



The Headwaters Fund

INVESTING IN OUR COMMUNITY

Community Investment Fund Manual

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1. Introduction and Summary

- a) This Manual governs the administration of the Headwaters Fund Community Investment Fund.
- b) Section 1 of this Manual outlines the Grant Program of this Fund, while Section 2 outlines the Loan Program of this Fund. Non-profits and governments may apply for funding. \$5 million has been allotted in total for the Grant and Loan Programs, and there is no annual minimum or maximum outlay. The Headwaters Fund Board will review relevant applications and recommend a slate of projects for Board of Supervisor approval.
- c) Section 3 of this Manual outlines the criteria for an “Extraordinary Project.” An Extraordinary Project would be an extraordinary, unique potential project that could draw funds from the entire Headwaters Fund.

2. Definitions

- a) “CIF” means the Community Investment Fund program.
- b) “HWF” means the Headwaters Fund program.
- c) “BOS” means the County of Humboldt Board of Supervisors.
- d) “HFB” means the Headwaters Fund Board.
- e) “Staff” means the staff of the County of Humboldt’s Economic Development Division administering the Headwaters Fund.
- f) “IT” means information technology systems.

3. Mission and Goals

- a) The mission of the CIF is to improve the economy of Humboldt County.
- b) Goals
 - i) Implement the principles and strategies outlined in the County’s Comprehensive Economic Development Strategy – currently called “Prosperity! The North Coast Strategy” – that will develop the community and economy of Humboldt County; and
 - ii) Increase inflows of external funding into the County by requiring outside funding sources to match CIF funding where possible.
- c) In support of its mission and goals, the CIF strives to seed programs/projects that revolve financially and/or provide ongoing services in the community.

4. Operating Budget

- a) The total amount allocated for CIF grants and loans is expected to be \$5 million; however, this amount can be revised by HFB and BOS according to community needs and assessments of the overall Headwaters Fund. If and when CIF has exhausted its \$5 million in funds, the CIF will cease operations unless extended by the BOS. There will be no annual minimum or maximum outlay; CIF will seek to fund projects best fitting the CIF selection criteria, and may fund no projects during a particular year if attractive projects are unavailable.
- b) Staff and HFB will recommend a marketing and operating budget to BOS.
- c) Interest income on CIF loans will be placed in the Headwaters Liquidity Fund. Loan fees on CIF loans will cover loan administration costs.

5. Use of Consultants

- a) A consultant may be needed to review certain loan applications or otherwise assist in the operations of CIF. The budget for consultant expenses will be approved by the BOS.

6. CIF Evaluation

- a) The Annual Community Benefits Report, issued to the public, will detail grants, loans, and the overall performance of the CIF. Staff will prepare the Report to be reviewed by HFB and the BOS.
- b) CIF will undergo an audit annually.

7. Revisions

- a) BOS reserves the right to make policy changes as needed.
- b) Staff will make procedural and typographical changes as needed.

SECTION 1: GRANT PROGRAM

8. Funding Priorities

- a) CIF will make grants for three types of projects as follows (specific selection criteria is outlined in “CIF Project Selection Criteria” which will be developed by HFB):
 - i) Sustainable revolving loan funds
 - a) Grants for loan funds will be evaluated primarily on their potential to have a significant, positive economic, social and/or environmental impact while being sustainable as a loan fund.
 - ii) Sustainable endowments (requires a minimum 50% match)
 - a) Grants to provide endowment funding for non-profit organizations will be evaluated on the financial/strategic need for an endowment, the effectiveness of the organization, and the economic, social and/or environmental value of the potential fund to Humboldt County. Funding will be prioritized for organizations that benefit Industry Clusters.
 - iii) Infrastructure benefiting Industry Clusters (requires a minimum 75% match)
 - a) Grants to create or improve infrastructure benefiting the County will be evaluated on the benefits to Industry Clusters.

9. Grant Maximums and Minimums

- a) There is no annual minimum or maximum for total grantmaking. If no projects are deemed appropriate during a particular grant cycle, no grants will be made.
- b) There is no minimum or maximum grant size per project.

10. Organizational Eligibility for Funding

- a) Non-profit organizations, including, without limitation, 501c organizations as well as California registered unincorporated nonprofit associations, non-profit public benefit corporation and mutual benefit corporations. Government jurisdictions and non-profit organizations in Humboldt County are eligible to apply. Organization may be located outside of the County if the Extraordinary Project criteria in section 37 are met.
- b) Government jurisdictions located in Humboldt county are eligible for CIF grants.
- ~~b)c~~ Political lobbying groups (including all 527 organizations), individuals, and businesses are ineligible to apply for any CIF funding.

11. Costs Eligible for Funding and Funding Match

- a) Eligible costs: Projects must benefit Humboldt County. All reasonable project costs are eligible for CIF funding, except the following:
- i) Debt or recovery of expenses already incurred;
 - ii) Supplanting of government funds (costs formerly covered by government may be included only if the government funding is no longer available); and
 - iii) In general, purchases of capital equipment or property that will be or become privately owned; however, small incentives, promotional items, and equipment purchases under \$1,000 for businesses and individuals are eligible.
 - iv) Lobbying activities including, without limitations, carrying on political propaganda or otherwise attempting to influence legislation; influencing the outcome of any specific public election; carrying on, directly or indirectly, any voter registration drive.
 - v) Causing any private inurement or improper benefit to occur.
 - ~~iii~~vi) Terrorist activity.
- b) Matching Funds
- i) For revolving loan funds, matching funds are encouraged, but not required.
 - ii) For endowments, a minimum of 50% of the project costs must be provided by sources other than the Headwaters grant.
 - iii) For infrastructure projects, a minimum of 75% of the project costs must be provided by sources other than the Headwaters grant.
 - iv) Required documentation of funding match:
 - a) A copy of grant award letter/contract from other funder showing award amount, costs covered, budget, project description, and other information;
 - b) A copy of organization's approved budget documenting dedicated project funds;
 - c) If matching funds are not in-hand and HWF support will be used to garner outside funding, then applicant must provide a detailed fundraising/grantwriting plan, including a listing of potential funding sources, progress to date for each source, competitive position for each source, timeline, and commitments made. A letter committing HWF funds, contingent upon receiving other funding, will be provided by HFB. However funds will not be distributed prior to submission of proof of receipt of matching funds.
 - c) Grantees shall maintain records of all project costs that are claimed by the grantee as being covered by HWF and other funders. Such records are subject to audit and should be kept at least four years (see Section 23: Grant Closing).
 - d) If, following receipt of an award, a grantee determines that funding from other source(s) can no longer be used, HWF funding may be reduced, suspended or terminated. The grantee must contact HWF Staff immediately. Any HWF-approved adjustments to cash match commitments are made based on the grantee's rationale behind the requested adjustment and on a case-by-case basis.

12. Providing Information and Marketing to the Public

- a) Marketing
- i) HWF Staff will work to publicize availability of funds to the community along with selection criteria and fund performance. Marketing should include

advertising, website, marketing collateral, application and materials distribution, and potential applicant training.

- b) Information materials
 - i) HWF Staff will make the following information readily available (in print and/or online formats) to the public: CIF mission, contact information, funding priorities and limitations, number and average size of grants, percentage of proposals funded, application information, grantmaking criteria, and decision-making process.
 - ii) HWF Staff and HFB will produce the Community Benefits Annual Report: This public report will highlight CIF operations, finances, and performance. The Report will also include a list of the previous year's grantees and award amounts.

13. Conflict of Interest Policy

- a) This Policy covers economic conflicts of interest (as defined in California Government Code 8100 et. seq.; and Humboldt County Ordinance) and other conflicts of interest. Any HFB Member or HWF Staff who has an interest in a contract or other transaction presented to HFB or a committee thereof for authorization, approval, or ratification shall make a prompt and full disclosure of his/her interest to HFB or committee prior to its acting on such contract or transaction. Such disclosure shall include any relevant and material facts known to such person about the contract or transaction and the nature of the potential conflict. Said person will recuse himself/herself from decision-making, voting, and using personal influence in the discussions with respect to such contract or transaction. Such person may be counted in determining whether a quorum is present for the Board meeting but may not be counted when the Board or a committee of the Board takes action on the transaction. The minutes of the meeting shall reflect the disclosure made, the vote thereon, the abstention from voting and participation, and whether a quorum was present.

14. Applications Processing – Overview

- a) Overview of application processing and selection: Applicants will submit a written application to the Headwaters Fund Coordinator who will conduct an initial screening. The Coordinator will deny applications that are outside stated funding priorities, conduct reviews on the remaining applications, and pass along these remaining applications to HFB for evaluation. HFB will review and assemble a slate of applications recommended for BOS approval. BOS will vote to approve the entire slate or deny individual projects within the slate.

15. Applications Processing – Details

- a) Applicants will submit a written application to the Headwaters Fund Coordinator.
- b) Applications deadlines will be semiannual according to the schedule recommended by HFB.
- c) Under exceptional circumstances, an interim application will be accepted by Staff if applicant provides evidence that waiting until the next grant cycle will result in an irretrievably lost opportunity. If sufficient evidence is presented, Staff will pass along such interim applications to HFB. HFB will review these applications if it determines that an irretrievably lost opportunity exists.

- d) Initial screening: HWF Staff will conduct an initial screening of an application and categorize it as “outside of stated funding priorities,” “meriting further review,” or “incomplete”.
 - i) Applications outside of stated funding priorities: These applications will be declined promptly in a letter.
 - ii) Applications meriting further review: HWF Staff will send an acknowledgment notification to the applicant stating that the application is under review and providing a general time frame for the process.
 - iii) Incomplete applications will not be accepted. A letter from Staff will be sent returning the incomplete application and specifying the missing items.
- e) Pre-grant review by Staff
 - i) Staff will review applications meriting further review. Staff will present HFB with applications that have a reasonable chance of approval according to Selection Criteria. The review may include the following:
 - a) Assessment of managerial competence and fiscal accountability;
 - b) Need and impact analysis (especially for infrastructure projects);
 - c) Review of proposal and budget for internal consistency and compliance with HWF policies (e.g. cash match);
 - d) Review of previous grants performance of applicant organization;
 - e) Cross-grant comparison/analysis of proposal and organization;
 - f) Evaluation of outside reviews of proposed project (if available).
 - ii) Docket preparation for HFB review
 - a) A docket will summarize key information about an application for HFB review.

16. Selection of Grants

- a) Selection criteria
 - i) As outlined in the “Project Selection Criteria” document to be created by HFB, selection criteria will be recommended by HFB to BOS. Selection Criteria will be a numerical ranking of projects, with reasons for ranking where possible.
- b) HFB selection process
 - i) HWF Staff will present dockets of applications meriting further review to HFB. Each HFB Member will use the selection criteria to rank each application and list reasons for rankings.
 - ii) HFB will employ a structured decision making process (see “Headwaters Fund Board Decision Making” to be created by Staff and HFB).
 - iii) HFB will recommend a slate of grants to be funded for Board of Supervisor approval. HFB decisions on grants cannot be appealed by applicants.
- c) Board of Supervisor approval of slate
 - i) The BOS will use a majority vote to approve the entire slate presented by the HFB. BOS may not add projects to the slate being approved, but may recommend additional review of individual projects. Upon majority vote, Supervisors may pull one or more projects from the slate and approve the remaining slate of projects. Supervisors would refer pulled projects back to the HFB and Staff with questions and comments. Staff and HFB would respond to BOS comments on any pulled projects. After BOS receives this response, BOS would approve or deny individually pulled projects according to a majority vote. BOS decisions on grants cannot be appealed by applicants.

17. Rejection of Grant Applications

- a) Staff will send a notification letter to applicants rejected by Staff or HFB. The letter will list general reasons for rejection when it will help the applicant in a future application to HWF.

18. Appeals of Grant Applications Denied by Staff

- i) Only applications deemed ‘outside of stated funding priorities’ and rejected by the Headwaters Coordinator, without HFB review, may be appealed. The appeal will be for inclusion in the next grant review cycle by HFB.
- ii) The appeals process is as follows:
 - a) Within 30 days of the decline notice date, the applicant must submit a Request for Appeal and a check for \$250 to cover appeal processing and administrative costs;
 - b) Within 30 days of receiving the Request for Appeal, Staff will respond with reasons the application was rejected and information required, or other necessary conditions, for the application to be reviewed by HFB;
 - c) Within 30 days of receiving the Staff’s response, the applicant will submit an Appeal Summary to address all issues listed by Staff. The original application and the Appeal Summary will then be submitted to HFB at the next regularly scheduled grant review meeting.

19. Grant Notification and Contract

- a) A letter will be sent to grantees selected for funding to notify them of approval. Among other things, the letter will specify reporting requirements and funds disbursement terms.
- b) A contract between the grantee and the County will need to be signed. An appropriate signatory on behalf of the grantee would be the Board Chair, President, authorized executive officer, or other comparable person. The contract will detail terms of the agreement, the purpose of the grant, the scope of work, amount of award, duration, payment schedule, and reporting requirements.
- c) The contract must be executed within 6 months of the grant award. The grantee may request an extension in writing for extenuating circumstances. If the extension requested is for more than a year from the award date, the extension requires HFB approval.

20. Grant Payment

- a) For each award, HWF Staff will determine a payment schedule with advice from the HFB. Payment options are outlined below:
 - i) Payment in lump-sum upon signing of contract;
 - ii) Payment in installments (by schedule or milestone reached) and contingent on receipt of grantee reports; or
 - iii) Payment on a re-imbusement basis, with full reporting and accounting by grantee.
- b) 10% of grantee award will be held by HWF, pending receipt of appropriate final deliverable documents from the grantee.

21. Grant Reporting, Monitoring, and Evaluation

- a) Monitoring refers to compliance with contract commitments and fund uses, while evaluation refers to measuring the extent to which the grantee met the objectives outlined in the grant application. The goal of grant monitoring is to ensure grantee work complies with HWF requirements.

- b) Grantee reporting requirements
 - i) Grantee is required to submit quarterly monitoring reports that include:
 - a) Documentation of activities contracted and completed with grant funds;
 - b) Financial accounting of use of grant funds. Grant funds should be tracked separately. Receipts documenting purchases may be requested;
 - c) Sub-contracts signed and/or completed;
 - d) Narrative of accomplishments to date and schedule of activities and expected completion date;
 - e) Progress on meeting match requirements (e.g. fundraising activity report), if appropriate; and
 - f) Requests for revisions of timeline, budget, etc.
- c) Grant evaluation
 - i) HFB may choose to evaluate individual or groups of projects.
 - ii) Grantees may be required to include an evaluation and an evaluation budget in their project plans and budget.
 - iii) HWF staff and HFB, or its authorized representatives, has the right to make site visits to review project accomplishments, grantee management control systems and administration and management of the grant. HWF Staff or its representatives will make at least one site visit during the grant period. When any site visit is made by HWF staff on the premises of the grantee under a grant, the grantee and its sub-contractors shall provide all reasonable facilities and assistance for the safety and convenience of the HWF representatives.

22. Grant Modifications

- a) All changes must be requested and approved in writing as outlined in this section.
- b) Staff may adjust changes in grant timelines, activities, and partners that are consistent with original project goals, target populations, and geographical focus. Changes in project goals, target population, and geographic focus must be approved by the HFB.
- c) Budget revisions/reallocations
 - i) Staff may approve budget changes under \$10,000.
 - ii) Budget changes of \$10,000 or more require HFB approval.
- d) Extensions: If additional time beyond the timeline provided by the grantee is required and exceptional circumstances warrant, a formal request for extension must be submitted to HWF Staff. The request must be submitted at least 45 days prior to the expiration date of the grant. The request must explain the need for the extension and include an estimate of the un-obligated funds remaining and a plan for their use. As indicated above, un-obligated funds remaining at the expiration of the grant is not sufficient justification for an extension. The plan must adhere to the previously approved objectives of the project.
- e) Organization/personnel changes: If key project personnel do or plan to: (a) devote substantially less time to the project than anticipated in the approved proposal; (b) sever their connection with the grantee organization; or (c) otherwise relinquish active direction of the project, the grantee shall immediately notify HWF Staff of the situation. HWF Staff will take appropriate action including transferring the grant, amending the project, or terminating the grant.
- f) Additional funding due to increased expenditures: Grantees are not eligible for additional funds above the agreed upon grant award.
- g) Refunds: Unused grant funds will be returned to HWF with no negative consequences for future applications as long as all reasonable efforts were made to execute the project within the proposed budget in a timely manner.

23. Grant Closing

- a) Grant closing occurs after all grant payments and reporting requirements have been fulfilled. Closing will occur within 90 days after the final payment.
- b) Notification of reporting obligation fulfillment
 - i) A Grant Closeout letter will be sent to the Grantee at the end of the project. When the Grantee returns the letter, the Grant is considered closed.
- c) Grantee record keeping requirements
 - i) Financial records, supporting documents, statistical records and other records pertinent to a grant will be retained by the grantee for at least 4 years from submission of the Final Project Report, with the following exceptions: records related to audits, appeals, litigation or the settlement of claims arising out of the performance of the project will be retained until such audits, appeals, litigation or claims have been disposed of; and
 - ii) Grantee shall retain and HWF Staff shall have access to any pertinent books, documents, papers and records of the grantee organization (and of the performing organization, if different) to make audits, examinations, excerpts and transcripts for up to 4 years after grant termination date.

24. Suspension and Termination of Grants

- a) A grant may be suspended or terminated (i.e. before agreed upon end date) in whole or in part by HWF Staff when the grantee has failed to comply with the terms and conditions of the grant and/or the contract. A grantee may appeal the HWF Staff decision to suspend or terminate a grant to HFB. The grantee must pay a \$250 fee to cover administration costs for the appeal.

25. Grant and Applications File Tracking

- a) Pre-grant activity
 - i) Individual applications: each application will receive a unique tracking number and have its basic information input into the IT system.
 - ii) Aggregate applications: Staff will track data on applications for internal and external reporting purposes including number of applications received (by time period, geography or other needed categories), number of declined applications and rationale, and time elapsed between application acknowledgment and funding decision.
- b) Grant award tracking system: the Grant Award Tracking system will be created to monitor the timing and requirements for grant payments and reports (e.g. generate/review list of upcoming payments).
- c) Grantee report monitoring: Staff will monitor due dates for upcoming grant reports and review grantee reports.
- d) Record-keeping
 - i) Depending on the size and complexity of the grant, the grant file should contain: application package, final approved budget, docket, grant notification letter and contract, tax status determination letters, amendments/cancellations, grantee reports, closing letter, project evaluation, record of payments/returns, correspondences with grantee, site visit reports, audited financial statements of the grantee, and grantee acknowledgement of payment receipts.
 - ii) Grant award files will be kept by HWF Staff for at least 7 years after completion of the grant.

- iii) Declined grant applications will be kept by HWF Staff for at least 2 years after the decline date.

26. Financial Management

- a) Management of funds will be conducted by both the Treasurer-Tax Collector and the County Auditor.
- b) HWF Staff will monitor cash flows and prepare financial reports for HFB and BOS review.

SECTION 2: LOAN PROGRAM

The CIF Loan program lends to governments and non-profits for the purpose of economic development in Humboldt County. Loans should be low risk and will be evaluated in the same pool as CIF grants.

27. Loan Guidelines

- a) Eligible Organizations
 - i) Government jurisdictions and non-profit organizations in Humboldt County are eligible to apply. Organization may be located outside of the County if the Extraordinary Project criteria in section 37 are met.
- b) Eligible Uses of Loan Proceeds
 - i) Any project leading to job creation/retention. Projects must meet or exceed the job-to-loan ratio of 1 full-time job created/retained per every \$35,000 loaned. Exceptions to this requirement are possible if the project will generate a sufficiently high total economic value to the County (see “Total Economic Value” document to be created by Staff).
 - ii) Fit with the broad vision outlined in the County’s Comprehensive Economic Development Strategy (currently named Prosperity!), namely: creation/retention of jobs, contribution to the economic vitality of the region, and enhancement of industry clusters or supporting industries.
- c) Ineligible Uses of Loan Proceeds
 - i) Loans with significant risk of non-repayment;
 - ii) Payments for debt or to investors;
 - iii) Tax payments.
- d) Loan Terms and Conditions: Refer to Figure 1 below for loan guidelines:

Figure 1: Terms & Conditions for Loan Products

Term/Condition	Guidelines
Required Investment from Borrower	<ul style="list-style-type: none"> • Not required
Payment Schedule	<ul style="list-style-type: none"> • Varies
Loan Size	<ul style="list-style-type: none"> • Loans up to \$800,000 with exceptions as allowed by the Extraordinary Project criteria in section 37
Interest Rate	<ul style="list-style-type: none"> • Determined on a case-by-case basis
Term Length	<ul style="list-style-type: none"> • Determined on a case-by-case basis
Closing Costs	<ul style="list-style-type: none"> • Paid by borrower as needed
Prepayment Penalty	<ul style="list-style-type: none"> • None
Collateral Requirement	<ul style="list-style-type: none"> • Fully secured, with exceptions

- e) Exceptions (where indicated in Loan Terms and Conditions above) are made on a case-by-case basis only. To receive an exception, applicant must demonstrate that the loan is sufficiently low risk to merit an exception. If the loan is of sufficiently low risk and the project meets the goals of CIF, exceptions to the above guidelines may be considered.

28. Selection Criteria

- a) HFB will recommend to BOS a slate of CIF loans and/or grants for funding (see “CIF Project Selection Criteria” to be developed by HFB).

29. Application Process

- a) Applications will be accepted on an ongoing basis by Staff
- i) Applications for funding will include:
 - a) Application form;
 - b) Project plan: this should include information on the proposed project such as financial projections, justification of the project, project impacts/outcomes (e.g. jobs created/retained), and feasibility analysis;
 - c) Repayment statement: a statement that repayment of loan principal and interest will be guaranteed (e.g. “Full Faith and Credit” statement) by the government if possible. If a “Full Faith and Credit” statement is not possible, applicant should submit a detailed plan and certification to provide repayment under various scenarios; and
 - d) Bond rating and repayment history of borrower (if available).
 - ii) Staff will conduct any necessary interviews to gather additional information, if needed.
- b) Applications will be reviewed by Staff, with consultant assistance if needed, using the following underwriting guidelines where possible:
- i) Determination of financial health of the borrower. The borrower must remain fiscally solvent for the term of the loan in order to make debt payments:
 - a) Historical and projected revenues and expenses will be analyzed. Future revenue projections will include analysis of the tax base – businesses and labor force (age, education, skills, wealth, and income).
 - b) Credit ratings will be obtained, if available.
 - c) The proposed loan will also be compared to the total government’s budget to assess risk.

- ii) Examination of financial indicators: Staff will examine accounting and reporting methods, annual operating and budgetary performance, financial leverage and equity positions, and contingency financial obligations (e.g. pension liability funding). A balance sheet analysis will focus on liquidity, fund balance position, and the composition of assets and liabilities.
- iii) Analysis of Debt: An evaluation of debt factors will include key debt indicators like total outstanding debt, debt trends, debt repayment schedules, debt as a percentage of full property tax valuation, net per capita debt, and debt as a percentage of personal income. Staff will exercise caution for governments with total annual debt payment (typically for tax-exempt bonds) exceeding 5-7% of General Fund revenues.
- iv) Ensuring a repayment obligation. The borrower must be contractually obligated to repay the loan.
 - a) If a loan is to an agency or government jurisdiction with a segregated, limited budget that may be potentially be insufficient to cover debt payments, the parent government should be liable for debt repayments.
 - b) If a “Full Faith and Credit” type guarantee statement is not possible, applicant should submit a detailed plan and certification to provide repayment under various scenarios. Staff should consider other contractual requirements such as a Rate Covenant (borrower sets tax rates at the level needed for net revenues to cover debt service, plus other costs) and an Additional Debt Test (requires projected revenue from any new debt to exceed a certain debt coverage test).
- v) Review of project. Staff will review the project’s historical and future financial indicators (cash flows, operating costs, balance sheet, income statement) to determine if they are reasonable for project success and repayment. Projected cash flows should at least cover proposed debt service under different scenarios. The requested loan amount should be appropriate for the project. A determination of “essentiality” should be made; the greater the importance of the project to the government, the greater the chance for repayment.
- vi) If there is a significant chance the borrowing government agency will not repay the loan (due to future revenue shortfalls, borrower resistance to adequate contract language, etc.), a loan should not be made.
- vii) Collateral policy.
 - a) In general, loans must be secured with collateral. Exceptions to full securing can be made if the financial health and repayment obligation of the borrower are deemed sufficiently strong.
 - b) In general, the following guidelines will be used to discount collateral for first liens:
 - (1) Commercial real estate: 80% of value;
 - (2) Residential real estate: 90% of value;
 - (3) Machinery and equipment: 70% of value;
 - (4) Inventory and receivables: 40-60% of value.
- c) Staff will present the Loan Report for HFB review and approval. HFB will review CIF loans and grants in the same pool. The Loan Report will include:
 - i) Borrower’s name and contact information;
 - ii) Borrower’s application package;
 - iii) Summary of the project (e.g. use of funds, budget);
 - iv) Summary of organization (if applicable) and annual and historical budgets;

- v) Analysis of the borrower history and financial health (credit rating, repayment history, current and future financial health, etc.);
- vi) Eligibility for HWF funds (e.g. legal structure, job creation/retention/economic impact);
- vii) Loan terms (amount, interest, term length, equity investment, conditions, etc.);
- viii) Cash flow analysis and coverage (adjusted existing cash flow, projected cash flow) if applicable; and
- ix) Guarantors (if other government agency) including name and budget.
- d) HFB will pass a slate of recommended loans and grants to BOS for approval.
 - i) Applicant has no right to appeal the denial of a loan by HFB.
 - ii) Applicant has no right to appeal the denial of a loan by BOS.
- e) All applicants will be notified of final HWF decisions.

30. Loan Closing

- a) Closing documents will include:
 - i) Commitment Letter;
 - ii) Loan Agreement/Contract;
 - iii) Borrower's governmental authorization for borrowing and repayment guarantee;
 - iv) Borrower's opinion of counsel (if needed);
 - v) Note (outlines borrower's obligations);
 - vi) Insurance documents (as needed): hazard, liability, workman's compensation, life, flood, fire;
 - vii) Collateral documents;
 - viii) Miscellaneous documents (if needed): appraisal, borrower Board Resolution, Certificate of Occupancy, Architect's Certificate of Completion, Flood Zone Certificate, Judgment/tax lien searches, Partnership Agreement, Equal Employment Opportunity Statement, Closing Statement, environmental reviews, records of disbursement; and
 - ix) Other closing documents as HWF may require.
- b) Staff will provide borrower with a checklist outlining obligations under CIF loan program.

31. Loan Terms of Contract

- a) Payments
 - i) Loan payments are due on the first of each month. Typically, principal and interest payments will consist of equal monthly installments based on amortization of the loan over the loan term.
 - ii) Payments are deemed late if not made within 10 days of due date. Late payments will be assessed a \$50 penalty.
 - iii) Monthly payments are applied in the following order: first to the late payment penalties and collection fees, then to interest, then to principal.
- b) Fees
 - i) Loan fees to cover administrative and underwriting costs will be determined by HWF staff and Headwaters Fund Board.
 - ii) Servicing fees will be paid for by borrower.

32. Loan Disbursement and Servicing

- a) A Loan Servicer will service the loans. Borrower will sign the necessary documents prepared by Staff and Servicer for loan closing.

- b) The Servicer will conduct billing and collections. The Servicer will provide at least monthly reports (with payment records) that loan payments have been made and are current. Servicer will notify HWF Staff no later than 30 working days after a missed due date of a loan payment.
- c) Borrower reporting
 - i) The borrower shall provide HWF Staff and/or Servicer the following on a regular basis:
 - a) Financial statements of the project;
 - b) Project changes;
 - c) Insurance updates;
 - d) Other information as required to service and monitor the loan.
 - ii) HWF Staff, Staff representatives, or HFB may schedule site visits to the borrower's operations. HWF Staff and HFB may investigate and inspect any borrower documents at any time.
- d) HWF Staff will keep a loan file that will include:
 - i) Note, Loan Agreement/Contract, Loan Application Package, Insurance (if applicable), Loan Committee Report, Disbursements, Guaranties (if applicable), and other documents; and
 - ii) Original legal documents should be securely stored (e.g. locked in separate files).
- e) A Loan Tracking System will be organized by month (when payments are due) to track borrower due dates for insurance payments, taxes, financial statement updates, guarantor financial statements (if applicable), and Uniform Commercial Code renewal dates (if applicable). Parts of the Loan Tracking System may be maintained by the Loan Servicer.
- f) Delinquent and lost loans file
 - i) HWF Staff will keep a list of all loans deemed uncollectable or delinquent. Delinquent loan information will include Staff recommendations for action.
- g) Annual review
 - i) HWF Staff will conduct an annual review of each loan and borrower to determine:
 - a) Changes in borrower's position that could affect repayment;
 - b) Compliance with all loan covenants and conditions;
 - c) Material changes in collateral and guarantees (if applicable); and
 - d) Plans to address problems or potential problems with the loan.
 - ii) The review will consist of:
 - a) Collecting updated financial and other relevant information;
 - b) Performing updated credit checks (if applicable);
 - c) Checking in with borrower to check project status and other factors impacting repayment; and
 - d) Updating job creation/retention counts and/or estimates.
 - iii) If Annual Review uncovers any significant changes or problems, HFB will review and recommend any remedies to these problems to BOS for action.

33. Troubled Loan Guidelines

- a) HWF Staff will work with the Servicer to take appropriate steps to address delinquent payments or loan defaults.
- b) Servicer must notify HWF Staff of delinquent loans within 30 business days following Servicer knowledge of delinquency. All payment past due 30 days or more will be reported by Servicer and Staff to HFB on a monthly written past due report.

- c) In the event that loan payments are more the 30 business days late, Servicer will call the Borrower and ascertain why the payment is late and get a commitment for payment. The Servicer will maintain a log of all verbal and written communication about the past due payments. Penalty fees can be assessed in compliance with loan documents and state laws. HFB can waive a late fee, under appropriate circumstances.
- d) If payment has not been received 30 days after the due date, the Servicer or Staff will follow up with a letter stating the amounts past due and explaining that the borrower is in default. In cases where the loan was closed within the last six months, Servicer/HWF Staff may make a site visit.
- e) If payment has not been received by the 45th day, the Servicer will call the borrower a second time and may follow up with a site visit. Additional sureties to the loan may be informed of the past due situation at this point.
- f) By the 60th day of a late payment, HWF staff will schedule a site visit and meeting with the borrower. The goal of this meeting will be to develop an agreed upon payment plan to get the borrower current.
 - i) If applicable, Staff will double check that all collateral documentation are in place and in order and that all insurances required by borrower are in place.
 - ii) After the meeting with the borrower, the loan monitoring Staff will make a full report to HFB (to be heard at the next scheduled meeting) detailing the nature of the problem and making recommendations.
 - iii) HWF Staff will develop a strategy for further action, including:
 - a) Loan re-structuring;
 - b) Strategy to liquidate the collateral;
 - c) Notice of default and the intention to foreclose;
 - d) Further forbearance of action based upon certainty of repayment and confidence of operations; and
 - e) Sending the loan to the collection agency.
- g) Foreclosure Policies
 - i) In most instances a straight foreclosure will be viewed as the last option. There are, however, instances when foreclosure is the best option and the only remedy to a deteriorating situation. Foreclosure may only take place upon the recommendation of Staff and HFB, and approval by BOS.
 - ii) All foreclosure proceedings and actions should be done in such a way as to provide maximum protection for HWF.
 - iii) Collateral liquidations must attempt to cover the cost of the outstanding loan principal, any accrued interest owed to the lenders, and the transaction costs of liquidation (i.e. legal, marketing, Staff time).
 - iv) In the event that the foreclosure proceeds do not cover the outstanding loan amounts due and the cost of the collection, the proceeds will be disbursed in the following order:
 - a) First, collection costs; and
 - b) Second, loan amounts due CIF.

34. Conflict of Interest Policy

- a) This Policy covers economic conflicts of interest (as defined in California Government Code 8100 et. seq.; and Humboldt County Ordinance) and other conflicts of interest. Any HFB Member or HWF Staff who has an interest in a contract or other transaction presented to HFB or a committee thereof for authorization, approval, or ratification shall make a prompt and full disclosure of his/her interest to HFB or committee prior to its

acting on such contract or transaction. Such disclosure shall include any relevant and material facts known to such person about the contract or transaction and the nature of the potential conflict. Said person will recuse himself/herself from decision-making, voting, and using personal influence in the discussions with respect to such contract or transaction. Such person may be counted in determining whether a quorum is present for the Board meeting but may not be counted when the Board or a committee of the Board takes action on the transaction. The minutes of the meeting shall reflect the disclosure made, the vote thereon, the abstention from voting and participation, and whether a quorum was present.

35. Portfolio Management Guidelines

- a) Target default and loss rates: Because the CIF lends only to governments for approved projects, the target default and loss rates are no more than 1%.

36. Financial Management

- a) Fund Report
 - i) Staff, using information from Loan Servicer, County Treasurer-Tax Collector and County Auditor, will prepare monthly fund balance reports to monitor monthly fund balance, principal and interest recaptured, disbursements, funds committed, and CIF funds available.
- b) Loan Portfolio Report
 - i) Staff will work with Servicer to prepare quarterly summaries of outstanding and authorized loans including the last payment date, loan balance, and delinquent loan reports and action plans. HFB will review any loan delinquencies and defaults, and make recommendations to BOS as needed.

SECTION 3: EXTRAORDINARY PROJECT

37. Extraordinary Project

- a) Although ineligible according to Headwaters CIF, Grant Fund, and Revolving Loan Fund criteria, an extraordinary project providing extraordinary economic benefit to Humboldt County may still be eligible for Headwaters Funding. This Extraordinary Project must pass the following levels of approval:
 - i) Staff and HFB recommendation; and
 - ii) BOS super-majority vote approval (i.e. approval by at least four out of the five Board of Supervisors).
- b) Selection criteria:
 - i) The project must demonstrate a total economic benefit that significantly exceeds the economic benefit from using twice the amount of funds for the Revolving Loan Fund, CIF, or Grant Fund; whichever of the three Funds that would be appropriate and/or most impacted would be the standard against which to judge the Extraordinary Project. In other words, if the Extraordinary Project requests \$1 million, its total economic benefit must exceed using \$2 million for Revolving Loan Fund, CIF, or Grant Fund investments;
 - ii) The calculation of total economic benefit should include measures such as County-wide direct and indirect job creation/retention, wealth generation, workforce development, and business development; and
 - iii) No alternative sources of funding should be readily available.

- c) Government jurisdictions and non-profit organizations are eligible to apply.
- d) Businesses, individuals, and political lobbying groups are ineligible to apply for funding.
- e) Under no circumstances can the Extraordinary Project include using Headwaters Fund money for general County government funding.