



COUNTY OF HUMBOLDT

For the meeting of: 6/18/2019

File #: 19-792

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Consent

SUBJECT:

Approval of Headwaters Fund Revolving Loan Fund Contract Extensions to Arcata Economic Development Corporation and Redwood Region Economic Development Commission

RECOMMENDATION(S):

That the Board of Supervisors:

1. Review and approve the Headwaters Fund (HWF) Revolving Loan Fund (RLF) lender agreements with the Arcata Economic Development Corporation (AEDC) and the Redwood Region Economic Development Commission (RREDC) through June 30, 2024;
2. Authorize and direct the Chair of the Board to sign the lender agreements between the county and both AEDC and RREDC (Attachments 1 and 2); and
3. Authorize that any consent or approval in these agreements required of county, the HWF Board, or the HWF staff, may be exercised by the County Administrative Officer or, upon the County Administrative Officer's written authorization, by the HWF Coordinator.

SOURCE OF FUNDING:

Headwaters Revolving Loan Fund, Fund 3843

DISCUSSION:

On November 5, 2002 the Board of Supervisors approved issuing a Request for Proposals (RFP) for loan services for the Headwaters RLF. On April 22, 2003, the Board allocated \$8 million to the RLF from the original Headwaters funds. The Board approved a lender agreement with Arcata Economic Development Corporation (AEDC) on September 14, 2004, extended it on December 11, 2007, and approved a new contract on July 1, 2010. Your Board approved a three-month extension of this contract to September 30, 2013. Under the lender agreement, AEDC could access up to \$3 million. Similarly, Redwood Region Economic Development Commission (RREDC) was under contract to be a lender for the RLF and could access up to \$3.5 million.

Your Board approved the original lender agreement with RREDC on July 8, 2003, extended it on March 30, 2004, and again on December 11, 2007, and approved a new contract on July 1, 2010. On February 7, 2012, your Board also approved an increase in the allowable cap on the loan funds that

RREDC could access from \$3 million to \$3.5 million. On June 18, 2013, your Board extended the agreement with RREDC to September 30, 2013. The agreements to both organizations expired on September 30, 2013.

In order to increase the opportunities for community partners to work with the Headwaters Fund RLF and in order to increase loan returns to the fund, your Board authorized the issuance of an RFP on November 5, 2013. That RFP closed on January 31, 2014, with two qualified respondents.

The two respondents were AEDC and RREDC. Each organization proposed two basic changes in terms for the loan program. In the past the loans were underwritten and serviced in exchange for 40% of all interest earned on the Headwaters portion of the loan. The first change was to decrease the amount of interest each organization earned on the Headwaters portion of loans under \$150,000 from 40% to 35%. The second change was that for loans over \$150,000, Headwaters would earn 7% of the annual rate, and the loan servicer would earn 1%. Staff and Headwaters Fund Board Loan Committee reviewed these RFP responses and went back to AEDC and RREDC with two stipulations:

1. That the amount of the loan portfolio that is in loans under \$150,000 be capped at 25% of the total portfolio, based on capital amount. This stipulation could be waived in certain circumstances with prior Headwaters Fund Loan Committee approval; and
2. With the loans that are less than \$150,000, interest and principal payments would be primary over financing fees.

AEDC and RREDC agreed to these terms and agreed that contract language would reflect each organization's ability to access up to \$3.5 million in total loan funds on an availability basis. AEDC and RREDC would not be guaranteed \$3.5 million in loan funds if other loan opportunities come to Headwaters in the interim.

The RLF was designed to provide financing to a wide range of businesses to fill the gaps in the market for available financing. The hope with issuing the RFP was to find additional lending partners to provide economic development financing. Feedback from some local lenders was that they did not need additional capital for loan making. Other lenders did not have the underwriting capacity but might still end up working with AEDC or RREDC to access Headwaters loan funds as partners.

The current contracts, which expire on June 30, 2019, were approved by your Board on April 22, 2014. On May 21, 2016, the lender agreement with RREDC was amended to reflect RREDC's use of funds as match for grant funds from the U.S. Economic Development Administration (EDA).

On May 28, 2019, the Headwaters Fund Board voted unanimously to recommend extending the agreements with AEDC and RREDC through June 30, 2024.

FINANCIAL IMPACT:

There is no financial impact to the county General Fund. Approval of these contract extensions should continue to have a positive impact on the Headwaters RLF. Interest earning from the RLF provides funding for Headwaters Grant Funds and administration of the funds.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by supporting business, workforce development and creation of private-sector jobs , and encouraging new local enterprise.

OTHER AGENCY INVOLVEMENT:

Arcata Economic Development Corporation
Redwood Region Economic Development Commission

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Your Board could choose not to approve these contract extensions. This is not recommended as the current contracts have performed per the terms of the agreements with both entities, AEDC and RREDC, and there is not currently a vehicle for deploying additional loan funds into the community.

ATTACHMENTS:

Attachment 1: First Amendment to AEDC RLF Agreement (contract extension)
Attachment 2: Second Amendment to RREDC RLF Agreement (contract extension)
Attachment 3: AEDC RLF Lender Agreement, Master Participation Agreement, & AEDC Loan Policy Manual
Attachment 4: RREDC RLF Lender Agreement and First Amendment, Master Participation Agreement, RREDC/EDA Revolving Loan Fund Plan
Attachment 5: Headwaters Fund RLF Manual Revised 2-7-12
Attachment 6: HWF (draft) Board Minutes May 28, 2019

PREVIOUS ACTION/REFERRAL:

Board Order No.: N/A
Meeting of: N/A
File No.: N/A