



COUNTY OF HUMBOLDT

For the meeting of: 8/16/2022

File #: 22-781

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Consent

SUBJECT:

Amendments to the Headwaters Revolving Loan Fund Master Participation and Lender Agreements with Redwood Region Economic Development Commission (RREDC) and Arcata Economic Development Corporation (AEDC)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Approve a resolution authorizing the Board Chair to sign the RREDC Second Amendment of the Master Participation Agreement and the Fourth Amendment to the RREDC Lender's Manual; and
2. Approve a resolution authorizing the Board Chair to sign the AEDC Second Amendment of the Master Participation Agreement.

SOURCE OF FUNDING:

Headwaters Fund (1120286)

DISCUSSION:

The Headwaters Fund (HWF) board has supported economic development in Humboldt County through the efforts of the Revolving Loan Fund, Community Investment Fund and Grant Fund initiatives since its inception. To support these efforts, the county has contracted with RREDC and AEDC to underwrite and service loans facilitated by the HWF. Staff is bringing forward two resolutions (Attachments 1 & 2) which if approved will result in the amendment to the Lenders Agreement (LA) with RREDC and Master Participation Agreements (MPA) with RREDC and AEDC.

The objective of the amendment to the RREDC LA (Attachment 3) is to resolve a minor issue over Emergency COVID Loans issued in 2020 as well as return of funding to the county distributed through Emergency COVID Loans. The objective of the amendments to the MPA's is to encourage RREDC to use HWF for local loans over alternative sources of capital available to lenders which will result in greater returns for the HWF.

RREDC LA Amendment:

In response to the COVID-19 pandemic and shelter in place orders issued by the state, staff from HWF, RREDC, AEDC, various cities, several chambers, and non-profit foundations met to discuss the best way to provide immediate aid to local businesses who were facing immediate closure, massive layoffs, and risk of insolvency resulting from the shelter in place orders impact on business operations.

It was decided low interest loans with payment and interest deferment and to agree collectively on these terms to minimize competition and encourage expedient lending. This was brought before the HWF board who approved recommendations to your Board. Your Board approved this temporary modification to the LA on April 28, 2020 and extended these agreements on Oct. 27, 2020 when it became apparent the COVID-19 pandemic was going to be longer lasting than original estimates.

During a recent staff review of the loan portfolio, it was determined that the individual participation agreements for these Emergency COVID Loans were set at 2.5% fixed rather than the variable rate previously approved by the Board. Upon discovery of these issues, county staff reached out to the RREDC Executive Director to begin correcting the issue.

RREDC Executive Director proposed that RREDC repurchase the loans and all accrued interest effective April 30, 2022, under the existing terms rather than force borrowers still in significant financial strain to renegotiate rates. While many borrowers have been paying regularly, many are still having difficulty making regular payments and two loans are at risk of being written off which would cost the HWF approximately \$15,000. Recovery of these two loans is unlikely due to waived collateral requirements.

On May 23, 2022, RREDC submitted a check to the county in good faith for the total of the Emergency COVID Loans and accrued interest totaling \$129,868.33 which totals the outstanding loans.

By amending the LA and allowing RREDC to repurchase these loans, we are reducing the county's financial risk and staff burden at both organizations due to lengthy reporting requirements. This resolution would remove unsecured debt from the county's accounts and empower RREDC to continue offering reasonable terms to these borrowers who are still recovering from the COVID-19 pandemic.

RREDC and AEDC MPA Amendments:

Over the years, modifications to the county's MPAs have been made and some have hindered the ability of lenders to make use of HWF dollars. In 2014 amendments to the MPA with RREDC and AEDC were approved requiring that no more than 25% of their total loan portfolio using the HWF be of loans under \$300,000. The amendment also reduced the portion of interest retained by lenders from the counties share from 40% to 35% on loans under \$300,000 or an annual service fee of 1% on the unpaid balance for loans over \$300,000.

The goal of the above actions was to increase revenues for the HWF, increasing the corpus of the fund and facilitating further grants and loans. This unintentionally caused the following issues:

- AEDC had a loan portfolio almost perfectly opposite the new requirements which has left AEDC in difficult position and unable to offer new loans, out of fear of furthering the

imbalance.

- Given other sources of financing for business loans, the HWF has been given significantly lower priority when considering loan packaging by lenders.
- Once individual loan balances using HWF dollars dropped below \$300,000 on large loans, lenders are required to continue servicing the loans at a much lower rate of return than those initially offered at \$300k or less.

These issues have made it difficult for lenders to make new loans using the county's HWF funding and limited the number of new loans being made.

The Executive Director of AEDC, brought these issues to the HWF board who took unanimous action to recommend the MPA's be amended to remove the requirement of loan size and simplify the interest split to 40% lender, 60% county (Attachments 4 and 5). By providing ease of access to capital, the county is encouraging AEDC and RREDC to make further use of the HWF, which has a direct impact on the community through the retention, expansion, and creation of jobs and businesses.

FINANCIAL IMPACT:

This action will have no impact on the General Fund. Financial impacts to HWF include staff time to draft this item, but also protects the corpus from unsecured debt.

All modifications to lender terms will impact future loans only and by bolstering incentives to make use of the HWF, it is anticipated that it would have a positive impact on HWF revenues. Staff for the HWF board would like to see as little idle funding as possible given the low rate of return on publicly held funds at the county's pooled investment rate.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by engaging in discussions of our regional economic future encouraging new local enterprise, supporting business, workforce development and creation of private-sector jobs and managing our resources to ensure sustainability of services

OTHER AGENCY INVOLVEMENT:

Redwood Region Economic Development Commission (RREDC) Arcata Economic Development Corporation (AEDC)

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The Board could choose not to approve part or all of the resolutions before you today. However, this is not recommended.

Should the resolution and RREDDC Lender Agreement amendment not be approved, the county would need to enter negotiations with RREDC regarding the interest rates and repayment of the COVID loans.

Should the Master Participation Agreement amendments not be approved, our lenders will be limited in their ability to utilize county funds, which would result in a larger portion of the Headwaters Fund

remaining idle and limiting earnings to that of the county pooled investment rate.

ATTACHMENTS:

Attachment 1 - Resolution Re AEDC Amendments

Attachment 2 - Resolution Re RREDC Amendments

Attachment 3 - AEDC 2nd Amendment to Master Participation Agreement

Attachment 4 - RREDC 2nd Amendment to Master Participation Agreement

Attachment 5 - RREDC 4th Amendment to Lender Agreement

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-6, C-14, H-1, C-7, C-10

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

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