions will be staffed by the Operational Partner under contract. MadREP will dedicate up to 0.5 FTE to provide business technical assistance support to loan recipients.

2. Loan Administration Board:
   Describe the general composition and operating policies for the Loan Administration Board. The Loan Administration Board shall be responsible for making all final loan decisions. It is permissible to have separate loan review boards or other preliminary screening procedures, but the formal Loan Administration Board must be clearly identified. The section describing the Loan Administration Board must include:
   - Size and composition of the Loan Administration Board
   - Experience and occupational requirements (i.e. lender experience)
   - Process for appointing members including the appointing authority
   - Terms of service

- Quorum requirements

Will be organized and staffed by the Operational Partner with MadREP holding one seat.

3. Conflicts of Interest:
Address how the organization will identify and deal with a conflict of interest when it arises. At a minimum, the RLF Plan must include the language from EDA's conflict of interest regulations. See 13 CFR 307.17; also Part II.D of the RLF Standard Terms and Conditions.

Incorporate the standard EDA language.

B. LOAN PROCESSING PROCEDURES

1. Standard Loan Application Requirements:
Provide a checklist showing the items to be required of every RLF loan applicant. EDA acknowledges that not all checklist items will apply for each loan applicant and that certain situations may therefore require additional items not on the list.

We need to develop using MadREP's DRM checklist and checklists from the Operational Partner as a starting point.

2. Credit and Financial Analysis:
Describe both the process and procedures for credit and financial analysis of each loan applicant to include at a minimum:
- Credit reports
- Standard collateral requirements (personal guarantees, mortgages, insurance)
- Standard Equity requirements (how will they be documented/confirmed)
- Appraisal Reports
- Credit not otherwise available (bank letter)

We will follow industry best practices for underwriting (credit reports, appraisals, inspections, etc.), relying upon the experience of the Operational Partner to define the process.

Note: the credit otherwise available provision is waived during the COVID recovery period, but will be enforced in the RLF period.

3. Environmental Review:
Discuss how the Recipient will ensure compliance with applicable environmental laws and regulations, including but not limited to 13 CFR Parts 302 and 314, the National Environmental Policy Act of 1969 and all other Federal environmental mandates. The RLF Plan shall include the following procedures for environmental review of loan applications for all <u>construction</u> projects:

- Determine whether the project will result in a significant adverse environmental impact. The application may be asked to submit additional documentation as

necessary to make the determination. No activity shall be financed which would result in a significant adverse environmental impact unless that impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.

- Determine whether the project involves new above-ground development within a floodplain based on a review of the proposed development against FEMA Flood Insurance Rate Maps. No activity shall be financed which would result in new above-ground development in a 100-year floodplain, per E.O. 11988. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.
- Determine whether the project will be located within or adjacent to any wetland area. The applicant may be required to provide wetland delineation information as necessary. No activity shall be financed which would result in alternation of any wetland or in any adverse impact on any wetland without consultation with the U.S. Department of the Interior Fish and Wildlife Service and, if applicable, a Section 404 Permit with the Army Corp of Engineers shall be obtained.
- The RLF Plan should indicate that the Recipient shall notify the State Historic Preservation Officer (SHPO) of each approved loan that involves significant new construction and expansion and request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to closing of the loan. In cases where SHPO has recommended actions or has determined an adverse impact, the Recipient and loan applicant must work with the SHPO and EDA to address any issues identified before the loan is closed.
- The RLF Plan should indicate that all loan applicants are required to provide information regarding whether or not there are hazardous materials such as EPA listed hazardous substances (see 40 CFR 300), leaking underground storage tanks, asbestos, p polychlorinated biphenyls (PCB), or other hazardous materials present on or adjacent to the affected property that have been improperly handled and have the potential of endangering public health, If deemed necessary, loan applicant may be required to perform or provide evidence of performance of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and/or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants. No activity shall be financed which involve unresolved site contamination issues. Loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues before any loan can be approved for the affected site.

We should be able to search databases for floodplain and wetland impacts. Databases are also available for hazardous materials and LUST sites. We might need to lean on a consultant to complete the environmental review process.

4. Loan Write-Up:
   The loan write-up is intended to summarize the key components of the proposed loan including: firm history, management, product, productions capability, market conditions, financing, collateral, repayment ability, consistency with the RLF's Financing Policy and whether any environmental issues exist.

The Operational Partner will provide the boiler plate for this process.

5. Procedures for Loan Approvals:
   Describe the procedure for loan approvals, making sure that the following elements are clearly described:
   - How will each loan application be presented to the Loan Administration Board?
   - Is there a recommendation committee and if so, describe their role in the approval process.
   - How the RLF Recipient will ensure that the Loan Administration Board reviews and approves loans in accordance with the approved financing Policies, Targeting Criteria, and Loan Selection Criteria of the RLF Plan.
   - What kind of vote constitutes an approval (i.e. majority, 2/3, etc.)
   - How will the approval be documented in the original loan application file (board meeting minutes, resolutions or other official documentation)

   The Operational Partner's staff will complete the underwriting and provide a recommendation through the loan write up to the Loan Administration Board. A simple majority of the quorum will be necessary to act on the request (approve/deny/defer). Meetings can be on-line versus in person.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. Loan Closing Documents:
   Provide a list of documents that will be required for the types of loans made under the RLF and any special timing requirements. Per 13 CFR 307.15(b)(2), the required documents shall include:
   - Original, signed loan application
   - Loan agreement
   - Meeting minutes documenting the approval the RLF loan application
   - Promissory note
   - Security agreement(s)
   - Deed of trust or mortgage (as applicable)
   - Agreement of prior lien holder (as applicable)
   - A signed bank "turn-down" letter demonstrating that credit is not otherwise available.

   We will need to develop the Loan Agreement and have an attorney review. This document will be used to define all the lending terms and pass along the EDA loan requirements. The ones I have seen are typically 10-12 pages. We already have the promissory note from the DRM program. Other items can be developed.

   The bank turn down letter will only be required during the RLF period.

2. Loan Agreement Provisions:
   - Indicate how the RLF Administrator will ensure that RLF funds are used as

intended. Each loan agreement must clearly state the purpose of said loan. See 13 CFR 307.17(a).

- ► All RLF loan documents and procedures must protect and hold the Federal government harmless from and against all liabilities that the Federal government incur as a result of providing an RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site. See 13 CFR 307.10(c).
- ► Indicate the procedure for ensuring that prospective borrowers, consultants, or contractors are aware of and comply with the Federal statutory and regulatory requirements that apply to activities carried out with RLF loans. All EDA RLF loans must include loan call stipulations for instances of non-compliance. See 13 CFR 307.10(b).

Passing along all of these provisions is what makes the Loan Agreement a 10-12 page document. One thing to note: If you use a lot of the CFR references in the Agreement, borrowers and some attorneys never know what the heck those are and it can slow down the closing process. Unfortunately, it is unavoidable.

3. Loan Disbursement:
   - ► Indicate the policies and procedures that a loan recipient must follow when drawing loan funds including pre-disbursement requirements for working capital loans, construction financing and any other disbursement procedures necessary to protect RLF assets.

In my experience, programs typically disburse loan funds at closing. Receipts and lien waivers are submitted by the borrower as part of their reporting requirements.

D. LOAN SERVICING PROCEDURES

1. Repayment:
   - ► Indicate the standard method of loan payment by RLF borrowers and describe the adopted policies and procedures that ensure protection of all payments and timely deposit of RLF loan repayments.

ACH when it works.

2. Monitoring:
   - ► Indicate the standard procedures for monitoring approved loan conditions including required procedures for the submission of financial statements, annual insurance renewals, UCC refilling, borrower site visiting, tickler files and any Federal requirements of the original RLF grant award as described the Stand Terms and Conditions of an RLF award. Finally, describe how initial job creation projections will be reviewed for compliance and how each promised FTE employee will be tracked during the monitoring period.

Borrowers will need to complete semi-annual reports. They should be timed to allow us to pass information through to EDA as part of our required reporting. We will need to develop a boiler plate reporting form.

3. Loan Files:
   Describe how loan files will be maintained. Indicate what should be included in an RLF loan file in addition to the loan application and closing documents.
   - ► This should include at a minimum: copy of private lender loan agreement, financial statements, annual insurance certifications, annual site visit reports, general correspondence and job reports. See 13 CFR 307.13.
   - ► Indicate the procedures for safekeeping loan documents particularly loan closing documents. At a minimum, all original notes, loan agreements, personal guarantees and security agreements should be placed in a fireproof facility or container.

   Note the annual site visit reports. We need some travel in the budget, or possibly we could rely upon local partners to assist in completing the site visits.

4. Job Creation:
   Describe how initial job creation claims will be reviewed and how jobs will be tracked after loan approval.

   I would think borrowers would include the job creation/retention numbers in their reporting and program staff would confirm the numbers through the review of payroll records during the annual site visit.

5. Defaulted Loans:
   Indicate the standard procedures for handling defaulted loans that are in arrears up to 90 days and discuss any late penalty requirements (which should be stated in the promissory note). Include an explanation on how the priority of payments on defaulted RLF loans, which should be in accordance with the order of priority outlined in EDA regulations. See 13 CFR 307.12(c).

   Loan modification or workout would be my suggested first step. As loans move into serious default territory we need to use a dunning letter process from our attorney, moving to potential court action or collections.

6. Write-Offs:
   Indicate the standard procedure for handling and accounting for loan write-offs and how a determination will be made that a loan is not collectable.

   Bankruptcy.

E. ADMINISTRATIVE PROCEDURES

1. New RLF's:
   Indicate how the Recipient will ensure that the cash local share of the RLF will only be used for lending purposed and at a rate in proportion to the grant funds or at a faster rate than grant funds, if applicable.

2. Accounting:
   Describe the procedures for managing RLF Capital. At a minimum, a separate bank account should be established for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash must be clearly distinguishable from any other Recipient loan program. This includes both the EDA and local share portions of the RLF. The RLF Plan should state that the Recipient will ensure that the RLF is operating in accordance with Generally Accepted Accounting Principles (GAAP). See 13 CFR 307.15(a).

   Provided by the Operational Partner using existing systems.

3. Administrative Costs:
   Indicate the source of RLF administrative costs. State whether the Recipients intends to use RLF income to cover administrative costs and if so, the anticipated maximum percentage of income to be used for expenses. The Recipient must indicate a source of funding for administrative costs which exceed RLF income. See 13 CFR 307.12. Also describe how RLF administrative costs will be tracked and charged to the RLF. The Recipient must maintain adequate accounting and source document to substantiate the amount and percent of RLF income expended to the RLF. See in 13 CFR 307.13(b).

   Administrative costs will be covered by two revenue streams:
   - Loan closing costs equal to 2.0% of loan value.
   - 50% of the interest income generated through loan repayments will be used for administrative purposes.

4. Capital Utilization & Sequestration:
   Indicate how the Recipient will ensure that the RLF Portfolio is in compliance with applicable capital utilizations standards and sequestration requirements. See 13 CFR 307.16(c).

5. EDA Reporting:
   The RLF Plan should acknowledge that EDA requires a Recipient to file a semi-annual report with EDA. See 13 CFR 307.14. The RLF Plan should acknowledge that EDA requires the Recipient to file an Income and Expense statement with its semi-annual report if 50% or more of RLF income is used for administrative costs in a six-month period.

6. Audits:
   The RLF Plan should acknowledge that EDA RLF funds are subject to an annual audit requirement and the full value of the RLF (outstanding loans and available cash) must be shown every year on the Recipient's Schedule of Federal Expenditures. If the dollar amount of the RLF qualifies the RLF as a major federal program, the Recipient must ensure that the auditor performs the required federal audit procedures. See RLF Standard Terms and Conditions Part I.F.

   We need to budget for an annual audit of the program.