

**City of El Centro**  
**Revolving Loan Fund (RLF) Plan Addendum for**  
**COVID-19 CARES Act Supplemental Disaster Recovery and Resiliency Award**  
**Award Number: 07-79-07608**

**Background**

The City of El Centro was awarded a supplemental grant in the amount of \$550,000 on July 23, 2020 from the Department of Commerce's Economic Development Administration (EDA). The supplemental grant was awarded to alleviate sudden and severe economic dislocation caused by the coronavirus (COVID-19) pandemic, to provide permanent resources to support economic resiliency, and to further the long-term economic adjustment objectives of the City of El Centro and Imperial County.

Recognizing the local economic challenges caused by the COVID-19 pandemic and immediate needs of businesses, the grant application submitted to EDA included provisions to supplement the City's existing EDA Revolving Loan Fund Plan, adopted in November 2010. This addendum to the existing Commercial and Industrial Revolving Loan Fund Strategy will more effectively market the program as well as expedite use of the funding in efforts to mitigate the impacts of the coronavirus on the El Centro and Imperial County economy.

The flexibilities for EDA RLF recipients and administrative relief discussed in this document were authorized by EDA to provide credit quickly and efficiently to communities such as El Centro. Specifically, the flexibilities include waiving for one year, from May 7, 2020 to May 6, 2021 (or as may be extended), the following RLF regulations:

- Establish a minimum interest rate for RLF loans (13 CFR 307.15(b)(1))
- Require RLF loans to leverage additional capital (13 CFR 307.15(c))
- Require evidence demonstrating credit is not otherwise available (13 CFR 307.11(a)(1)(ii)(H))

Additionally, EDA is suspending scoring of the following four measures of the Risk Analysis System for existing RLF awards for two rating cycles:

- Net RLF Income
- Default Rate
- Default Rate Over Time
- Leverage Ratio

It is important to underscore that as a supplemental document to the existing RLF Plan, the major tenets and regulations of the RLF Plan will continue to guide the allocation of loans



**b. Revised Standards for the RLF Portfolio**

While the City will continue to perform a financial analysis of each application to assess the viability of the proposed project and assure the likelihood of repayment, the standards will be relaxed to expedite the use of loan funding. The proposals that meet the program’s criteria will be recommended for approval to the Loan Review Committee. Loan approvals will be based on ability of repayment and economic benefits. Projects that retain or create the greatest numbers of private sector jobs and maximize private lender participation through maximum leverage of RLF funds are considered most desirable.

The standards for a participant in the RLF program will vary depending on the project and economic benefits derived, but the portfolio as a whole will be revised as follows:

1. The minimum standard job/cost ratio is one job maintained or created per \$15,000 of RLF funds. The job/cost ratio is applied to the RLF loan portfolio.
2. The minimum loan size will be \$15,000 and the maximum loan amount will be \$50,000.
3. Remove the objective that jobs created will be directed toward long term unemployed persons.
4. Remove the target regarding employment for non-skilled or semi-skilled types of jobs.
5. RLF loans are normally required to leverage at least \$2 dollars for every \$1 dollar of RLF investment. Due to the pandemic, EDA and the City have allowed the waiver of leveraged capital for one year, until May 6, 2021, or as may be extended.
6. Past RLF regulations required the borrower to provide evidence demonstrating that credit is not otherwise available to be eligible for funding. EDA and the City are waiving this requirement to demonstrate that credit is not otherwise available until May 6, 2021, or as may be extended.

**c. Revised Financing Policies**

The Revolving Loan Fund (RLF) Plan provides the mechanics for the operation of the RLF Program. The steps involved in the loan selection and approval process of the RLF Program will be modified to process applications in a more expeditious manner. Total processing time, from loan application review to loan commitment should not exceed 60 days.

Essentially, the Loan Review Committee, after reviewing a complete financial analysis of each application from City of El Centro staff, will make their own assessment on the viability and repayment ability of the proposed project before making a final recommendation to the City

Manager, who will have the final approval authority on CARES Act EDA supplemental loan funds. Typically, the final recommendation is made to the Loan Administration Board (i.e. City Council), which has final approval authority on all loan decisions, however, to reduce loan processing time, the City Manager will have the authority to approve loans issued under the CARES Act EDA supplemental funds.

The financing policies and techniques that will be used to address current financial problems of the RLF Program's target areas, and will assist in achieving the goals of the program are as follows:

1. The minimum loan amount that can be loaned will be \$15,000 and the maximum loan amount will be \$50,000.
2. RLF Funds will be used for both fixed assets and working capital loans. These RLF funds will target eighty (80%) percent working capital loans. Because the pandemic has made business uncertain and cash flow may be one of the largest issues for business, the requirement of fifty (50%) percent working capital loans has been removed.
3. RLF loans will continue to be normally amortized over the term of the loan with monthly payments of principal and interest. Loan terms will normally run no greater than the average useful life of the assets being financed, or a time period less than the average useful life, where appropriate to accelerate the recycling of RLF monies. In no event will the loan term of real property loans exceed 25 years, facility renovation loans shall not exceed 15 years, and machinery equipment and fixtures loans will not exceed 10 years. The maximum term for RLF working capital loans is ten (10) years. City may negotiate provisions for a call of the entire principal amount to be paid within a period of five (5) to ten (10) years, to accelerate the revolving of funds and the effectiveness of the program. The LRC may adjust payments and paybacks schedules in special circumstances.
4. The minimum interest rate for RLF loans is typically four (4%) percentage points below the current money center prime interest rate quoted in the Wall Street Journal (WSJ Prime Rate), but never below the lesser of 4%. In the current low-interest rate environment, EDA has waived the minimum interest rate requirement until May 6, 2021, or as may be extended. Accordingly, the City has reduced the interest rates from 1% to 5%, depending on credit worthiness.
5. Life insurance requirements will be determined on a case-by-case basis.

6. Due to the nature of the RLF, both commercial and industrial loans will normally be subordinated to private conventional financing. However, RLF may take priority position or share collateral on an equal basis with other lenders where appropriate.
7. RLF loans will be sufficiently collateralized to ensure repayment in the event of default and/or foreclosure. When necessary, loans may be cross collateralized by the personal residences of the primary principal(s). Standard collateral and collateral protection will normally include, where appropriate, the following:
  - Deed of Trust against real property if the borrower is the owner. The RLF staff will order a Preliminary Title Report (or in some cases a Property Profile) of the collateral real estate property before loan closing to determine and establish lien positions.
  - Personal guarantees of principals with 20% percent or more ownership interest.
  - UCC-1 Financing Statement against machinery equipment, furniture and fixture assets.
  - Sufficient property hazard insurance covering City's interests. The City is to be named loss payable on the hazard insurance policy.
8. Interest payments earned from the sale of loans that are not used for City's RLF Administrative expenses will be returned to the RLF for re-lending.
9. The City may require an equity injection by the borrower of the total project costs. Due to the pandemic, RLF monies need not be for "gap" financing and may be the sole financing mechanism.
10. Borrower will not enter into any debt arrangements after being approved and funded for a RLF loan, except indebtedness incurred in the ordinary course of business and payable within a one year.

## **REVISIONS TO PART II – RLF OPERATIONAL PROCEDURES**

Generally, City Staff will continue to follow the Operational Procedures of the RLF, unless otherwise noted in this document. City Staff will be responsible for screening loan applications and promoting the program through various methods. The Loan Review Committee will continue to review the application, based on the information in the loan package. The only deviation would be the approval and denial of the loan. The City Manager will have the authority to review and approve the loan upon recommendation by the Loan Review Committee to expedite the loan approval process. The Loan Application process will continue to require supporting documents, however, the threshold requirements have been changed to promote greater flexibility to businesses. All other Operational Procedures discussed in the 2019 EDA

Commercial and Industrial Revolving Loan Fund Plan will continue to be adhered to as part of the program administration.

**CITY OF EL CENTRO**

**CALIFORNIA**

**November, 2019 through November, 2024  
ECONOMIC DEVELOPMENT ADMINISTRATION  
COMMERCIAL AND INDUSTRIAL REVOLVING LOAN FUND PLAN  
EDA Award No. 07-39-02775**

**PREPARED AND UPDATED NOVEMBER, 2019  
BY THE  
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## **PART I – THE REVOLVING LOAN FUND STRATEGY**

### **I. PROGRAM ELEMENTS OF THE PLAN**

#### **A. GOAL OF REVOLVING LOAN FUND**

The City of El Centro Commercial/Industrial Revolving Loan Fund (RLF) Program is designed to provide financial assistance to owners and/or tenants of commercial and industrial properties located within the City of El Centro and who are unable to secure conventional loans for business development, expansion, structural improvements and property rehabilitation. Target areas have been delineated for the program by major commercial strips and industrial areas, which are prioritized for funding based upon economic development and/or ongoing projects and activities within the target areas relative to the update of the El Centro Economic Development Element with the Final Report in November, 2011.

#### **B. HISTORY OF RLF PROGRAM**

The RLF Program was originally established in 1984 when the City of El Centro applied for and was awarded a \$350,000 grant from EDA under the Economic Adjustment Program to implement its RLF Plan for Industrial Plant Development. Since the adoption of the RLF Plan, the City has been able to assist local businesses with loans ranging from \$30,000 to \$100,000. Over 85 jobs have either been created or retained.

The RLF Plan for Industrial Plant Development adopted in 1984 focused primarily on addressing the economic ills of the areas identified below:

1. El Centro Industrial Park – an undeveloped 40-acre parcel located in the southeastern reaches of the City.
2. Eastside Industrial Area – area is within the El Centro Redevelopment Project Area (which includes the El Centro Industrial Park).

Throughout the years the El Centro Industrial Park has experienced moderate development. The majority of the El Centro Industrial Park is currently a developed area. There is a mix of businesses operating within the industrial park. There are several small businesses, and warehousing and distribution centers established within the industrial park. All utilities are available at the industrial park and throughout the rest of the Eastside Industrial Area.

On the other hand, the majority of the Eastside Industrial Area remains undeveloped. The area is zoned for general manufacturing. This area along with the El Centro Industrial Park continues to be a target area under this revised RLF plan.

This revised plan is also intended to reflect the current economic distress of the City, and economic activities planned and being implemented for expanding or strengthening existing economic activities and/or creating new activities. The plan also describes the administrative and operational requirements and procedures that apply to the management of RLF grant funds funded by EDA.

## **C. GOALS AND OBJECTIVES**

### **Imperial County Comprehensive Economic Development Strategy (CEDS)**

The operation of the City's RLF program is part of the broader business development strategy designed to support achievement of the goals and objectives established through the Imperial County Comprehensive Economic Development Strategy (CEDS). Specifically, the RLF program falls under Goal No. 1 of the Imperial County CEDS, which is to "promote a balanced, yet diversified regional economic base." The output measures under Goal No. 1 include 1) Increase in number and mix of jobs per annual EDD data and 2) Decrease in the county unemployment rate.

The Imperial County CEDS is the result of a local planning process developed with broad based and diverse community participation. This planning process is accomplished through the efforts of the Overall Economic Development Commission (OEDC), a large committee of individuals, organizations, local governments and private industry concerned with economic development. The CEDS is a requirement by the EDA to apply for and receive EDA grant assistance by cities and other entities located in Imperial County. The Economic Development Department for the County of Imperial serves as staff to the OEDC and functions as the administrative support for the OEDC. The current Comprehensive Economic Development Strategy (CEDS) is approved and active until December 2019. The update for 2018 - 2023 was approved by the Economic Development Administration and is currently in the approval process for the Imperial County Board of Supervisors.

The Overall Economic Development Commission (OEDC) is responsible for developing and implementing strategies, program and projects that fulfill the goals and objectives set forth in the Imperial County CEDS. The OEDC is appointed by respective cities, supervisorial districts, and the Board of Supervisors. Membership is comprised of 41 primary members and 21 alternates. The OEDC is well represented from a geographical standpoint and includes the major economic segments of Imperial County. Members of the OEDC represent local government, education, workforce development, housing, business, agriculture, finance, and minority organizations. The OEDC meets semi-annually and meetings are open to the public. The City of El Centro is a member of the OEDC.

### **City of El Centro Economic Development Strategy**

The RLF program is also part of the Goals of the City of El Centro's updated (November 2011) Economic Development Element which are the following:

- Attract employers that pay higher wages in order to reverse the decline of household incomes;
- Encourage entrepreneurship as a strategy to combat high rates of unemployment;
- Encourage sustainable development practices that will help El Centro comply with California's greenhouse gas reduction requirements;
- Create more shovel ready industrial and business park sites to market to new business prospects;
- Continue to attract shoppers from Mexicali and neighboring communities to ensure the continued economic health of the new shopping centers and the Imperial Avenue big box retailers;

- Improve community amenities that make El Centro a better place to live and visit;
- Transform Downtown El Centro into a mixed-use neighborhood that attracts people to live, work, and play as downtown is no longer a viable retail destination area;
- Reduce the inventory of vacant commercial space, which is highly visible and concentrated along Imperial Avenue;
- Encourage more intensive development at underutilized shopping center sites, which will help El Centro comply with the State's greenhouse gas reduction requirements;
- Upgrade the appearance and maintenance of abandoned and underutilized commercial properties until they are revitalized;
- Convert a portion of industrial land into business park or general commercial uses because there is an oversupply of industrial land and an undersupply of business park land, and;
- Complete the development of the Imperial Valley Commons site, which is in danger of becoming blighted.

#### **D. COMMERCIAL/INDUSTRIAL REVOLVING LOAN FUND PROGRAM**

A key element in the economic development program is to facilitate a reversal of the high unemployment rate in the City by providing financial assistance to the commercial and industrial sector. A vital element in this strategy is the RLF Program.

The primary goal of the RLF Program is to assist and facilitate commercial and industrial revitalization, aid in the development and/or expansion of commercial and industrial businesses in order to generate employment opportunities, stimulate private reinvestment, and, in general improve those areas experiencing economic decline. The RLF Program provides leverage financing as a means of stimulating the development of desirable program qualified private sector commercial and industrial projects.

The program makes loan financing available to merchants and business owners, thus providing the opportunity to rehabilitate, expand, and/or improve their properties to comply with the Building and Safety Codes of the City of El Centro. It will also assist in the revitalization of blighted commercial/industrial areas by upgrading structures and facades so they become safe, convenient, and attractive to consumers.

The RLF Program is not intended to be used as a substitute for conventional lending sources. The revolving loan fund serves as a supplemental source of funds (on a companion loan basis with conventional financing), for businesses that meet the economic development objectives of the program, and are otherwise unable to obtain adequate private financing.

#### **E. DESCRIPTION OF ECONOMIC PROBLEMS**

The City of El Centro's greatest economic development priority is to create private sector jobs within the area. The City of El Centro has the distinction of having one of the highest unemployment rates in the State of California. According to labor market information released by the State of California Employment Development Department in July, 2019, the County reflects a 20.7% unemployment rate as compared to the California statewide average of 4.4% and the U.S. unemployment rate of 4.0% for

the same period. Double digit unemployment for the Imperial Valley continues to be prevalent throughout the year.

Historically, a significant portion of the local El Centro/Imperial County economy has been dependent either directly or indirectly on agricultural production. Unfortunately, agricultural related jobs tend to reflect lower wages and seasonal employment patterns. Shifting consumer retail patterns have resulted in the relocation by merchants to outlying commercial centers or going out of business altogether which has had a direct impact on El Centro's economic base. Several buildings remain vacant along the main corridors such as Imperial Avenue and Fourth Avenue. The loss of tax increment financing on January 31, 2012 after the dissolution of redevelopment agencies in the State of California has diminished the ability of the City to provide needed infrastructure to encourage and support new investment. Physical and economic blight is plainly visible throughout the City.

Needs for housing units in this community is very high and can be documented in the Housing Element of the City. In order for a large portion of the Valley population to be able to afford housing they will need additional employment opportunities which RLF programs can certainly be an avenue to foster the much needed employment opportunities. As reflected in the ongoing unemployment trends, existing employment opportunity is limited at this point in time.

The City of El Centro has engaged in proactive economic development planning to address all of these impacts. The City maintains a full time Community Services Director who oversees Economic Development along with staff that is experienced in business development, community development, and housing.

The Centerpoint Industrial Park is a publicly owned industrial park that lays at the eastern edge of the incorporated city limits of the City of El Centro. The entire Centerpoint Industrial subdivision consists of approximately 80 acres, with 36 lots. This industrial park will help address the need for additional industrial space need within the County of Imperial. These factors all combine to address the need for additional jobs in El Centro, as well as Imperial County.

Since May, 2005 through September, 2019, the 19 businesses located at the El Centro Business/Industrial Incubator facility, which was partially funded with EDA funds, have created 120 jobs. These businesses were comprised of several air conditioning and heating companies, janitorial services, agricultural parts company, landscaping companies, a geotechnical company, computer business, a performing arts business, graphic arts, a metal powder coating business, an air compressor sales and service business, and a spirits distillery.

## **F. LACK OF INVESTMENT**

The economic impact of the housing crisis from 2006 to today, along with population and income not keeping up with inflated prices, and lack of private market investments have not made the City of El Centro economically attractive to developers. An analysis of private investment reveals that business owners do not locate or relocate their businesses out of social conscience, but rather they take into account a prospective site's profit potential as well as other variables. These include the proximity and availability of a labor pool, access to transportation, location of the market as well as the condition, and

quality of public services and capital improvements. In the final analysis, a critical variable which may determine the feasibility of new development in an area is the availability of affordable financing. Presently, given the City's limited purchasing power, a developer is forced to set below market rents for a proposed commercial/industrial site in order to attract tenants to the location, and to remain competitive with similar projects in other cities. This option does not present an attractive position for potential developers because discriminatory practices by lending institutions may offset any profits for the proposed development.

Consequently, the process of development and/or revitalization efforts requires the creation of an investment climate, which will eventually attract private reinvestment back into the community. It is essential for the City to effectively leverage resources in commercial and industrial development activities, and to be more aggressive in trying to secure both public and private economic development programs in support of the overall economic revitalization program.

The RLF Program can help overcome the aforementioned problems because it represents a mechanism for providing financial assistance to local merchants, developers and entrepreneurs based primarily upon a projects' potential for facilitating accomplishment of the City's economic development goals/objectives. The RLF Program can provide a catalyst for the City's overall economic revitalization and eliminating blight and blighting influences.

## **G. COMMERCIAL/INDUSTRIAL TARGET AREAS**

The Commercial/Industrial RLF Program is prioritized to the commercial and industrial target areas of El Centro. Due to funding constraints and the need to concentrate the RLF's impact potential, projects that are located in the target areas need to be given priority in the receipt of program funds.

### **1. COMMERCIAL TARGET AREAS**

#### **MAIN STREET CORRIDOR**

In response to the blight and deterioration found in downtown El Centro, the El Centro Economic Development Department has included the above identified area as part of its redevelopment project area. These conditions have contributed to the flight of small to medium size retail establishments from the area, which have resulted in the elimination of job opportunities. The retail establishments that remain are operating marginally and are in danger of discontinuing business at their present locations. The local retail and service jobs provided by these businesses are also imperiled.

Major capital improvement efforts by the City of El Centro include \$11,239,367 in total project funding since July, 2003 through September, 2019 for the Main Street Corridor. The now dissolved El Centro Redevelopment Agency invested \$5.8 million in funding for the downtown parking lots improvements, the development of Project SHAPE, a downtown revitalization planning document, the Old Post Office Pavilion Renovation, the Project SHAPE Traffic Strategy, Project PEACE, the El Centro Outpatient's Health Care Clinic (new construction), and the Bus Transfer Terminal (new construction). Recently, the City completed a Highway Safety Improvement Project funded by State of California Department of Transportation (Caltrans) for lighting improvements in the downtown area.

## **IMPERIAL AVENUE COMMERCIAL CORRIDOR**

This highly used corridor that traverses the City south from Interstate 8 to the northern City limits portion, but primarily from State Street to the northern City limits and is lined with a diversification of businesses to the highly active Costco, Wal-Mart, Target, Lowe's, University of Phoenix, and other ancillary businesses. Excellent potential exists to generate a tremendous volume of commercial sales by assisting small retail establishments along the thoroughfare with exterior and interior building renovations.

## **2. INDUSTRIAL TARGET AREAS**

### **EASTSIDE INDUSTRIAL AREA**

Dividing the City along a north/south axis on the eastside, this aged and dilapidated industrial area is interspersed with a mixture of old and new medium-sized light manufacturing, an 80-acre Industrial Park known as the *Centerpoint Industrial Park*, junk yards, multiple "Brownfields", cattle feedlots, agriculture "Greenfields" ground, and residential dwellings. This industrial zone is characterized by large tracts of vacant and underutilized land, open storage areas, obsolete industrial structures, incompatible land uses and economic maladjustment, which contribute to the blight and deterioration found along these thoroughfares. However, further redevelopment activities are required to alleviate these conditions. The potential for this target area is significant given that the industries situated there are labor intensive. At the gateway to the east at Main and 4<sup>th</sup> Streets, the El Centro Regional Medical Center built an Outpatient Clinic which received \$1.6 million from the now dissolved Redevelopment Agency. The ECRMC outpatient clinic was completed in December, 2011. At full capacity, the clinic currently employs 48 staff members.

### **CENTERPOINT INDUSTRIAL PARK**

The Centerpoint Industrial Park is located in the southeastern reaches of the City and is expected to bring new industry to the community. This is an 80-acre industrial park that is a private/public venture with the City retaining ownership of seven acres. Vacant parcels are available in the Park and, as such, these properties represent opportunities for labor-intensive enterprises, and for small manufacturers who desire ownership of the land and building.

### **EL CENTRO BUSINESS/INDUSTRIAL INCUBATOR FACILITY**

The El Centro Business/Industrial Incubator Facility, located at the Centerpoint Industrial Park consists of approximately 10,000 square feet for combination office and industrial building space capable of accommodating seven tenant suites. The City's Business Incubation Program and facility promotes small business entrepreneurship. The facility can house eight tenants and since May, 2005 has provided tenant suites for 16 businesses and has created 110 jobs from those 16 businesses.

Through grant funding from USDA, in 2007 and 2008, the City was able to offer business support services for tenants, which included business workshops, information on management, finance, business plans and other business topics, networking opportunities, as well as financing under the City's RLF Program.

Project JOBS (Joint Opportunities in the Business Sector) was funded in March, 2011 by the Imperial Irrigation District (IID) Local Entity Program. The funding helped to provide small loans (up to \$20,000) for current and new tenants at the incubator facility. Based upon the criteria for the program (job creation and job retention requirements) the loans were forgivable for either 30% or 25% each year for three years. The funding also provided for Quick Books accounting training, marketing and business law workshops. Project JOBS provided \$100,000 of loans to five incubator tenants.

## **H. STANDARDS FOR THE RLF PORTFOLIO**

The City of El Centro and any consultant/contractor providing services on behalf of the City of El Centro will comply with policies and procedures applicable to all RLF grant recipients to ensure compliance with Federal requirements, to safeguard the public's interest in the grant assets, and to promote effective use of the funds in accomplishing the purpose for which they were granted. The City will comply with changes in regulations and other requirements and policies that EDA may issue from time-to-time.

The City will perform a complete financial analysis of each application to assess the viability of the proposed project and assure the likelihood of repayment. Only proposals that meet program criteria and demonstrate a high probability of repayment will be accepted and recommended for approval to the Loan Review Committee (LRC) and the Loan Administration Board (LAB). Loan approvals will be based upon the economic benefits generated (selection criteria) and target area ranking. Projects that retain or create the greatest numbers of private sector jobs and maximize private lender participation through maximum leverage of RLF funds are considered most desirable.

In addition to the financial analysis performed by City staff, the LRC will also use the following project selection criteria for their evaluation and ranking. The standards for a participant in the RLF program will vary depending on the project and economic benefits derived, but the portfolio as a whole will generally achieve the following standards:

1. The minimum standard job/cost ratio is one job per \$35,000 of RLF funds. The job/cost ratio is applied to the RLF loan portfolio.
2. The minimum loan size will be \$5,000 and the maximum loan amount will be \$100,000.
3. It is estimated that ten percent (10%) of the jobs created will be directed toward long term unemployed persons.
4. Based upon the City of El Centro's unemployed and general labor force, the RLF program will target the non-skilled or semi-skilled types of jobs.
5. RLF loans must be used to leverage other investment of at least \$2 dollars for every \$1 dollar of RLF Investment. This leveraging requirement applies to the portfolio as a whole rather than to individual loans and is effective for the life of the RLF. Other investments, to be classified as leveraged, must be made concurrently with an RLF loan as part of the same business development project and may include:

1. Capital invested by the borrower or others;
  2. Financing from private entities;
  3. Ninety (90%) percent of the guaranteed portions of SBA 7(a) and SBA 504 debenture loans; and
  4. Loans from other State and local lending programs.
6. The RLF Program makes an effort to provide financial assistance for the development of minority and women owned businesses in the City of El Centro. In addition to gender and ethnicity, the City will seek to strike a healthy balance in its portfolio of business industries (service, retail, wholesale, construction, manufacturing and transportation industries). The minimum job cost ratio, minimum leverage requirements of private sector dollars to RLF dollars, and qualifying commercial and industrial projects will address the problem of development taking place in the plan's target areas. The RLF funds will not be used as a substitute for private capital. In negotiations with borrowers or private investors, RLF staff will not entertain projects where private funding is otherwise available to fully fund the project. Where financial institutions are participating in a project along with the RLF, RLF staff will negotiate with those financial institutions to determine the degree of joint participation, with the goal being to maximize private lender participation.
7. The City's RLF Program will be audited pursuant to the EDA Audit Guidelines. When called for, the audit will be conducted by a certified public accountant in accordance with generally accepted government auditing standards.

EDA approval for modifications to Part I of the Plan will be requested when the Plan is either outdated relative to the current adjustment needs and objectives of the area or specific lending policies and/or requirements are impeding effective use of the RLF as a strategic financing tool. Operational procedures, as documented in Part II of the Plan, may be modified with the approval of the City Council of the City of El Centro, and subsequent notification to EDA pursuant to EDA written administrative rules.

## **I. FINANCING POLICIES**

The RLF plan provides the mechanics for the operation of the RLF Program. The steps involved in the loan selection and approval process of the RLF Program are shown in the Revolving Loan Fund Application Process Chart attached as Exhibit A. Total processing time, from loan application review to loan commitment should not exceed 60 days. Essentially, the Loan Review Committee (LRC), after reviewing a complete financial analysis of each application from the City of El Centro staff, will make their own assessment on the viability and repayment ability of the proposed project before making a final recommendation to the Loan Administration Board (LAB); i.e., the City Council which has the final approval authority on all loan decisions. Only proposals that meet program criteria and demonstrate a high probability of repayment will be accepted and recommended for approval to the LRC and LAB. Loan approvals will be based upon eligibility, credit worthiness and the degree of economic and public benefits generated. Projects that retain or create the greatest number of private sector jobs, and that

maximize private lender participation through maximum leveraging of RLF funds, are considered the most desirable.

The financing policies and techniques that will be used to address the financial problems of the RLF Program's target areas, and will assist in achieving the goals of the program are as follows:

1. The minimum loan amount that can be loaned will be \$5,000 and the maximum loan amount will be \$100,000.
2. RLF funds will be used for both fixed assets and working capital loans. (Working capital loans may not exceed fifty (50%) percent of the total dollar amount of loans in the RLF portfolio.) The City expects to have targeted goals of using RLF funds for at least 10% use for land assets; 20% for fixed assets; 35% for working capital; and 35% for business expansion (or startup businesses).
3. RLF loans will normally be amortized over the term of the loan with level monthly payments of principal and interest. Loan terms will normally run no greater than the average useful life of the assets being financed, or a time period less than the average useful life, where appropriate to accelerate the recycling of RLF monies. In no event will the loan term of real property loans exceed 25 years, facility renovation loans shall not exceed 15 years, and machinery equipment and fixtures loans will not exceed 10 years. The maximum term for RLF working capital loans is five (5) years. City may negotiate provisions for a call of the entire principal amount to be paid within a period of five (5) to ten (10) years, to accelerate the revolving of funds and the effectiveness of the program. The LRC may adjust payments and paybacks schedules in special circumstances.
4. The minimum interest rate an RLF can charge is four (4%) percentage points below the current money center prime rate quoted in the Wall Street Journal, or the maximum interest rate allowed under State law, whichever is lower, but in no event may the interest rate be less than four (4%) percent. However, should the prime interest rate exceed fourteen (14%) percent, the minimum RLF interest rate is not required to be raised above ten (10%) percent if to do so would compromise the ability of the RLF to implement its financing strategy. It is anticipated that the RLF will charge an interest rate adjusted for the borrower's payment ability including the degree of risk involved in the borrower's project. The interest rate will be set at time of loan approval, and will be good for fifteen (15) days.
5. Life insurance requirements will be determined on a case-by-case basis.
6. Due to the nature of the RLF, both commercial and industrial loans will normally be subordinated to private conventional financing. However, RLF may take priority position or share collateral on an equal basis with other lenders where appropriate.
7. RLF loans will be sufficiently collateralized to ensure repayment in the event of default and/or foreclosure. When necessary, loans may be cross collateralized by the personal residences of

the primary principal(s). Standard collateral and collateral protection will normally include, where appropriate, the following:

- Deed of Trust against real property if the borrower is the owner. The RLF staff will order a Preliminary Title Report (or in some cases a Property Profile) of the collateral real estate property before loan closing to determine and establish lien positions.
  - Personal guarantees of principals with 20% percent or more ownership interest.
  - UCC-1 Financing Statement against machinery equipment, furniture and fixture assets.
  - Sufficient property hazard insurance covering City's interests. The City is to be named loss payable on the hazard insurance policy.
8. Interest payments earned from the sale of loans that are not used for City's RLF Administrative expenses will be returned to the RLF for re-lending.
9. City may require a ten-twenty (10%-20%) percent equity injection by the borrower of the total project cost. Projects may be one hundred (100%) percent financed by private lender(s) and RLF monies; however, RLF monies are intended to provide "gap" financing for private sector borrowers in their efforts to invest in the targeted areas. The marketing implementation of this program is directed toward individual applicants who could not invest in the target areas without this assistance.
10. Borrower will not enter into any debt arrangements after being approved and funded for a RLF loan, except indebtedness incurred in the ordinary course of business and payable within a one year.

## **J. RELATED ACTIVITIES**

The City of El Centro works in partnership with the Imperial Valley Small Business Development Center (SBDC), Imperial County Workforce Investment Board (WIB), One-Stop Employment Services System, State of California Employment Development Department (EDD), the Chamber of Commerce, and various other agencies offering management consulting services and business information resources to El Centro business owners.

Listed below are the assistance and services provided by these partners:

### **1. MANAGEMENT AND TECHNICAL ASSISTANCE**

- Business planning
- Contract procurement
- Finance and accounting
- Marketing management
- Personnel management

- Organization design
- Feasibility analysis

## **2. LOAN PACKAGING AND FINANCIAL SERVICES**

- Loan packaging
- Preparation of loan documentation
- Identification of financial resources
- Financial budgets and forecasting
- Cash flow analysis and projection

The City of El Centro works with a variety of agencies to educate prospective borrowers to the many details that are involved in consideration of a loan request. Many of these agencies provide classroom training and on-the-job training to El Centro constituents. The City works very closely with the Imperial County One-Stop Employment Services System, which is a one-stop system for employment, and training services that make it easy for employers to access employment information, job training, and related services. Prospective borrowers are encouraged to learn about available employment and job training programs as a means of bringing together the long-term unemployed with permanent new jobs created within the El Centro area. In addition, project applicants who will participate in local employment/training programs are given additional points in the calculation of the interest rate on the RLF loan.

Borrowers under the RLF Program are mandated to offer long-term job openings to El Centro residents on a priority basis.

## **K. ELIGIBLE USES**

The RLF Program assistance is designed to assist existing or start up businesses within the area of El Centro. There are no eligibility restrictions on the size of a firm requesting assistance.

Eligible uses include, but are not limited to, the following:

1. Interior rehabilitation, leasehold improvement, trade fixture costs, structural repairs (e.g., roof, walls, foundations, etc.), installation and repair of plumbing and/or electrical systems.
2. Cost of land acquisition, including engineering, architectural, legal, grading, testing, site mapping and related costs associated with acquisition and site preparation.
3. Construction of buildings, including engineering, architectural, legal, and other related costs associated with the acquisition, construction and rehabilitation of buildings. Emphasis will be placed on the reuse or adapted use of abandoned facilities and business expansion and retention.
4. Machinery and equipment purchase and costs, including delivery, installation, engineering, architectural, and other related costs associated with the acquisition and installation of machinery and equipment.

5. Working capital loans will be granted on a case-by-case basis. They will be used for inventory, monthly operating expenses, accounts receivable and other allowable short-term loan expenditures.
6. More than one RLF loan may be eligible during the life of the original loan, provided the loan applicant shows a continuous track record of on-time payments.

#### **L. INELIGIBLE USES AND RESTRICTIONS**

All types of businesses will be eligible to apply for RLF Program assistance, except the following: Non-profit corporations, media firms, lending institutions, recreation and amusement parks and real estate investment companies. City of El Centro employees are not eligible for RLF loan assistance.

Generally speaking, RLF loans will not be made to borrowers whose projects do not meet all applicable federal, state and local requirements. Such clearances from these entities may be required as part of the application process.

The following are considered by EDA as restrictions or ineligible uses of RLF dollars:

1. RLF financing of businesses outside the City of El Centro.
2. RLF financing used by a borrower for any activity that serves to relocate jobs from one labor market (commuting) area to another. This applies both to a business which uses RLF financing to relocate jobs into an eligible area from a different labor market area, and to a business which relocates jobs, created as a result of RLF financing, to a different labor market area.
3. Public or quasi-public organizations unless (a) activities financed directly benefit or will directly benefit identifiable business concerns, and (b) there is a reasonable assurance that the activities financed will result in increased business activity in the near term.
4. Private developers unless activities financed are non-speculative, consistent with the strategic and lending objectives of the RLF Program, and directly benefits or will directly benefit identifiable business concerns.
5. Loans to a borrower for the purpose of investing in interest bearing accounts, certificates of deposit or other financial investments.
6. RLF loans to:
  - a. acquire an equity position in a private business;
  - b. subsidize interest payments on an existing loan;
  - c. provide the equity contribution required of borrowers under other federal loan programs;

- d. enable an RLF borrower to acquire an interest in a business, either through the purchase of stock or through the acquisition of assets;
  - e. refinancing existing debt.
7. Serve as collateral to obtain credit or any other type of financing without EDA's prior written approval (e.g., loan guarantees)
  8. Support operations or administration of the City
  9. Undertake any activity that would violate EDA Property regulations found at 13 CFR part 314
  10. Finance gambling activity, performances or products of a prurient sexual nature, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law.

**M. LOAN ORIGINATION FEES**

The maximum fee charged will be 2%. The loan origination fee will defray administrative expenses and/or be put back into the RLF for relending. The applicant is responsible for payment of all fees, cost and charges associated with processing of the loan request. These fees may be financed.

<b>PART II – RLF OPERATIONAL PROCEDURES</b>
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**A. ORGANIZATIONAL STRUCTURE**

**1. Administration of the RLF**

City staff is responsible for screening loan applications; providing initial financial analysis; preparing loan packages for loan review by the LRC and LAB; identification and development of appropriate financing opportunities; provision of business assistance and advisory services to prospective and actual borrowers; environmental reviews; and loan management.

City staff will also be responsible for promoting the program through various methods. Staff will present the program to the City Council and board meetings with other agencies such as the El Centro Chamber of Commerce, Overall Economic Development Commission, and community organization groups. Staff will also promote the program with the Imperial Valley Small Business Development Center, local realtors, banks, business and services clubs and the local newspaper, which will further inform the community about this program. In addition, promotional brochures both in English and Spanish language will be developed and distributed which will summarize the program and the eligibility requirements. Other promotional activities will be personal visits, correspondence, telephone solicitation, and follow-up direct mailers to all viable businesses in the target areas

The City of El Centro will maintain adequate staff levels to operate the RLF Program under the auspices of the City Manager. The professional staff will be skilled in the areas of business, finance,

credit analysis, loan packaging, processing and servicing. The City Attorney's Office will serve as legal advisor.

## **2. Loan Review Committee**

Upon determination that the project being proposed by the applicant meets the basic requirements of the RLF, the applicant's loan application will be presented to the Loan Review Committee (LRC) for their recommendation. The LRC shall be comprised of:

- Director of Community Services for the City of El Centro
- One member representing the El Centro Chamber of Commerce
- One member representing the financial services industry

The LRC will review the application based on the information in the loan package, underwriting, and the recommendation of staff. The LRC will make a recommendation of approval or denial to the Loan Administration Board (LAB); i.e. the City Council which has the final approval authority on all loan decisions. The LRC's recommendation can be as per the terms and conditions proposed by staff, or the LRC can recommend alternative terms and conditions. Three out of four LRC members shall be necessary to constitute a quorum for the transaction of business. The LRC member representing the financial services industry must always be present during loan board reviews.

After LRC's decision, City staff will forward the LRC's recommendation along with the loan package to the LAB who will make a final determination as to approval or denial of the loan. City staff will then notify the applicant of the LAB's decision following their action.

## **3. Conflict of Interest**

No member of the LRC, LAB or City employee will use their official position of office to obtain financial gain for himself/herself other than salary and/or reimbursement of expenses, or with, which they, or close relative, or a member of their household is associated. Further, no member of LRC, LAB, or City employee will further their personal interest in any way through the use of confidential information gained in the course of or by reason of their official position on activities.

In the event the LRC bank member has a separate and material financial interest in a proposed transaction, the bank will not be utilized for review of that applicant. Another bank representative will be appointed temporarily for review of that loan application.

The City shall not make RLF funds available to a business entity if the owner of such entity or any owner of an interest in such entity is related by blood, marriage, law or business arrangement to the City or an employee of the City or any member of the LRC or LAB which advises, recommends or otherwise participates in decisions concerning loans or the use of grant funds.

No City employees or members of the LRC or LAB, and/or person related to the officer, employee, or member of the LRC or LAB by blood, marriage, law, or business arrangement shall receive any benefits resulting from the use of loan or grant funds, unless the City employee, or LRC or LAB member affected first disclose to the City on the public record the proposed or potential benefit and receives the City's written determination that the benefit involved is not so substantial as to affect the

integrity of the City's decision process and of the services of the officer, employee, or LRC or LAB member.

City employees or members of the LRC or LAB shall not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment or any other thing of monetary value, for himself or for another person, from any person or organization seeking to obtain a loan or any portion of the grant funds.

No City employee shall falsify or destroy any material commercial loan records and/or documents that are necessary by the LRC and LAB to make a loan decision.

If known or suspected, RLF staff is encouraged to report conflict of interest violations to the City Manager.

Former board members and/or City employees are ineligible to apply for or receive loan or grant funds for a period of one (1) year from the date of termination of his/her services.

## **B. LOAN PROCESSING PROCEDURES**

### **1. Standard Loan Application Requirements**

City staff will meet with the potential applicant(s) and explain the parameters of the funding program including basic threshold requirements of the RLF, loan approval process, and other pertinent information. Staff will screen potential applicants to determine if the project would meet the basic threshold requirements of the RLF as follows:

- a. Job/cost ratio of one job for each \$35,000 of funds loaned.
- b. Leveraging ratio of \$2 of other money to each \$1 of public money.
- c. Borrower is not eligible for RLF financing if credit is otherwise available on terms and conditions, which would permit completion and/or the successful operation or accomplishment of the project activities to be financed.

Staff may determine at this time if the applicant should proceed with completing a loan application and submitting the documents listed on the checklist attached herewith as Exhibit B. If the project does not meet the RLF criteria, or if another lending source would be more appropriate, staff will refer the applicant to another organization for assistance. If the applicant is lacking the necessary financial background to prepare the application package, then staff will direct the applicant to the Imperial Valley SBDC for training or technical assistance.

If the project appears to meet the basic requirements, then a loan application and checklist will be provided to the applicant. The applicant shall submit supporting documents, which would include, but not limited to, the following:

- Three years of business and personal tax returns, all schedules
- Three years of business financial statements to contain at a minimum, balance sheets and profit & loss statements (quarterly and/or monthly statements may be required as appropriate).

- Personal financial statement dated not more than three months prior to the loan application. Required for each principal with 20% or more ownership in the applicant company.
- Business plan with financial projections
- Proof of hazard and liability insurance
- Schedule of debts to include: 1) original amount of debt; 2) current balance outstanding; 3) payment amount(s); 4) interest rate; 5) collateral; 6) status (current/delinquent).
- Three year projections, generally to include: 1) a projected cash flow for a minimum of 12 months; 2) projected balance sheet and income statement for a minimum of 12 months; 3) other as may be necessary to adequately assess the application.

## **2. Credit Reports**

Standard credit reports on all principals owning 20% or more of a business under consideration for a loan and the business will be ordered and reviewed. A summary review of the results of the credit reports shall be a part of the Loan Write-up. Cost of credit reports shall be for the account of the borrower, whether or not the loan is approved.

## **3. Appraisal Reports**

Where appropriate, appraisals will also be required to assist in determining the value and quality of collateral being offered. Appraisals will utilize qualified appraisers having experience appropriate to the assets being pledged. The cost of these appraisal(s) shall be for the account of the borrower, whether or not the loan is approved.

## **4. Environmental Reviews**

The RLF Administrator with the assistance of appropriate staff, shall assess the significance of all environmental impacts of activities to be financed in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as per the Assurances (SF 424D as revised) executed with the Economic Development Administration. No activity shall be financed which would result in a significant adverse environmental impact unless the 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.

No project shall be approved which would result in the alteration of or have an adverse impact on any wetland without prior consultation with the U.S. Department of the Interior, Fish and Wildlife Service, and, if applicable, obtaining a section 404 permit from the Army Corps of Engineers.

Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100 year flood plain. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

The State Historic Preservation Officer, (SHPO) shall be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The RLF Administrator shall work with the SHPO and EDA in cases where the SHPO has recommended actions or has been determined an adverse impact.

All loan applicants shall be requested to provide information indicating whether or not there was hazardous materials such as EPA listed (see 40 CFR 300), hazard substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials on site that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicants may be required to perform or provide evidence 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. In cases where there are unresolved site contamination issues, the RLF Administrator shall work with the loan applicant and the appropriate state environmental agency office to resolve these outstanding issues.

### **5. Standard Collateral Requirements**

Loans will be secured to the fullest extent possible to protect the interests of the RLF as a secondary source of repayment. The RLF will obtain a perfected interest in a borrower's assets, including outside assets of related parties, as appropriate. Loans may be secured with the following types of assets:

- ✓ Real property
- ✓ Machinery and equipment
- ✓ Inventory
- ✓ Accounts Receivable
- ✓ Stock pledges
- ✓ Patents and other intellectual properties
- ✓ Securities
- ✓ Intangibles
- ✓ Personal and/or corporate guarantees

A personal guarantee will normally be required of any principal having 20% or more ownership in the company being considered; it shall also be required of the principal(s) trust(s) deemed to be controlled by him or her. Personal guarantees may be collateralized with liens or property. Appropriate hazard and liability insurance shall be required, and key man life insurance shall be considered depending on the size and nature of the transaction and the health and ages of the principals. The City of El Centro shall be named as a Loss Payee on the appropriate insurance policies. Trust deeds will be obtained and supported by lenders title policies in those cases where real property is pledged as collateral. Liens on personal property will be perfected by UCC filings where other assets and/or "soft assets" are taken as collateral.

### **6. Standard Equity Requirements**

City may require a ten-twenty percent (10% - 20%) equity injection by the borrower of the total project cost. Projects may be one hundred (100%) percent financed by private lender(s) and RLF monies; however, RLF monies are intended to provide "gap" financing for private sector borrowers in their efforts to invest in the targeted areas. The marketing implementation of this program is directed toward individual applicants who could not invest in the target areas without this assistance.

## 7. Loan Write-Up

Written loan presentations to the LRC and LAB will contain at a minimum the following information:

1. Borrower is in an eligible lending area, approved by EDA.
2. Borrower: Detailed description of the borrower; i.e. is it a corporation, partnership, sole proprietorship, Subchapter S. List of owners and their percentage of the business.
3. Guarantors: List the names and relationships of the guarantors to the owners of the business as appropriate.
4. Business: Briefly describe the business and list its SIC (now NAICS) code.
  - (a) Loan Request: State the amount of the request, the monthly amortization, and term.
  - (b) Interest: Indicate the rate and whether it is fixed or floating.
  - (c) Fees: Depending on loan amount fee, charge will range from 1% to 2%. Applicants shall be responsible for any outside costs incurred for processing, such as appraisals, environmental reports, credit reports, etc. These fees may be financed.
5. Collateral: Describe the collateral pledged for this loan, and indicate the secured position of the RLF. If property is being pledged, show the present market value and the net equity available for all properties pledged. Date of appraisal, name of appraiser and loan-to-value must also be included.
6. Purpose: Describe in detail the purpose of the loan, i.e. fixed asset financing, working capital, etc. Be specific about sources and uses of proceeds to complete the project. Any proposed exceptions to loan policies need to be explained.
7. Public benefit: Describe the benefit of this loan in terms of jobs retained and/or created. Indicate the value of this borrower to the community. Jobs saved are defined as jobs that would be imminently lost without RLF assistance.
8. Job/Cost Ratio: Divide the total loan amount by the number of jobs saved, created, and combined as a result of this loan.
9. Necessary and Appropriate: A borrower is not eligible for RLF financing if credit is otherwise available on terms and conditions that would permit completion and/or the successful operation or accomplishment of the project activities to be financed. This section describes the reason why credit is not available – elsewhere and should indicate what supplemental evidence supports this representation. The second part of this section will state why this loan is an appropriate use of funds.
10. Background and History of Business Operation: Describe the history and background of the business, including a brief industry analysis.
11. Financial analysis: Indicate the source of information for the analysis. Describe the Company's financial performance as reflected by its financial statements, with special emphasis on revenues and operating income, leverage cash flow, and debt capacity. Projection should be consistent with historical performance unless there is an extraordinary event such as a new contract. Any significant changes in financial positions or performance of the company will be explained.
12. Personal Financial Analysis: Write an analysis of the principal's and guarantor(s) personal financial statements. Any significant changes in financial position or performance will be explained.
13. Credit Report: Indicate the results of the credit reports obtained on the principals, guarantors, and company.

14. Environmental problems. Discuss the results of a site visit by an environmental expert and relate any problems stemming from this visit or the environmental forms completed by the borrower. Indicate what actions the borrower must take.
15. Recommendation: Support funding recommendation based on analysis of the Company's industry, its place in that industry, financial analysis, and ability to repay.
16. Findings: Indicate if borrower is eligible, under criteria established in the RLF Plan and EDA requirements.

Accompanying this Loan Write-up will be spread sheets of the Company's financial statements, most recent years' financial statement (if financial statements are not available, tax returns should be included), personal financial statements of the borrowers, and financial projections.

A borrower is not eligible for RLF financing if credit is otherwise available on terms and conditions, which would permit completion and/or the successful operation or accomplishment of the project activities to be financed. The City is responsible for determining that each borrower meets this requirement and for documenting the basis for its determination in the loan write-up. The loan write-up will include a discussion of the particular features of the local capital market and/or of the individual borrower or project to be financed that result in the need for RLF financing. It will also briefly describe the key aspects of the business and the loan including a discussion of the prospective borrower's ability to repay.

The City is also responsible for obtaining *supplemental evidence*, as appropriate, to support the need for RLF financing. This may include the following:

- a. a commitment letter from a participating bank stating the loan terms, the maximum amount to be extended by the bank, and the need for the RLF's participation; and/or
- b. bank rejection letter(s), if obtainable, listing the proposed loan terms.

Exception to Credit Test: RLF financing may also be used as an incentive, through favorable loan terms, to attract a new business or a business expansion into an eligible area. The business may be credit worthy but would otherwise not locate in the area without RLF financing as an incentive. To undertake this type of project, the City must sufficiently document the need for RLF assistance and should obtain certification from the company, stating that it would not locate the proposed project at the intended location without RLF assistance.

### **8. Loan Approval/Denial Procedures**

All RLF loan proposals must be submitted to the LRC for review and recommendation to the LAB before funding can occur. The LRC will review the application based on the information in the loan package, underwriting, and the recommendation of staff. The LRC will make a recommendation of approval or denial to the LAB. The LRC's recommendation can be as per the terms and conditions proposed by staff, or the LRC can recommend alternative terms and conditions. If denial is recommended, the reasons for denial will be shared with the applicant. After the LRC's recommendation, City staff will forward the loan package to the LAB who will make a final determination as to approval or denial of the loan.

The applicant shall be notified in writing of the LAB's decision to approve the loan request. If denied, the reasons for denial will be included. The LAB shall include a statement that based on their review of the staff report and LRB's recommendation; the City finds that RLF financing is appropriate and that the assistance is commensurate with both the needs of the borrower and generate employment opportunities, in addition to other public benefits stemming from the project. The alternative terms and conditions will be stated in the Conditions of Approval letter sent to the applicant by staff after LAB approval. The loan terms and conditions will be good for fifteen (15) days.

All LRC and LAB loan decisions will be supported by written minutes.

## **C. LOAN CLOSING AND DISBURSEMENT PROCEDURES**

### **1. General Closing Requirements**

Upon approval by the LAB, City staff will forward a letter with Conditions of Approval to the applicant outlining the terms and conditions of the Loan, which shall be good for fifteen (15) days.

General closing requirements will be:

- a) Proof of equity, such as current bank account statements showing the needed funds on deposit, will be required for all loans requiring an equity injection;
- b) If existing debt is being converted to equity, or subordinated, evidence such as subordination agreement, the original note, the conversion agreement, corporate resolutions and copies of shares issued will be required.
- c) Where another lender is involved in the financing of a business an inter-creditor agreement setting forth the respective rights of the parties shall be required where appropriate for the protection for the RLF.

Staff will prepare the loan closing documents such as Promissory Note, Security Agreement and Loan Agreement, prepare title and lien searches, and UCC-1 filings, if appropriate. City staff will be responsible for ensuring proper execution of documents with the assistance of the City Attorney. In addition, staff will ensure compliance with all appropriate regulations. The applicant will sign all the necessary documents and agreements. Staff shall ensure a timely loan closing so that implementation of the project can take place.

Loan closing will be undertaken by City staff. At the time of closing, the applicant will be provided with a checklist outlining their obligations under the RLF Program and an amortization schedule. At closing, or another time specified in the Loan Agreement, funds will be disbursed to the applicant.

### **2. Loan Closing Documentation Requirements**

- (a) All loans will require a promissory note and a loan agreement.
- (b) Sole proprietorships using a "doing business as/dba" will be required to provide copies of fictitious name filings.
- (c) Partnerships will be required to provide copies of the partnership agreement and buyout agreements if applicable.
- (d) Corporations will normally be required to provide copies of the Articles of Incorporation, By-laws, certificates of good standing, and corporate resolution to borrow.

- (e) All loans will require a security agreement where personal property secures a loan.
- (f) Perfection of collateral will require UCC filings on equipment and fixtures, inventory and receivables, recording deeds of trust on real property, and certificates of title or stock registration, as appropriate.
- (g) UCC searches will be performed before loan board review to determine position. UCC searches may also be performed after loan closing and UCC filings to confirm that the desired lien position was actually obtained.
- (h) Lenders Title insurance will normally be required.
- (i) Vehicle titles will show the holder City as lien holder. If a third party owns the collateral, hypothecation and assignment agreements shall be required.
- (j) All principals with 20% or more ownership shall be required to provide continuing guarantees, and subordination agreements, as appropriate.
- (k) Inter-creditor Agreement, if necessary, to preclude prior lien holder from increasing debt, and/or to delineate collateral and responsibilities of lenders.
- (l) At closing, the borrower will present the required hazard and liability insurance policies, and any other insurance coverage such as key life insurance, as required.
- (m) Lease assignments will be taken as appropriate.
- (n) Legal review by outside counsel.

City staff will be responsible for ensuring proper execution of documents with the assistance of the City Attorney.

### **3. Loan Disbursement Requirements**

- a) The borrower will certify in the loan agreement that the funds are to be used for the purposes intended as specified in the loan application.
- b) If the proceeds are for reimbursement of working capital utilized to perform technological changes or retooling of equipment, a positive covenant shall be included in the loan agreement stating the purpose of the loan; breach of this covenant shall be deemed an event of default and the loan may be called.
- c) If the proceeds are for the purchase of equipment, fixtures, or vehicles, the borrower must show original invoices and the check will be made payable to the vendor or jointly to the vendor or business. For working capital loans, cash flow projections or other documentation will be required to determine the loan amount and the schedule for loan disbursement.
- d) When a Closing Date has been determined, a request for Grant funds will be forwarded to the EDA. This request will arrive at the EDA offices not less than 14 business days prior to the agreed upon Disbursement Date. A wire transfer into a designated bank account with an approved Bank will be made for the proceeds of the loan. On the Disbursement Date the funds will be made available in accordance with the loan disbursement instructions. In the event the Disbursement Date is delayed for insufficient documentation presented on the Closing Date, funds will be returned to the EDA within thirty (30) calendar days and a new Disbursement Date will be set.

## **D. LOAN SERVICING PROCEDURES**

### **1. Loan Payment and Collection Procedures**

City staff will be responsible for invoicing borrowers monthly, receive and deposit loan and interest payments into an interest bearing RLF bank account. Monthly reports of disbursements, receipts of interest and principal and any past due accounts will be provided to the LAB. Timely notification of any payment due and not paid will be provided. City staff will follow up on loan delinquencies within 15 days that the loan delinquency has occurred. If the delinquent borrower needs technical assistance which is beyond what City staff is capable of providing, the City will refer the business to an agency or organization that has the technical expertise to assist the default borrower.

Late fees (which will be incorporated in the body of the Promissory Note) shall be 5% of the payment outstanding and begin accruing on the next calendar day after the payment is due.

The staff will be responsible for conducting loan collections, including asset liquidation in coordination with the City Attorney. If a loan should become delinquent, the following will occur:

- a. First notice of delinquency will be mailed 5 working days after due date. Written and oral communications as well as site visits will be utilized by staff to resolve the delinquency. Every effort will be made through personal contact by staff to remedy the delinquency.
- b. Second written notice will be mailed 30 days after due date.
- c. Third written notice 60 days after the due date.
- d. Fourth written notice 90 days after due date.
- e. During the first 30 days of delinquency, written and oral communication, as well as site visits by City staff will be utilized to resolve the delinquency.
- f. If at any time during this 90-day period, the Director of Economic Development believes that the borrower cannot or will not bring the loan current, with LAB approval, City staff can declare the loan in default and begin recovery against collateral, if deemed appropriate.

The City staff will work to exercise all rights and privileges of a lender in order to collect the proceeds on delinquent loans. To ensure that the delinquent loan is collected in an appropriate, efficient, and timely manner, staff will:

- a. Prepare a plan of action with guidance by the LAB for collecting the loan and taking action against the collateral.
- b. Make sure all required loan documentation is in order.
- c. If appropriate, contact the City's internal counsel to coordinate collection efforts and to insure that no laws or regulations will be violated by the collection effort.
- d. Immediately contact all other co-lenders of the delinquency.
- e. Notify the guarantors of the default and put them on notice that they are expected to make payment, in full, upon demand.
- f. Begin collection procedures and/or asset liquidation process.

## **2. Loan Monitoring Procedures**

City staff shall be responsible for monitoring all loans once loan is closed. Staff will monitor the businesses' activity for the life of the loan. This includes monitoring the on-going operations of loan recipients and recommending loan revisions to the LRC as appropriate.

- (a) Annual financial statements (defined to include balance sheet, profit and loss statement, cash flow statement, compiled or certified by an independent Certified Public Accountant; president and chief financial officer will certify as to the correctness of the financial statements submitted if not audited by an independent certified public accountant) shall be required on all loans; quarterly financial statements shall be required during the recovery stage or as appropriate; monthly statements shall be optional as the situation demands. City staff shall monitor these and other dated requirements such as insurance renewals, and UCC renewals. If documents are not received on a timely basis, designated staff will be responsible for correcting the deficiency. Provisions will be made in the Loan Agreement that audited statements may be required.
- (b) City staff will be required to contact borrowers at least monthly for the first six months and determine whether the business is on line with its business plan.

City staff will schedule visits with each borrower on an annual basis. This visit will be documented by memorandum and will contain a summary of the progress the business is making from a marketing and financial perspective, as well as an assessment of the business' future. This report shall be provided to the LAB.

Annual job retention and creation data will be compiled by City staff and supplied to the EDA as part of the required reports. All required loan documentation and special provisions would be monitored.

## **3. Late Payment Follow-up Procedures**

- (a) Upon being advised that a payment due was not made, City staff will contact the borrower promptly to determine the problem, if any exists.
- (b) City staff will send the first written notice of delinquent payment 5 working days after due date with notification of late penalty.
- (c) Second written notice will be mailed 30 days after due date.
- (d) Third written notice 60 days after the due date.
- (e) Fourth written notice 90 days after due date.
- (f) During the first 30 days of delinquency, written and oral communication, as well as site visits by City staff will be utilized to resolve the delinquency.
- (g) If at any time during this 90-day period, the Director of Economic Development believes that the borrower cannot or will not bring the loan current, with LAB approval, City staff can declare the loan in default and begin recovery against collateral, if deemed appropriate.

## **4. Write-off Policy and Procedures**

Loans with an outstanding balance that have been placed in default and remain outstanding after 180 days will generally be written off. In the event a loan is written off, collection efforts will continue until determined not to be cost effective or prospects for recovery no longer exist. A reasonable loss through defaults will be considered without establishing a loan loss reserve.

## **E. ADMINISTRATIVE PROCEDURES**

### **1. Procedures for Loan Files and Loan Closing Documentation**

Two separate loan files will be maintained in City offices. The first is the legal file that holds all the original loan documentation, along with original documents. This file shall be kept in the City's fireproof vault for safekeeping. At a minimum, the legal file shall include the following original and primary loan documents:

- a. Note
- b. Loan Agreement
- c. Mortgage/Deed of Trust
- d. General Security Agreement
- e. Personal Guaranty
- f. Corporate Guaranty
- g. Subordination Agreement
- h. Life Insurance Policy and Assignment
- i. Hazard Insurance Policy and Assignment
- j. General Resolution
- k. Certificate of Secretary
- l. Opinion of Counsel
- m. Inter-creditor Agreement
- n. Lease Assignment

The second file will be created which shall contain, at a minimum, the loan application, loan commitment letters, copy of private lender loan agreement, financial statements, annual insurance certifications, site visit reports, general correspondence, credit report, LRC recommendation, disbursement records, updated financial information provided by borrower, job creation/retention data, etc.

### **2. Procedures for Complying with EDA Reporting Requirements**

The City of El Centro Finance Department will maintain the accounting records for the loan and provide quarterly records. The information received from the Finance Department will include a monthly summary of the beginning fund balance, principal and interest recaptured during the month and disbursements made during the month. It will also include the last payment date and loan balance for each loan.

### **3. RLF Assessment for Performance**

The City will annually assess and evaluate the performance of its RLF Program prior to the annual certification approval by the City Council. The City shall consider any changing economic conditions in the area and adjust the RLF Plan accordingly, with prior approval from EDA. At a minimum, the City of El Centro will submit an updated RLF Administrative Plan every five (5) years to EDA.

#### **4. Allowable Cash Percentage**

In conjunction with the EDA Revolving Loan Fund Program regulations, 13 CFR 307.17 (b), the City will manage their repayment and lending schedules to provide that at all times the RLF's cash doesn't exceed the Allowable Cash Percentage. The Allowable Cash Percentage is a floating rate that is updated annually by EDA.