



COUNTY OF HUMBOLDT

For the meeting of: 6/4/2024

File #: 24-772

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Time Certain Matter

Vote Requirement: 4/5th

SUBJECT:

10:30 AM - Receive Updates on Headwaters Fund Activities; Approve Extensions and Modifications to the Headwaters Fund Master Participation Agreements; Ratify Previous Agreement Amendment Dates; and Authorize Loan Participation of \$2,000,000 of Headwaters Funds to Support Life Plan Humboldt (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive partner updates on Lending Activity through the Headwaters Fund Revolving Loan Fund;
2. Approve the 5th Amendment to the Redwood Region Economic Development Corporation's (RREDC) Headwaters Fund Lender Agreement to extend the agreement term to June 30, 2026 and increase funding available to \$4,000,000 (Attachment 1);
3. Approve the 3rd Amendment to Arcata Economic Development Corporation's (AEDC) Headwaters Fund Lender Agreement to extend the agreement term to June 30, 2026 and increase funding available to \$5,000,000 (Attachment 2);
4. Ratify effective dates of previous amendments to the Headwaters Fund Lender Agreements and Headwaters Fund Master Participation Agreements as described below; and
5. Authorize AEDC and RREDC to collectively draw \$2,000,000 from the Headwaters Revolving Loan Fund to participate in interim financing for Life Plan Humboldt (4/5th vote required).

STRATEGIC PLAN:

This action supports the following areas of your Board's Strategic Plan.

Area of Focus: A Diverse, Equitable & Robust Economy and Housing for All

Strategic Plan Category: 2001 - Promote strong economic resiliency and growth and 4002 - Increase and prioritize housing development

DISCUSSION:

This item is being brought forward for your consideration in order to support the objectives of the Headwaters Fund Charter and the Board of Supervisors Strategic Framework as it relates to the Headwaters Fund. The item before you today is a recommended action by the Headwaters Fund Board in order to continue supporting the Headwaters Revolving Loan Fund, encourage continued collaboration on lending activities with partner agencies, and increase the economic impact of the Headwaters Fund on the County of Humboldt. The objectives of this item are as follows:

- To extend the current Lender Agreements with AEDC and RREDC which authorize continued loan activity through June 30, 2026;
- To increase the funding available to Headwaters Fund lending partners for use in new loans;

- Clarify the timeline of Modifications to the Headwaters Fund Revolving Loan Fund Lender and Master Participation Agreement; and
- Seek 4/5th approval by the Board of Supervisors to authorize a total of \$2,000,000 of Headwater Funds participation into a loan for Life Plan Humboldt
 - This requires 4/5th vote per the Headwater Fund Revolving Loan Manual as it exceeds \$800,000 for a single borrowing entity and as the loan is structured, it also exceeds the standard match requirement made by AEDC and RREDC funds of a one-to-one contribution for every dollar of Headwaters funding committed to a loan.

Term Extension:

The agreements with Arcata Economic Development Corporation (AEDC) and the Redwood Region Economic Development Commission (RREDC) for loan service activity associated with the Headwaters Fund are set to expire on June 30, 2024. During the Feb. 13, 2024, Headwaters Fund Board meeting the Headwaters Fund Board took action which directed Economic Development staff to bring an item to the Board of Supervisors seeking a two-year extension to the existing agreements. The Headwaters Fund Board also directed staff to begin documenting suggested edits to the Lender Agreements, Master Participation Agreements, and Revolving Loan Fund manual to reduce ambiguity arising from non-industry language, improve county processes, and facilitate greater lending activity.

The two-year extension will allow staff sufficient time to make such changes while allowing Revolving Loan Fund Activities to continue uninterrupted.

Increase in Lender Pool Funding:

During the March 12, 2024, Headwaters Fund Board meeting, the Headwaters Fund Board took action to direct Economic Development staff to seek an increase in the amount of funding available to each entity based upon conversations with the lenders about their potential need for greater funding, the loan pipeline each was looking at, and the desire of the Headwaters Fund Board to increase the loan portfolio.

The Headwaters Fund Board is requesting an increase from \$3,500,000 in available funds for each lender to \$5,000,000 for AEDC and \$4,000,000 for RREDC. The disparity between the two amounts is driven by a greater immediate need by AEDC for loans in process. Currently there are several million dollars of loans in the pipeline between these two entities which could be supported by county investment through participation agreements.

- Outstanding principal: \$5.7 million
- Expected need for Headwaters Fund in the upcoming months: \$2.5 million
 - (One additional large loan is omitted here as the lender is still reviewing the application but Headwaters Fund may be called upon to participate)
- Capacity Gap: \$1.2 Million
- Cash Balance in Revolving Loan Fund: \$3,887,685 (some transactions still pending posting)

By providing an increase to the level of funding available for participation in loans, the county can support all current needs by our lenders and facilitate additional capacity for future loans which have historically provided the greatest rate of return on investments for the Headwaters Fund and some of the greatest economic impacts.

Ratification of Effective amendments dates:

During the Covid 19 pandemic, the Headwaters Fund amended the agreements to AEDC and RREDC to provide rapid funding to local businesses. Due to massive disruptions to the county's operations during the disaster relief efforts, these agreements were executed after the fact. Staff brought an item forward on Aug. 16, 2022, to resolve this issue and make subsequent edits to the agreements. The 3rd Amendment to the RREDC Lender Agreement was unexecuted due to errors at the time and resolved through Resolution 22-96 on Aug. 16, 2022. Staff are seeking ratification of the effective dates of the attached amendments and resolutions in today's item to reduce confusion over the effective dates of the agreements between entities.

- RREDC Original Lender and Master Participation Agreements-Executed 4/18/14
- RREDC Lender Agreement First Amendment-Executed 5/31/16
- RREDC Lender Agreement Second Amendment-Executed 6/18/19

- RREDC Lender Agreement Third Amendment-Unexecuted (Resolved through Resolution 22-96)
- RREDC Lender Agreement Fourth Amendment-Executed 8/16/22
- RREDC Master Participation Agreement First Amendment 3/20/20
- RREDC Master Participation Agreement Second Amendment 8/16/22
- AEDC Original Lender and Master Participation Agreements-Executed 4/8/14
- AEDC Lender Agreement First Amendment-Executed 6/18/19
- AEDC Lender Agreement Second Amendment-Executed 3/20/20
- AEDC Master Participation Agreement First Amendment-Executed 3/20/20
- AEDC Master Participation Agreement Second Amendment-Executed 8/16/22

Life Plan Humboldt Loan Proposal:

On May 20, 2024 the Headwaters Board approved by majority vote a request from AEDC to recommend participation by the Headwaters Fund Revolving Loan Fund in the amount of \$2,000,000 to support the total predevelopment financing need of \$9,700,000 for a mixed income retirement community in McKinleyville. This project would be matched with \$2,600,000 in borrower funds, \$1,000,000 from the Humboldt Area Foundation(HAF), \$500,000 from AEDC, \$500,000 from RREDC, and the remaining \$2,700,00 is being raised through fundraising and other foundation involvement which is ongoing.

AEDC has been working to support the mixed income retirement community development in McKinleyville through Life Plan Humboldt. AEDC has proposed an interim financing investment by the Headwaters Fund of \$2,000,000, at a rate of 7.5% interest only, in the project to support the acquisition of the property in question and support various predevelopment activities and operational costs until full financing is secured. Development of the property will include approximately 168 senior residential units, various on-site amenities, a subdivision supporting 60 units of affordable housing, and approximately 40 full time positions supporting Life Plan Humboldt. Repayment of the loan will be made through a balloon payment made possible by bond financing of \$134,290,000 which will be facilitated by Greenbrier Development LLC.

This loan is being collateralized though a first position lien on the property and a California Infrastructure and Economic Development Bank loan guarantee covering 80% of the total outstanding principal after liquidation of collateral, up to \$5,000,000 million dollars. Total county exposure in the event of a default is approximately \$318,000 after the sale of the property at a discount of 50% and calling in the guarantee. This risk is mitigated by the annual interest revenues on the loan which should yield \$120,000 annually for the HWF. Funds will be drawn incrementally by the borrower as need arises with full deployment occurring around 6 months from the execution of the agreements. Should the loan default it is expected that the Headwaters Fund will be made whole with the interest earnings in mind. For full details of the loan see AEDC’s write up and proposal. (Attachment 17)

This proposal exceeds the \$800,000 cap any single borrower may receive in Headwaters Fund through our standard participation agreements and as total Headwaters Funds also exceed the match being brought into the project by AEDC and RREDC. Either of these issues would prevent the Headwaters Fund from participating unless it met the Extraordinary Project Criteria and receives a 4/5’s vote by the Board of Supervisors.

This investment is allowable under the Extraordinary Project Criteria clause of the Revolving Loan Fund Manual (Attachment 18, page 17) as the investment of \$2,000,000 will have a far greater impact than the \$2 economic impact per \$1 of Headwaters Fund participation. Through an investment of \$2,000,000 (@21% of the total loan) the Headwaters proportionate impacts are as follows:

Economic Impact	Total Impacts	HWF Proportion
Loan Size	\$ 9,700,000.00	\$ 2,000,000.00 21%
Bonds Secured	\$ 134,290,000.00	\$ 27,688,659.79
Jobs	40	8
Senior Housing Units	168	35
Affordable Housing Subdevelopment	60	12

Staff are seeking authorization for the Headwaters Fund to:

1. Enter into a participation agreement with RREDC in the amount of \$500,000, matched with

\$500,000 of RREDCs funds with standard interest splits in place (lender retains 40% of county's interest to underwrite and service loans); and

2. Enter into a participation agreement with AEDC in the amount of \$1,500,000, matched with \$500,000 with AEDC's funds with standard interest splits in place on the initial \$500,000 (lender retains 40% of the county's interest to underwrite and service loans) and the full interest remitted to the county for the remaining \$1,000,000.

SOURCE OF FUNDING:

Headwaters Revolving Loan Fund (3843)

FINANCIAL IMPACT:

Narrative Explanation of Financial Impact:

There is little financial impact to the county as a result of this action and it is restricted to the Headwaters Fund. Currently, the Revolving Loan Fund has sufficient cash balance to support the increase to the lending pool for AEDC and RREDC participation agreements. These funds earn a small of interest based upon the County Pooled Investment Rate and interest is apportioned quarterly and deposited into the Liquidity Fund for future grant and lending activity. By allocating additional funds to the RLF lenders and facilitating the loan to Life Plan Humboldt, your Board will positively influence the earning potential of the Headwaters Fund and increase the amount of county funding working in the community.

STAFFING IMPACT:

Narrative Explanation of Staffing Impact:

The staffing impacts related to this decision will be minimal and fall within existing staff purview for the program as Headwaters involvement is limited to that of participation in the loan. The loan will be administered by AEDC and RREDC.

OTHER AGENCY INVOLVEMENT:

Arcata Economic Development Corporation (Local Nonprofit Lender)
Redwood Region Economic Development Commission (Humboldt County JPA and Lender)
Life Plan Humboldt (Local Nonprofit)

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board Discretion

ATTACHMENTS:

1. RREDC Lender Agreement Fifth Amendment- Signed By RREDC
2. AEDC Lender Agreement Third Amendment- Signed by AEDC
3. AEDC Original Lender and Master Participation Agreements-Executed
4. AEDC Lender Agreement First Amendment-Executed
5. AEDC Lender Agreement Second Amendment-Executed
6. AEDC Master Participation Agreement First Amendment-Executed
7. AEDC Master Participation Agreement Second Amendment-Executed
8. Resolution No. 22-95
9. RREDC Original Lender and Master Participation Agreements-Executed
10. RREDC Lender Agreement First Amendment-Executed
11. RREDC Lender Agreement Second Amendment-Executed
12. RREDC Lender Agreement Third Amendment-Unexecuted
13. RREDC Lender Agreement Fourth Amendment-Executed
14. RREDC Master Participation Agreement 1st Amendment
15. RREDC Master Participation Agreement 2nd Amendment
16. Resolution No. 22-96
17. Life Plan Humboldt Loan Evaluation and Proposal
18. Headwaters Fund Revolving Loan Fund Manual

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PREVIOUS ACTION/REFERRAL:

Meeting of: 8/16/22, 10/27/20, 5/16/20, 4/28/20, 6/18/19, 5/31/16, 4/22/14

File No.: 22-781, 20-1274, 20-598, 20-411, 19-792, 16-3787, 16-0187