



COUNTY OF HUMBOLDT

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Title: Headwaters Fund Board's Recommended Temporary Amendments to the Headwaters Fund Revolving Loan Fund in Response to COVID-19 Business Needs, Including Advancing Funds to Headwaters Fund Approved Lender, Supplemental Budget and Appropriation Transfer (4/5 Vote Required)

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Date	Ver.	Action By	Action	Result
4/28/2020	1	Board of Supervisors	approved	Pass

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

SUBJECT:

Headwaters Fund Board's Recommended Temporary Amendments to the Headwaters Fund Revolving Loan Fund in Response to COVID-19 Business Needs, Including Advancing Funds to Headwaters Fund Approved Lender, Supplemental Budget and Appropriation Transfer (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Review and approve Amendments to the Headwaters Fund (HWF) Revolving Loan Fund (RLF) Lender Agreements with Arcata Economic Development Corporation (AEDC) and Redwood Region Economic Development Commission (RREDC), and Amended HWF Master

Participation Agreements with AEDC and RREDC;

2. Approve Resolution 20-_____ adopting revised Headwaters Revolving Loan Fund Manual to increase access to RLF funding for small businesses in light of County of Humboldt's Shelter in Place Order issued on March 20, 2020 and Local Emergency issued on March 30, 2020 due to the COVID-19 pandemic;
3. Approve increasing capital availability to AEDC and RREDC from current allocations of \$3.5 million each to an amount not to exceed \$5.5 million to either organization. An additional \$2,000,000 in capital to be provided on an "as-needed" basis for both organizations to assist the immediate needs of businesses in the County of Humboldt as a result of the COVID-19 Local Emergency;
4. Ratify emergency advances of RLF funds of \$1,000,000 to AEDC and \$500,000 to RREDC and authorize additional advances of up to \$500,000 on as-needed basis as determined by HWF Executive Director and approved by County of Humboldt County Administrative Officer (CAO);
5. Authorize emergency advance of additional \$1,000,000 to AEDC for loans made in the US Small Business Administration (SBA) Paycheck Protection Program (PPP); a 100% SBA guarantee program;
6. Authorize the Auditor/Controller to transfer \$2,000,000 from Headwaters Funds Fund-3846 (Community Investment Fund or CIF) to Fund-3843 (RLF) for additional lending capacity for AEDC and RREDC; comprised of \$1,000,000 for RLF lending and \$1,000,000 for PPP lending (AEDC would also be allowed to use its RLF funds for PPP at their discretion); and,
7. Authorize the Chair of the Board to sign the HWF-RLF Agreement Amendments for AEDC and RREDC.

SOURCE OF FUNDING:

Headwaters Fund Fund-3846 and Fund-3843

DISCUSSION:

The COVID-19 pandemic has created an immediate need for businesses in the County of Humboldt to receive short-term funding to stay viable. The county, through the HWF RLF, has existing lender agreements with AEDC and RREDC to provide gap financing for businesses located in the county. The recommended use of HWF funds are permissible pursuant to the Extraordinary Project criteria set forth in the HWF Charter, section 2151-2(d) of the Humboldt County Code.

The current process for RLF funding requires each loan made by AEDC and RREDC to be funded through the county's defined payment process. Each RLF loan is processed individually requiring preapproval by the HWF Executive Director (HWF-ED), CAO and Auditor-Controller's Office. The authorization process takes valuable time that businesses currently do not have due to the COVID-19 emergency.

The HWF Board recommends your Board approve modifying the RLF Program guidelines and documents as attached to increase loan access by: lowering the minimum loan amount, allowing lower interest rates, providing deferred loan payments, permitting loans to be used for taxes at lender discretion, and reducing the level of matching funds required from lenders. A summary of the changes

is attached. These changes are authorized under the Extraordinary Project rules.

The HWF also recommends your Board ratify emergency advances of RLF funds of \$1,000,000 to AEDC and \$500,000 to RREDC made on April 8, 2020 and authorize additional advances of up to \$500,000 on as-needed basis as determined by HWF Executive Director and approved by County of Humboldt County Administrative Officer (CAO).

The modifications recommended here will be in effect for six months from April 28, 2020 and retroactive to March 20, 2020, the date of the county’s Shelter in Place Order. The changes will be reviewed by HWF staff prior to the end of six months to determine if additional time will be needed to assist local businesses to make it through this economic downturn.

The Humboldt Area Foundation (HAF), City of Arcata, and City of Fortuna are providing funds to AEDC and RREDC for loans that can be used as match for loans made with HWF and Lender’s funds. The joint effort by all six entities are referring to this effort as the Small Business Resiliency Loan Fund (BRELf).

However, the BRELf is actually comprised of separate agreements which the cities and HAF have made with AEDC or RREDC. The HWF RLF is solely between the HWF and both AEDC and RREDC. In the case of the two cities, funding will be specifically for loans made within their cities. Amounts of funding available as of April 14, 2020, were as follows:

<u>Participants</u>	<u>Amount</u>	<u>Purposes</u>
AEDC - funds dedicated to *SBA-PPP	\$4,000,000	*PPP
RREDC	\$500,000	Direct Loans
Humboldt Area Foundation	\$500,000	Match to RREDC
City of Arcata	\$250,000	Loan Loss Reserve/Match
City of Fortuna	\$150,000	Match to RREDC
Additional Headwaters Fund	\$2,000,000	Match to AEDC/RREDC
<u>Headwaters Fund - available as of 3/20/20</u>	<u>\$3,000,000</u>	<u>Match to AEDC/RREDC</u>
Total	\$10,400,000	

*US Small Business Administration (SBA) Paycheck Protection Program (PPP)

Of the total amount committed from the Community Investment Funds (CIF) \$1,000,000 is specifically for AEDC-SBA-PPP loans.

AEDC and RREDC each have long-standing relationships with the county as RLF lenders, and as such provide an effective mechanism to assist businesses in need. This funding is being provided with the anticipation that many of the loans made will be repaid through loans businesses receive from the SBA or private sector lenders. A combination of SBA loans and possibly grants will take time for the federal government to process and fund. AEDC is a Preferred Lender under the SBA 7-A Program, and as such is authorized to make loans under the SBA’s new PPP. The 7-A Program provides partially forgivable loans. The loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 8-week period after the loan is made as long as employee and compensation levels are maintained. The 7-A Program is structured to assist businesses in retaining employees. There are rules

that businesses must follow in order to have portions of their loans forgiven. Loan payments will be deferred for six months.

Lenders making loans under the SBA-PPP receive a 100% guarantee on each loan. The loans are repaid by the SBA in 2 to 6 months, are for amounts up to \$10 million, are at 1% interest and have a maximum term of 2 years. AEDC has set a loan limit of \$250,000 to assist as many local businesses as possible. AEDC serves multiple counties. The RLF funding would solely serve businesses located in Humboldt County as defined in the RLF Lender Manual as revised. Loan underwriting and servicing fees are paid by SBA to the lender.

HWF funds, in combination with funds provided by the other organizations, have and will continue to make cash available to businesses within days of application. The process has been simplified by utilizing a reduced application form for loans of \$25,000 or less.

The Second Amendment to the AEDC Lender Agreement and Third Amendment to the RREDC Lender Agreement are attached as Attachments-1 and 2 respectively. The amended Master Participation Agreements (MPA) for each organization are also attached, Attachments-3 and 4 respectively. The 2014 MPA's (last revisions) are attachments 5 and 6, AEDC and RREDC.

The Headwaters RLF Lender Manual, as currently amended and which applies to both AEDC and RREDC, is Attachment-7, redline version is Attachment-8. The corresponding Resolution to the amended RLF Lender Manual is Attachment-9.

The approved minutes from the Headwaters Fund Special Board Meeting on March 27, 2020 is Attachment-10 and Draft Minutes from HWF Regular Board Meeting on April 14, 2020 is Attachment-11.

Attachment-12 is a spreadsheet comparing recommended changes to loan terms, rates and additional information. The spreadsheet summarizes the major changes being requested to assist AEDC and RREDC in making HWF funds available to businesses in response to COVID-19 related lending needs in providing funds in an expeditious manner.

These changes will be reviewed prior to the end of the six-month temporary timeframe now being proposed by these amendments. HWF Executive Director and staff will review with AEDC and RREDC Executive Directors to assess the need to extend these amendments until businesses are able to obtain customary financial assistance. Staff will provide the results to the HWF Board so they can make further recommendations to your Board for your review and approval.

FINANCIAL IMPACT:

There is no financial impact to the county General Fund. The Headwaters Fund has reserves in Community Investment Fund (CIF) for loans and grants to local jurisdictions and non-profit organizations. There is currently \$2,230,544.75 in Fund-3846. The balance will be \$230,544.75 upon approval of this transfer.

The CIF was designed to be flexible in special circumstances. Section 3, Item 37, Extraordinary

Project, makes allowance for projects that would normally be considered ineligible. This project proposal meets and far exceeds that test.

Section 3, Item 37, Extraordinary Project states:

- 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) Board of Supervisors 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.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by retaining existing and facilitating new living-wage private sector jobs and housing and providing community-appropriate levels of service; and Supporting business, workforce development and creation of private-sector jobs.

OTHER AGENCY INVOLVEMENT:

Arcata Economic Development Corporation
Redwood Region Economic Development Commission
Humboldt Area Foundation
City of Arcata

City of Eureka
City of Fortuna
Vocality Community Credit Union

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Your Board could choose to not approve staff and Headwaters Fund Board recommendation. This is not recommended.

ATTACHMENTS:

Attachment 1 - Revolving Loan Fund AEDC Lender Agreement-Third Amendment
Attachment 2 - Revolving Loan Fund RREDC Lender Agreement-Second Amendment
Attachment 3 - First Amendment-Master Participation Agreement-AEDC
Attachment 4 - First Amendment-Master Participation Agreement-RREDC
Attachment 5 - AEDC RREDC Master Participation Agreements as last revised in 2014
Attachment 6 - RREDC Master Participation Agreements as last revised in 2014
Attachment 7 - Revolving Loan Fund Amended Lender Manual
Attachment 8 - Redlined Revolving Loan Fund Amended Lender Manual
Attachment 9 - Resolution Adopting Amendments to Headwaters RLF Manual
Attachment 10 - HWF Board Special Meeting minutes from March 27, 2020
Attachment 11 - HWF Board Monthly Meeting Draft-minutes from April 14, 2020
Attachment 12 - Summary Overview of Temporary Changes to HWF-RLF Guidelines

PREVIOUS ACTION/REFERRAL:

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