

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

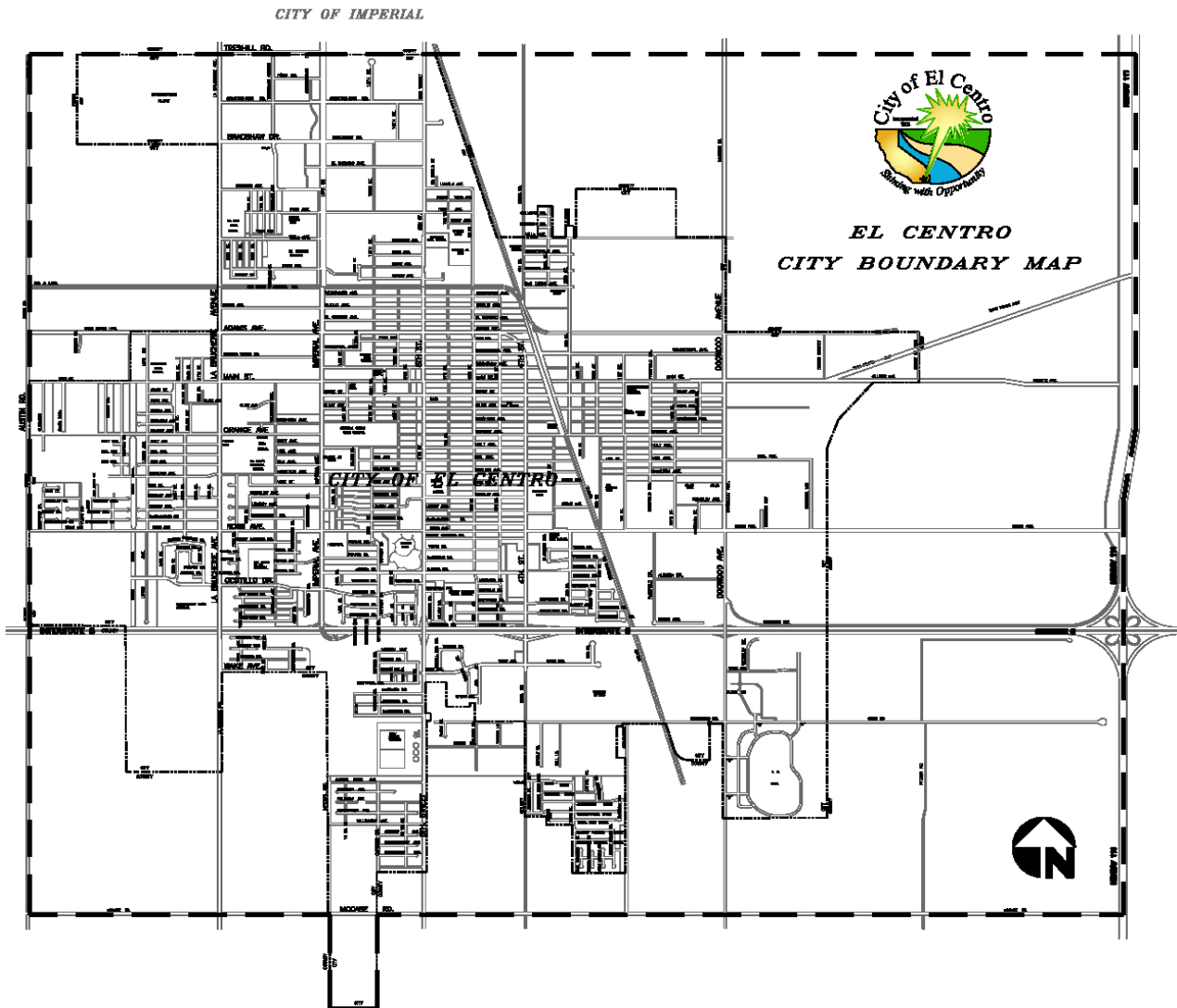
It is important to underscore that as a supplemental document to the existing RLF Plan, the major tenets and regulations of the RLF Plan will continue to guide the allocation of loans

except where deviations are allowed and discussed in this supplemental document. The goals and objectives of the Revolving Loan Fund as well as Eligible and Ineligible Uses and Restrictions remain the same. In the event there are conflicting regulations and policies between the two Plans, the RLF Plan Addendum will rule. If the Addendum is silent on a matter, the existing EDA RLF Plan regulations will be followed.

REVISIONS TO PART I - THE REVOLVING LOAN FUND STRATEGY

a. Removal of Target Areas.

The existing EDA RLF Plan targets areas for investment. Because the economic distress has impacted the entire City, loan priority will not be given based on the location of the business. All EDA loan applications submitted by businesses located within the El Centro City Limits will be given the same priority regardless of location within the City. Loan Applications will be reviewed for completeness and processed on a first come, first served basis.



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 \$100,000.
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 \$100,000.
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.