ECONOMIC DEVELOPMENT ADMINISTRATION

(EDA)

CITY OF LONG BEACH, CA

REVOLVING LOAN PROGRAM

March 2015

ADMINISTRATIVE PLAN

EDA Award #07-49-05046

City of Long Beach, CA

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1. Economic Adjustment Problem

The City of Long Beach ("City" or "Long Beach") is the seventh largest city in California. With a population of nearly 490,000, it is a vibrant community with a collection of diverse and interlocking neighborhoods. With one of the most ethnically diverse populations in the nation, and residents from all walks of life and socio-economic classes, Long Beach retains a cohesive identity and a strong pride of place. Located in southeast Los Angeles County and immediately adjacent to Orange County, Long Beach is the hub of a region that is home to a diverse set of aerospace/defense subcontractors. These companies have used the region as a base to participate in the production of aircraft, missiles, space vehicles, and search and navigation equipment. However, in recent years they have been severely impacted by defense and aerospace downsizing and by increased competition from companies located outside of the country.

In the 1990s, Long Beach suffered serious economic setbacks due to military base closures, major job losses in the aerospace sector and a seriously deteriorated downtown. City job losses included 16,500 Navy personnel, 7,600 civilians, and 3,500 subcontract workers. Additional job losses due to aerospace downsizing numbered over 50,000. The total annual economic loss was estimated at $1.8 billion. One of the areas in Los Angeles County hardest hit by this economic dislocation is the "Gateway Cities" region. The 27 cities, including Long Beach, comprise the Gateway Cities region that formed an alliance in 1992, which led to the formation of the Gateway Cities Council of Governments (GCCOG) and a collaborative strategy to mitigate the severe loss of jobs in the region. The loss of high paying aerospace related jobs has had a profound impact on the member cities and the entire region as a whole. Most recently, in September 2013, Boeing announced the end of production of the C-17 Globemaster III and the closing of the C-17 final assembly facility in Long Beach in 2015, resulting in the loss of 3,000 high-paying jobs.

With strong leadership and an aggressive revitalization effort, the City has established momentum on the challenging path to recovery. However, some facts of our economic reality remain problematical:

- The middle class is shrinking. In 2010, 24% of Long Beach residents lived at or below the poverty line - almost twice the poverty rate of California.

- Job quality in Long Beach has declined. Of the 10,000+ jobs lost in manufacturing and defense, most have been replaced by lower-paid employment in the tourism and retail sectors.

- Sales tax revenues remain low. Long Beach continues to experience sales tax leakage. These potential sales dollars of Long Beach residents go to competitor cities. Many retail jobs that could be in Long Beach are in neighboring communities as a result of this retail sales leakage.

2. Development of Economic Adjustment Strategy

The overall strategy will involve encouraging and assisting displaced workers to organize and develop new businesses, which will in turn add to the employment base of the area. The program will also seek to assist larger businesses by assisting in the retention of small suppliers and vendors. Strengthening and increasing available suppliers and vendors will serve as an incentive and benefit to industries considering locating in the Long Beach area. Furthermore, the goal of the City's Economic Development Administration (EDA) Revolving Loan Fund (RLF) is to provide access to affordable capital through gap financing for business start-up or expansion to encourage job creation, job retention, improved income levels, economic diversification and economic stability for the City.

Through active participation and partnership with the local Small Business Development Center (SBDC), National Development Council (NDC), and Certified Development Corporations (CDCs), the City has developed effective tools for economic development planning, coordination, and cooperation and easy access to conventional loans. Most recently, the City has expanded its partnership with the Long Beach City College to provide access to capital for eligible candidates participating in the Goldman Sachs 10,000 Small Businesses initiative. Goldman Sachs 10,000 Small Businesses at Long Beach City College is a program for small businesses that links learning to action. Through the program, participants will gain practical skills in topics such as negotiation, marketing, and employee management that can immediately be put into action. In addition, they will receive the tools and professional support to develop a strategic and customized growth plan that will take their business to the next level.

To counteract the economic challenges described above, the City will use EDA funds plus local matching funds to augment the RLF to assist local businesses in expanding and creating/saving jobs. Quality investment in these types of businesses will enhance the City's ability to strengthen the economic base of the City. The RLF serves as a stage for future support of larger businesses coming into the area. The sound aerospace economy of the past will most likely never be repeated; therefore, the City's focus is now to encourage and facilitate other types of business growth to fill the void.

The RLF primarily provides loans of $20,000 to $200,000 generally at a prime based interest rate and upon flexible terms. The City currently operates a Revolving Loan Fund utilizing Federal Community Development Block Grant funds that may be used in conjunction with the EDA funds. Unfortunately, Long Beach Redevelopment Agency funds which served as a valuable resource for leveraging our loan funds are no longer available due to dissolution of the Agency. Loan funds will be used to provide working or start-up capital, purchase equipment and machinery, real property acquisition, hire trained workers, restructure debt, and/or acquire a business or franchise. Business needs involving construction or rehabilitation funding will be referred to the Long Beach Area Certified Development Corporation and/or the Grow America Fund, both partners in the City's existing loan programs.

The RLF continues to focus on the sizeable Cambodian population as well as the significant Latino and African-American populations within Long Beach. These populations are targeted because they have not participated to any significant degree in local lending opportunities. City officials and leaders determined that the Cambodian population in particular is an important element of the population necessary for the overall success of the area, and that every effort should be made to include Cambodians in local lending opportunities in order to enhance long-term economic growth of the area. Similarly, City leaders' desire to include Latino and African-Americans in this initiative to increase their exposure to lending opportunities. Targeting the RLF to address the financing needs of these populations was determined to be critical for the overall recovery and expansion of the area.

The RLF strategy will be implemented in conjunction with current partners, including neighborhood and citywide business associations, Long Beach Area Chamber of Commerce, and SBDC. The proposed strategy is consistent with the goals of the current Los Angeles County Comprehensive Economic Development Strategy (CEDS), as approved by the EDA. The CEDS identifies lending programs as a necessary component of efforts to address economic problems and issues in South Los Angeles County.

3. Area Resources

Given the assessment of our economic dislocation and the proposed RLF strategy, it is imperative that we identify and effectively utilize the abundant resources of Long Beach and the surrounding area to adequately address our economic problems, and to help increase our probability of success. These resources can be categorized as:

- Physical (infrastructure)
- Environmental
- Cultural
- Economic

The South Los Angeles County area is served by major transportation and shipping networks that span the five-county area of Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties. The Gateway Cities region is a national leader in many industries including defense and aerospace, tourism, entertainment, electronics, finance and business services, and retail and wholesale distribution. It is also a leading oil refining center and has enormous infrastructure capacity. Two of the largest ports in the world serve as an anchor to an intricate complex of freeways and rail yards. In recent years, the region embarked on and completed the nation's largest single mass transit program, the Alameda Corridor, budgeted at over $25 billion. This grade-separated truck and rail route runs between the Port of Long Beach and the Port of Los Angeles and the main interstate and rail links to the south of downtown Los Angeles. With on-dock terminals at the two ports, the Alameda Corridor has produced a significant increase in efficiency for the local harbor. The area also benefits from an extensive freeway system, a heavy rail subway system called Metrorail, and an extensive bus network. Within the five-county area there are three ports, seven commercial airports, and a variety of general aviation airports.

Long Beach is located 20 miles southeast of downtown Los Angeles. In the years following its incorporation in 1888, the City became known as a resort town of sand, surf, and sun. Early development of the harbor established its role as a strong player in international trade and a port of call for ships throughout the world. In the 1920s the discovery of oil added a new element to the City's economy and shaped its image as an oil town. During World War II, Long Beach became a Navy town and soon added aerospace as one of its main economic assets.

Long Beach today is a city closely tied to its rivers, wetlands, ocean, beaches and open space. The City's challenge is to overcome the potentially negative impacts of growth, to enhance the environment, and to add value to residential and business communities. The City boasts seven beaches, 2,126 acres of parkland, 373 acres of navigable waterways, and an average of 345 days of sunshine every year. The Port of Long Beach is one of the busiest in the nation, handling more than five million containers in 2010. With over 4,000 boat slips, the City has the largest municipally owned marina system in the United States. The Queen Mary, docked in the City's waters and restored to a grand hotel and tourist center, is the sixth most visited attraction in California. Overall the City hosts over five million visitors annually.

Long Beach is one of only three cities in California with its own health, water, and gas and oil departments. With an area of 50 square miles, the City is substantially built-out – little land is left for new housing or commercial/industrial expansion. Residents, local business owners and elected officials share in a partnership focused on improving opportunities for housing, employment and recreation, and enhancing the overall quality of life.

The City has an extremely diverse citizenry. The Asian population, at 13%, includes the largest concentration of Cambodians anywhere in the world outside of Cambodia. The African-American population is also at 13%, with Latinos at 40%. As the City strives to maintain and improve its quality of life for all residents, the wonderful diversity of its citizens offers energy, entrepreneurship, and cultural opportunities.

While Long Beach suffered tremendous economic dislocation during the past two decades, strong leadership and an aggressive economic recovery program have enabled a strong rebound. Still, an above-average poverty rate plagues our communities. This is partly the result of a continuous loss of aerospace and manufacturing jobs and growth in employment disproportionately high in lower-paying jobs. This issue was compounded by the recent announcement by Boeing to end the production of the C-17 Globemaster III and the closing of the C-17 final assembly facility in Long Beach in 2015.

4. Strategic Adjustment Goals

In response to current economic challenges, the City will pursue additional local and regional partnerships as one of its most important missions to provide access to affordable capital for business expansion, economic development and job creation in the City of Long Beach. The opportunities afforded by the RLF will allow the advancement of this mission to a higher level.

These objectives are in harmony with the goals of the South Los Angeles Comprehensive Economic Development Strategy (CEDS), which are to:

- Stabilize and enhance the business and economic environment of the South Los Angeles County area.

- Sustain and maintain the existing economic base and build upon it to establish a sustainable economic foundation.

- Maintain and enhance the quality of life for all residents of the South Los Angeles County area.

- Pursue activities designed to help small businesses in the area, entrepreneurs attempting to enter the marketplace, and to assist businesses trying to expand in the area.

- Develop collaborative relationships between private and public entities to achieve an efficient system whose resources are easily accessed by all citizens.

- Provide public financing and leverage private financing for business expansion and growth, as measured by increased job creation activity of existing businesses.

- Provide public financing and leverage private financing to retain existing retail, commercial, and industrial businesses, as measured by a decrease in the number of businesses leaving the City and a decrease in business closures.

- Provide public financing and leverage private financing to create and/or attract new businesses, as measured by an increase in new businesses within the City.

- Provide public financing and leverage private financing to foster and encourage entrepreneurial activities, as measured by the number of home-based businesses establishing storefront locations and by an increase in the number of business start-ups.

- Provide public financing and leverage private financing to stimulate job creation, as measured by an increase in the number of available jobs.

The City's overall strategic adjustment goals seek to:

- Encourage development activity that builds upon the natural resources of the City and have significant and positive economic impact.

- Foster activity that focuses on information technology and technology transfer that will have a direct impact on community economic development.

- Encourage collaboration and cooperation in development activity that will produce an increase in multi-jurisdictional and regional productivity and growth.

The South Los Angeles County area has the capacity, as a whole, to invest in the pursuit of these goals. Long Beach, the largest city in South Los Angeles County, has taken a lead role in the implementation of the CEDS, which offers all cities in the area an opportunity for increased capacity to pursue economic development goals and objectives. The Economic and Property Development Department in the City Manager's office with oversight by the City Council is responsible for ongoing participation in the area CEDS.

5. Implementation Programs and Activities

To further economic development, the City administers the following business loan programs:

- **Revolving Loan Program**
  Gap financing for businesses with strong credit and a history of positive cash flow. The loan amount can vary from $25,000 to several hundred thousand. The interest rate is fixed, usually at prime plus one. The term is set to match the life of the asset being financed, usually five years to 15 years. Proceeds can be used for working capital, purchase of equipment or machinery, or leasehold improvements.

- **Micro-enterprise Loan Program**
  Start-up and working capital loans for low-income owners of new small businesses. The business must have five or fewer employees and the owner must be of low-moderate income. Collateral generally will not be required. The interest rate is fixed at one point below prime on the day the loan is approved. The term is set to match the life of the asset to be financed, usually five to 10 years.

- **Grow America/Grow Long Beach Fund**
  High-limit SBA 7A financing for existing businesses with strong credit and a history of performance and positive cash flow. The loan amounts are from $50,000 to several hundred thousand. The interest rate is variable, set by Grow America Fund, usually at prime plus two, adjusted quarterly. The term is set to match the life of the asset to be financed, usually five to 20 years.

Additionally, the City will further its partnership with the local SBDC office operated by the Long Beach City College to provide technical assistance and counseling to new entrepreneurs. The SBDC office was established in Downtown Long Beach through financial support by the former Long Beach Redevelopment Agency.

6. Organizational Structure – Adjustment Strategy

Economic Development activities are coordinated through the Long Beach City Manager's Office. As part of the City's Fiscal Year 2014-2015 budget, the City Manager's Office now includes an Economic and Property Development Department (Department). Staff reporting to the Department Director (RLF staff) will oversee all economic development activities in the City, including the RLF program. RLF staff will be responsible for promoting the RLF Program, reviewing loan applications, supporting the RLF Loan Committee and issuing loans. RLF staff will work with the City Attorney to prepare loan documents and ensure all legal requirements are met. The Department will also work with the Department of Financial Management to ensure all accounting, collections and auditing requirements are met. As appropriate, the Department will work with the City's Workforce Development Bureau to provide loan recipients with qualified employees and will work with the City's external partners to ensure that new and expanding businesses have all of the assistance and support the larger Long Beach community can offer.

The RLF Loan Committee is responsible for reviewing loan applications, making loan policy, and providing final approval of loans and modifications thereto, excepting loans equal to or in excess of $100,000, which are forwarded to the Long Beach City Council for final approval. Committee members are selected for their business or related experience in areas such as banking, accounting, education, trade, tourism, law, technology, real estate or other field that contributes to the City's economic development.

Currently, the RLF Loan Committee is composed of three members: a local business owner, a banker active in commercial financing, and a member of the former Long Beach Redevelopment Agency. The former Long Beach Redevelopment Agency had been responsible for appointing members to the RLF Loan Committee. With the dissolution of redevelopment Statewide, this is no longer possible. Instead, appointments will be made by the Economic Development Commission (EDC), a non-profit established and wholly owned by the City to advise the City Council regarding delivery of housing and neighborhood revitalization services, use of Community Development Block Grant (CDBG) funding, and the administration of the City's affordable housing funds. Like Redevelopment, CDBG provided a portion of the matching funds originally needed to initiate the RLF.

B. BUSINESS DEVELOPMENT STRATEGY

1. Objectives

The Economic and Property Development Department in partnership with local for-profit and nonprofit organizations serves as a key resource for development and job creation in the City of Long Beach. The Department's business development objectives are to:

- Establish an effective network to encourage private financial institution referrals of otherwise credit-worthy businesses that are unable to meet traditional credit-scoring criteria.
- Provide subordinate financing and other financial assistance.
- Create and encourage opportunities for emerging entrepreneurs.
- Provide and facilitate access to technical assistance.
- Promote programs and services available both within the City and throughout the region.

2. Target Business Characteristics

The majority of businesses within the City employ 10 or fewer workers and are categorized as "small businesses". Major employers in Long Beach include Long Beach Unified School District, Boeing Company, California State University, Long Beach, and Long Beach Memorial Medical Center. Other prevalent businesses include those involved in processed foods, electronics, liquefied petroleum gas, ballistic missile and automobile parts, thermostats, rubber and chemical and metal products. The City's economic engine is transforming from one previously fueled by oil, Navy, and aerospace to one fueled by tourism, international trade, transportation, and advanced technology.

The City's sizeable Cambodian population has prompted the development of clusters of Asian-owned businesses. The most prolific area, located along the Anaheim Street corridor, is known as "Little Cambodia". These pockets of businesses are typically located in census tracts having a majority of low-income residents.

The RLF will be marketed in conjunction with other programs and services already being offered and by working with local organizations serving the needs of minorities, women, and disabled business owners.

3. Types of Assistance

The City, in partnership with the SBDC and Chamber of Commerce, continually assess business needs through surveys, forums, and workshops. Based on these assessments, assistance is needed for working and start-up capital, purchase of fixtures, equipment and machinery, debt consolidation, business and franchise acquisition and land/building acquisition. Technical assistance is also needed, especially for start-up businesses and Asian and other minority-owned businesses.

The City and the SBDC at Long Beach City College have been partnering on economic and business development for the past three years. The SBDC offers its one-on-one business advising services at the 309 Pine Ave. office that is supported and partially funded by the City. The SBDC focuses its efforts on assisting businesses in either growing and scaling or starting up.

4. Programs and Activities

Programs and activities currently underway to address identified needs are:

- Low-interest loan programs and servicing
- Subordinate financing
- New business grants
- Ongoing workshops and consultations conducted by the SBDC
- Building partnerships with local business associations and community groups
- Business façade improvement program
- E-government initiatives
- Sales Tax Incentive Program
- Import/Export Workshops
- Site selection assistance
- Permit processing assistance

The City's partners in these efforts are numerous and include local institutions of higher learning, local business associations and nonprofit organizations, and other public and private agencies.

C. FINANCING STRATEGY

1. Financing Needs and Opportunities

Small businesses, especially Asian and other minority-owned businesses, need financing for equipment, plant and facility acquisition and expansion, and working capital. Banks generally avoid smaller loans due to high transaction costs in relationship to the risk and return. Borrowers who need loans of less than $50,000 are severely penalized when banks try to minimize transaction risk. The recent trend in bank mergers has resulted in a predominance of larger banks, reducing market opportunities for financing small businesses. A finance and credit gap have developed as lenders lean more and more towards borrowers who have strong collateral coverage and the ability to make substantial equity injections.

Access to reasonably-priced capital for near-bankable businesses continues to be a challenge in Long Beach. Owners of successful businesses are constrained if they lack the required time of operation or lack assets that can provide a readily available source of secondary repayment. This requirement is especially burdensome to Asian and other minority-owned businesses.

Banking practices in Long Beach could be classified as conservative. Local banks tend to favor investment loans for the expansion of long-term, profitable and stable businesses rather than take risks on new and start-up businesses. These lending practices embrace loans that are short-term and risk adverse. Adding to this scenario are local bank limitations of collateral risk (requiring borrowers to pledge assets in excess of loan balances), rate risk (requiring variable rate loans), term risk (requiring borrowers to repay over short terms), and credit risk (eliminating borrowers who have no credit or a credit history perceived as risky).

To meet the demand for accessible capital, public sector lending programs must be sustained to complement private sector financing. Public sector lending programs can provide capital and credit to small businesses that is reasonably priced, is matched to the useful life of the asset financed, conserves cash for balanced growth, allows for a reasonable rate of return on equity, and generates an acceptable public benefit such as job creation and economic revitalization.

Overall there is a need for longer term loans of less than $50,000 with lower equity requirements for businesses without existing banking relationships. The finance and credit gap exist not because these businesses are necessarily poor investments, but because they are not the preferred investment of banks. There is a need to provide capital to these businesses for them to grow to the point where they become bankable. The loan range of $20,000 to $200,000 was established to assist businesses with larger capital needs as well; however, loans at the upper end of the range are expected to be the exception. The RLF financing strategy is designed to meet the credit needs of businesses not served by conventional lenders while, at the same time, encouraging local lenders to participate by allowing the RLF funds to be used as gap financing. City loan programs utilize a shared-risk approach to the maximum extent possible.

2. Current Availability of Financing

Commercial banking practices in the area tend to provide one-year terms for working capital loans (more often than not these are lines of credit), five years or less for equipment loans, and 10-year terms for real estate purchases (with substantial equity requirements). Small businesses, especially Asian and other minority-owned businesses need less restrictive terms geared to their limited access to capital.

3. Financing Niche

The Long Beach RLF will provide an immediate, flexible and accessible source of funding for start-up and existing small businesses seeking financing for inventory, working capital, machinery and equipment, leasehold improvements, real estate acquisition and debt refinancing under the circumstances allowed under Section 307.17(b) (6) of Title 13 of The Code of Federal Regulations (CFR). Business loans generally ranging from $20,000 to $200,000 will address many small business needs. Loans over $100,000 are mostly structured under the SBA 7A programs under a partnership agreement with Grow America Fund (GAF). One of the most important needs that the Long Beach RLF will address is the need for subordinate financing. While lower interest rates and longer terms are certainly attractive to small businesses, subordinate financing, not usually available at any cost in the private sector, will allow many businesses the opportunity to pursue growth and development opportunities.

4. RLF Impact

Over the coming years of the Program, it is anticipated that the initial funds will be fully expended and leveraged at least twice in private financing. It is further anticipated that the program will create or retain a minimum of 50 jobs.

The projected impacts of the Long Beach RLF are:

- The local economy will be strengthened as existing and start-up businesses increase sales tax revenue and job creation.
- Private investment will be stimulated through leveraging.
- Job opportunities will be enhanced as businesses create and maintain stable employment.

Since inception, the City's has funded loans in excess of $23 million. The City's current business lending programs provided approximately $530,000 in capital for small businesses in FY 2013 and FY 2014. An additional $973,483 in loans were obtained from private financial institutions through shared risk and referral activities. Similar results are expected in FY 2015. The additional capitalization of loan funds through the RLF will allow an increase in this volume with specific targeting to Asian and other minority-owned businesses desperately in need of accessible capital and credit.

D. FINANCING POLICIES

1. Loan Related Fee Policy

Loan origination fees will be charged to borrowers to cover processing and closing expenses, including credit reports, legal expenses and servicing costs incurred by the Economic and

Property Development Department. All borrowers will be assessed a fee of up to two points to cover these costs. Other outside costs will normally be paid by the borrower, e.g., appraisal, escrow, and title fees and searches.

2. Interest Rate Policy

Interest rate for loans directly funded by the Long Beach RLF will offer a fixed annual interest rate of 5%. The City may recommend the RLF Loan Committee adjust the rate from time to time as market rates change. The rate will not exceed prime plus 3.

The RLF Loan Committee may make loans to eligible borrowers at interest rates and under conditions determined by the Committee to be appropriate in achieving the goals of the RLF. The minimum interest rate the Committee may charge is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the *Wall Street Journal*, or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of 4% or 75% percent of the prime interest rate listed in the *Wall Street Journal*.

- **Exception:** Should the prime interest rate listed in the Wall Street Journal exceed 14%, the minimum RLF interest rate is not required to be raised above 10% if doing so compromises the ability of the Committee to implement its financing strategy.

3. Equity Policy

Fixed asset loans for new and existing businesses will require a minimum of 10% equity contribution by the borrower. Working capital loans will require a net working capital position equal to at least 20% of the loan request, as determined by the most recent financial statement within 90 days of loan funding.

4. Standard Repayment Term Policy

The maximum term for repayment will be based on the useful life of the assets financed or the borrower's ability to pay, whichever is less. The useful life of machinery and equipment is generally seven to ten years. Whenever possible, shorter terms will be negotiated to increase the return of funds for recycling to other businesses. Working capital loans will not exceed seven years.

5. Collateral Policy

Full collateral will not be a requirement for financial assistance. However, the RLF will secure each loan to the maximum extent possible to ensure an adequate secondary source of repayment. Collateral will include security interests in available assets, personal guarantees, corporate guarantees, and assignments of leases and patents. Generally, working capital loans will be secured by liens on receivables, inventory, fixed assets and/or other available business and personal assets of borrowers as well as personal guarantees. Such liens and security may be subordinate to existing liens of record. Fixed asset loans will generally be secured with the property being financed or acquired and other assets as may be necessary. Personal guarantees may be collateralized with the assets of the guarantor.

6. Loan Size Policy

The minimum loan will be $20,000; the maximum loan will be $250,000. We expect most of the loans to be from $20,000 to $100,000. The loan portfolio will be divided between fixed asset and working capital loans; however, not more than 50% of the RLF will be loaned for working capital.

7. Other Policies and Standards

The RLF will be a part of the City's comprehensive economic development program and will be identified as a financing program in conjunction with other public and private sector financing tools.

Prior to loan funding, RLF staff will ensure the applicant has been turned down by his/her own bank. This will guarantee that the RLF is not being used to substitute for private financing.

E. PORTFOLIO STANDARDS AND TARGETS

The loan portfolio will be aggressively managed. The portfolio performance will be continually monitored to assess the percentage of loans to commercial, industrial, and service businesses. It is anticipated that most loans will be made to service businesses, as minority-owned businesses tend to be more service oriented. Working capital loans will not exceed 50% of the total portfolio.

1. Business Types

Due to the overall targeting of the RLF to minority-owned and other disadvantaged businesses, no minimum standards will be applied to the targeting of specific types of businesses, e.g., commercial, industrial, or service. However, the City will give priority to industrial/manufacturing/technology firms because of the higher economic benefits to the community.

The anticipated percentages of RLF investments in the target markets are:

- **Expansion/retention**: It is anticipated that 40% of the loans will be for expansion and 20% for retention. Retention equals jobs saved. In order to count a job "saved", the City must show that a specific job would have been lost within six months without RLF assistance.

- **New/start-up**: It is anticipated that 40% of the loans will be for new/start-up businesses. A start-up business is defined as one that has been in operation for less than six months. Financing of start-up businesses will require a minimum equity investment by the borrower of 20%. The SBDC conducts ongoing workshops and consultations for start-ups.

2. Loan Purpose

RLF capital shall be used for the purpose of making RLF loans that are consistent with the RLF Plan or such other purposes approved by the Federal EDA. To ensure that RLF funds are used as intended, each loan agreement shall clearly state the purpose of each loan. In general, loan proceeds shall be used for purchase of equipment, fixtures, inventory, and working capital.

RLF capital shall not be used to:

- Acquire an equity position in a private business.

- Subsidize interest payments on an existing RLF loan.

- Provide for borrowers' required equity contributions under other Federal Agencies' loan programs.

- Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF.

- Provide RLF loans to a borrower for the purpose of investing in interest bearing accounts, certificates of deposit or any investment unrelated to the RLF.

- Refinance existing debt, unless:

  - The Loan documentation demonstrates a "sound economic justification" for the refinancing (i.e., the refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indications, constitute a sound economic justification.

  - RLF Capital will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF Capital may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within 18 months following the date of refinancing.

3. Leveraging

As mentioned earlier, the City currently operates an RLF utilizing Federal Community Development Block Grant funds which may be used in conjunction with the EDA funds. Unfortunately, new redevelopment funds which served as a valuable resource for leveraging loan funds in the past are no longer available due to dissolution of the Long Beach Redevelopment Agency.

Given the goals and objectives of the City and the proposed RLF strategy, the RLF program will be targeted to the retention and growth of small businesses. The Program will add another element to existing efforts that serve to retain private sector jobs by stimulating private investment through leveraging. Complementary programs are the SBA 7a and 504 loan programs, and private sector lending programs. In all RLF loans, the City will use due diligence to maximize the leveraging of private dollars by banks and other private lenders, and will work with the banking community to achieve bank participation in the RLF projects. The City will obtain documentation for the private investment leveraging *prior to* loan funding.

Per Section 307.16(d)(1) of Title 13 of the Code of Federal Regulations (CFR), RLF loans must leverage private investment of at least two dollars for every one dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF's operation. To be classified as leveraged, private investment must be made within 12 months of approval of an RLF loan, as part of the same business development project, and may include:

- Capital invested by the borrower or others.
- Financing from private entities.
- The non-guaranteed portions and 90% of the guaranteed portions of the U.S. Small Business Administration's 7(A) loans and 504 loans.

However, the City's experience with the target business population indicates that the majority of potential borrowers is ineligible for bank financing, and has limited cash for investment. Therefore, the City has establish an attainable and *minimum* portfolio-leveraging ratio of $0.25 private to $1 RLF investment, and will make every effort to achieve the EDA standard $2 private to $1 RLF leverage ratio over time. If and when a higher leverage ratio (i.e., above 1/1) is attainable and sustainable, the City will request EDA approval for an amendment to the Plan to reflect a higher leveraging ratio.

4. Cost per Job

The number of jobs created or retained will be monitored and documented for each loan. The overall portfolio is expected to achieve a ratio of not less than one job for each $35,000 invested, although individual loans may vary from this standard. The City acknowledges that the actual cost per job achieved will be dependent upon the private leveraging ratio achieved as well as the types of loans funded.

F. LOAN SELECTION CRITERIA

1. Eligible Applicants

New start-up and existing Long Beach businesses will be eligible to apply for financing through the RLF program. Businesses relocating or expanding their operation to Long Beach will also be eligible to participate in the program. The location of the business must be within Long Beach boundaries.

2. Eligible Projects

Retail, service, industrial, and tourist-related businesses located within the City limits of Long Beach will be eligible to participate in the Program. Eligible uses of funds include but are not limited to the following:

- Fixed assets
- Purchase of inventory
- Working capital

Eligible fixed asset loans may include:

- Land costs, including pre-development costs associated with acquisition and preparation of land

- Machinery and equipment costs, including delivery, installation, engineering, architectural, and legal costs

Eligible working capital loans may be used for:

- Inventory
- Operating expenses
- Non-capitalized assets

3. Ineligible Loan Activities

The following activities, projects and organizations are deemed ineligible:

- Speculative projects
- Refinancing debt
- Non-profit businesses
- Construction-related activities
- Projects that do not create or retain jobs
- Residential projects
- Lending institutions
- Real estate investment companies
- Projects that would adversely impact the environment
- Projects that create a conflict of interest by the borrower
- Other businesses not serving the interest of the community

Loan approvals will be based upon a reasonable assurance and determination of repayment ability and potential economic benefits to the community, i.e., number of jobs to be created or retained, stimulus for economic development activities, and lack of available private financing.

In evaluating loan applications, prime consideration will be given to the degree that the request meets eligibility and selection criteria as well as portfolio standards. Generally, the loan must create or retain at least one job per $35,000 of investment, and priority will be given to create or retain quality jobs and those with higher leverage ratios that stimulate increased spending and generate tax revenues. Generally, for an individual loan, the RLF investment will increase to $35,000 per job saved/created.

Primary loan funding criteria will be rated in the following areas:

- **RISK** (bankability, collateral, credit, experience)
- **DESIRABILITY** (locally-owned/operated, job creation and job quality, contributes to the City's economic base and will stimulate other investment)
- **COMMITMENT** (owner operator, investment of personal resources)

Each loan must demonstrate that financing is not otherwise available. Prior to loan approval, the applicant must demonstrate due diligence in trying to obtain financing from his/her own bank. The response must show that credit is not otherwise available from lending institutions on terms and conditions that would permit accomplishment of the activity to be financed.

G. PERFORMANCE ASSESSMENT

The City will complete an annual report each year on the performance of the RLF. This annual report is presented to and discussed with the EDC Board and City Council.

RLF staff will assess performance by comparison of the portfolio standards with portfolio results, as follows:

- Number and value of loans and amount/percentage of funds placed within the first three years of the award
- Number of performing loans vs. delinquent, defaulted or written-off loans
- Degree of leveraging private financing
- Number and quality of jobs created/retained
- Cost per job
- Other economic development criteria such as strategic investments that stimulate other investments in the community

Amendments to the Long Beach RLF Administrative Plan may be requested from time to time. Amendments will be implemented through a public process involving the EDC or the Long Beach City Council. The EDA will be notified of any changes to the RLF Administrative Plan. At a minimum, the RLF Administrative Plan will be updated every five years and submitted to the EDA.

PART II. REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. ORGANIZATIONAL STRUCTURE

1. Administration

Long Beach is governed by a nine-member City Council. Its chief executive officer is the City Manager who oversees 15 City departments.

The Economic and Property Development Department will be responsible for promoting the RLF program, reviewing loan applications, supporting the RLF Loan Committee and issuing loans. RLF staff will work with the City Attorney to prepare loan documents, ensure legal requirements are met, and proper procedures are followed in the event of a default. RLF staff will also work with the Department of Financial Management to ensure all accounting, collections and auditing requirements are met. When required RLF staff will work with the Planning Bureau in the Department of Development Services to ensure the appropriate environmental review takes place. If job opportunities are available, RLF staff will coordinate with the City's Workforce Development Bureau.

Pursuant to the delivery of financial assistance, the City recently expanded its service delivery agreement with the National Development Council and Grow America Fund to assist RLF staff who regularly perform the following activities:

- Market loan programs
- Perform business outreach activities
- Meet with potential loan applicants
- Review applications and financial statements
- Perform underwriting functions
- Prepare credit memoranda
- Present loan applications to the RLF Loan Committee
- Prepare loan documents
- Perform loan closings
- Monitor loan portfolios

The key City personnel who will be involved in the administration of the RLF are:

- **City Manager** will ensure that the RLF adheres to all policies determined by the Long Beach City Council.

- **Director of Economic and Property Development** will ensure that the RLF operates effectively and efficiently and in compliance with program and policy requirements.

- **Director of Financial Management** will ensure that loan funds are disbursed according to approved loan documents.

- **City Attorney** will provide legal counsel regarding loan documents, loan closings, loan defaults and other legal matters.

2. RLF Loan Committee

The RLF Loan Committee will be selected by the newly-formed Economic Development Commission (EDC), an eleven-member body appointed by the Mayor and City Council, which advises the City on matters relating to economic and business issues. The RLF Loan Committee is responsible for approving loan policy and making final decisions on all loan approvals and significant loan modifications and foreclosure actions. For loans equal to or greater than $100,000, the RLF Loan Committee will make recommendations to the City Council for loan approval. The City Council retains approval authority for loans $100,000 or greater.

The RLF Loan Committee will have three members. A quorum will constitute two members. Members may serve for up to two four-year terms. A majority of RLF Loan Committee members must be Long Beach residents who have either a business interest in the City or represent the following public or private segments:

- Commercial / Industrial Business
- Trade
- Education
- Financial Services / Real Estate
- Aerospace Business
- Workforce Development
- Professional Services
- Tourism
- Business Associations / Organizations

A member of the RLF Loan Committee with commercial financing experience will be present for all major loan decisions and modifications.

3. Conflict of Interest Policy

A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests. A conflict may also exist where there is an appearance that an Interested Party's objectivity in performing his or her responsibilities under the Project is impaired. For example, an appearance of impairment of objectivity may result from an organizational conflict where, because of other activities or relationships with other persons or entities, an Interested Party is unable to render impartial assistance, services or advice to the Recipient (City), a participant in the Project or to the Federal government. Additionally, a conflict of interest may result from non-financial gain to an Interested Party, such as benefit to reputation or prestige in a professional field.

- **Prohibition on direct or indirect financial or personal benefits**

  - An Interested Party shall not receive any direct or indirect financial or personal benefits in connection with the award of Investment Assistance or its use for payment or reimbursement of costs by or to the Recipient.

  - An Interested Party shall also not, directly or indirectly, solicit or accept any gift, gratuity, favor, entertainment or other benefit having monetary value, for himself or herself or for another person or entity, from any person or organization which has obtained or seeks to obtain Investment Assistance from EDA.

- Costs incurred in violation of any conflicts of interest rules contained in this chapter or in violation of any assurances by the Recipient may be denied reimbursement.

➢ **Special rules for RLF Grants in addition to the rules set forth in § 302.17**

- An Interested Party of a Recipient of an RLF Grant shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF loans.

- A Recipient of an RLF Grant shall also not lend RLF funds to an Interested Party.

- Former loan committee members of a Recipient of an RLF Grant and members of his or her immediate family shall not receive a loan from such RLF for a period of two years from the date that the committee member last served on the RLF's loan committee.

Conflicts of interest will be avoided through disclosure of such interests and abstention from any actions involving such interests. The EDC and the RLF Loan Committee must comply with the above Department of Commerce/Economic Development Administration conflict-of-interest prohibitions by observing the following standards:

➢ Any Committee member that may indirectly or directly gain financially from loan transactions shall immediately inform the Committee of any potential conflict of interest.

➢ No loan funds will be made available to a business that is owned in whole or in part by anyone related by blood, marriage, law or business arrangement to any officer or employee of the City or members of the EDC. This restriction shall also apply to any member of the RLF Loan Committee who advises, approves, recommends or otherwise participates in decisions concerning loans.

No officer, employee, or member of the City, EDC, or RLF Loan Committee, or person related to any of them by blood, marriage, law or business arrangement shall receive any benefits resulting from the use of RLF Loan funds.

➢ No officer, employee or board member of the City, EDC, or the RLF Loan Committee shall solicit or accept, directly or indirectly, any gift, gratuity, favor entertainment or any other thing of monetary value, for himself/herself or for another person, from any person or organization seeking to obtain a loan or any portion of the grant funds.

➢ Former committee members and/or officers are ineligible to apply for or receive loan funds for a period of two years from the date of termination of his/her services.

- Each RLF Loan Committee member shall sign an affidavit affirming his or her compliance with the City's conflict-of-interest regulations.

If a potential conflict of interest exists, all necessary steps will be taken to ensure that the loan application is processed in full accordance with local and State regulations.

B. LOAN PROCESSING PROCEDURES

1. Standard Loan Application Requirements

The following items will be required for consideration of loan requests:

- Application form, completed, signed, and dated, along with Authorization for Credit Report and IRS Form 4506 authorizing the City to obtain a copy of your information directly from IRS.

- History of the new business showing form of ownership (sole proprietorship, partnership, or corporation), date of establishment, and names and titles of owners.

- Resumes for each individual owning more than 20% or more of the business.

- Business Plan for a start-up business and recommended for an existing business.

- Financial statements including current and prior three years balance sheet and profit and loss for the business and each individual owning 20% or more of the business.

- Tax returns for each of the prior years. Form 1040 for each individual owning 20% of the business (including Schedule C for a sole proprietorship) and Form 1065 for a partnership and Form 1120 for a corporation.

- Source and use of funds statements showing all sources including equity invested and uses showing each major expenditure (over 10%) of total.

- Other applicable documents including debt and repayment schedules, accounts receivable and payable aging schedules, proof of liability and hazard insurance, purchase contract, escrow instructions, lease, partnership agreement, articles of incorporation and bylaws, and any other useful documents.

- Letter or other document from bank demonstrating that the credit is not otherwise available for the applicant.

Depending on the type of loan and projected use of funds, the following may also be requested:

- Franchise agreements
- Appraisal reports
- Environmental reviews
- Standard collateral requirements

- Standard equity requirements
- Standard insurance requirements
- Public benefit requirements
- Job creation commitment

2. Credit Reports

Credit Reports will be obtained through Experian Credit Reporting Service. RLF staff will obtain authorization from borrowers to seek credit information and will conduct credit searches. Complete credit reports will be required in determining loan eligibility.

3. Appraisal Reports

Appraisals will generally be required for real property or other fixed assets used as primary loan collateral. Appraisals from certified appraisers will normally be obtained when loan proceeds are used to acquire real property.

4. Environmental Review

RLF staff will not normally consider loans involving construction or rehabilitation activity. For activity requiring environmental reviews, the Department of Development Services regularly uses an environmental review procedure in accordance with the intent of the National Environmental Policy Act of 1969, as amended (Pub. L. 91-190), as implemented by the President's Council on Environmental Quality (40 CFR parts 1500-1508) the United States Department of Commerce, Economic Development Administration as listed in Section D.10 of the Revolving Loan Fund Grants, Standard Terms and Conditions.

The RLF Administrator with the assistance of appropriate staff, shall assess the significance of all environmental impacts of activities to be financed in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as per the Assurances (SF 424D as revised) executed with the Economic Development Administration. No activity shall be financed which would result in a significant adverse environmental impact unless the impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.

No project shall be approved which would result in the alteration of or have an adverse impact on any wetland without prior consultation with the U.S. Department of the Interior, Fish and Wildlife Service, and, if applicable, obtaining a section 404 permit from the Army Corps of Engineers.

Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100 year flood plain. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

The State Historic Preservation Officer, (SHPO) shall be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The RLF Administrator shall work with the SHPO and EDA in cases where the SHPO has recommended actions or has been determined an adverse impact.

All loan applicants shall be requested to provide information indicating whether or not there was hazardous materials such as EPA listed (see 40 CFR 300), hazard substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials on site that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicants may be required to perform or provide evidence of a Phase I site assessment to identify possible sources of contamination, a Phase II site assessment to test soil and/or groundwater samples, and a Phase III site remediation involving mitigation of applicable contaminants. In cases where there are unresolved site contamination issues, the RLF Administrator shall work with the loan applicant and the appropriate state environmental agency office to resolve these outstanding issues.

The review process includes the following requirements:

- Acquisition of interest in real property will require an environmental/hazardous waste assessment by the City's Environmental Review Officer.
- A site inspection will be conducted on all real property to be taken as collateral by a qualified inspector as well as an environmental audit if appropriate.
- A determination will be made whether a Phase I or Phase II environmental assessment is warranted for hazardous waste.
- Loans that will lead to the alteration of the environment will comply with the California Environmental Quality Act (CEQA) PRC Section 21000, et. sec.
- A mechanism to mitigate impacts.

The RLF Loan Committee will deny any loan request involving activities that would serve to adversely, and without mitigation, impact flood plains, wetlands, significant historic or archeological properties, drinking water resources, or nonrenewable natural resources.

5. Historical Buildings Review

The State Historic Preservation Officer (SHPO) will be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. RLF staff and Planning staff will work with the SHPO and EDA in cases where the SHPO has recommended actions and no project shall be approved when the project has been determined to have an adverse impact.

6. Collateral and Equity Requirements

RLF staff will make every effort to secure each loan to the maximum extent possible. Towards this end, perfected interests in assets, including assets of related parties may be required. Loans will be secured with real property, machinery, equipment, inventory, accounts receivable, stock pledges, warrants, securities, and/or personal guarantees. Trust deeds will be obtained and supported by a PIRT (lot book report) or ALTA (lender's title policy) as appropriate. Liens on personal property will be perfected by a security agreement and UCC-1 filing, complemented by lien searches to ascertain position. Businesses will be required to have adequate hazard insurance coverage on fixed assets and a lender's loss endorsement naming the City.

The following are the standard cash injections or equity requirements for RLF loans, which may be waived by the Loan Committee. For an existing business with a track record of sales and earnings, working capital loans will require a net capital position equal to at least 20% of the loan request. Fixed asset financing for existing businesses will require at least 10% equity. Financing new businesses, including business acquisition, will require a minimum equity investment of 20%. Generally, businesses less than two years old, which lack a history of positive earnings, will be required to have a higher equity investment, ranging from 20% to 30% depending on the risk level. Loans for business acquisitions will be considered only if it is determined that the acquisition will save jobs or create substantial, new jobs through additional investment capital. Loans for acquisitions must comply with EDA requirements found in Section I.c.3.d. of the EDA Administrative Manual.

7. Loan Proposals (aka Credit Memorandum)

The Credit Memorandum is a written summary of the loan signed by RLF staff and Director of Economic and Property Development and presented to the Loan Committee. It fully describes the recommended loan transaction as follows:

- Name and location of the business and the name of the business owner
- Census Tract and City Council District in which the business is located
- Type of business, market conditions, current trends and pertinent details about the principals and products
- Background and history of business operation
- Amount of loan request
- Sources and uses of funds
- Terms of the proposed financing, including amount, term, interest rate, fees, collateral, guarantees and requirements
- Credit report information

- Anticipated economic impact of the loan and the public benefit to be derived
- Identification of any problems that may affect funding
- Cash flow analysis
- Estimated annual debt service
- Analysis of financial statements
- Analysis of business pro forma
- Balance sheet analysis
- Analysis of collateral
- Identification of any environmental issues
- Justification of the loan (job creation/retention, community benefit, etc.) and a finding by the RLF staff that private funds were not available on terms and conditions which would permit completion and/or accomplishment of the project activities to be financed
- Findings
- Recommendation

8. Procedures for Loan Decision

The credit memo will be provided to the RLF Loan Committee with a recommendation by staff based on the RLF Administrative Plan. Meetings will be called when needed and noticed to the public. Loan determinations by the RLF Loan Committee will be in writing, signed by all participating members. A conflict of interest statement will be incorporated into the loan approval form. Borrowers will be informed by letter of the RLF Loan Committee's decisions. Loan approval letters will contain the terms and conditions thereof, including the expiration date of the loan commitment. Approximately one week prior to a Loan Committee meeting, committee members will consider loan approvals at a duly noticed public meeting. A loan will be considered approved based on a two-thirds majority vote.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. General Closing Requirements

All borrowers will sign a loan agreement with the City consisting of the following:

- **PROMISSORY NOTE**
  Specifically describes the loan terms and conditions, repayment requirements, amortization schedule, and other pertinent lending elements.

- **STANDARD COVENANTS**
  Covenants that require the borrower to comply with federal civil rights laws, flood insurance requirements, specific requirements of funding sources and applicable federal regulations, i.e., National Historic Preservation Act, Public Works & Economic Development Act, Americans With Disabilities Act, Environmental Protection Agency, Davis-Bacon Act, Contract Work Hours and Safety Standards Act, Earthquake Hazards Reduction Act and any applicable local ordinances.

- **FIRST CONSIDERATION AGREEMENT**
  For loans involving required job creation, a commitment by the borrower to create a specific number and types of jobs within a specified period of time following loan funding, and to first consider the filling of those jobs through the City's workforce development programs and other employment programs for low-income persons.

- **PROOF OF EQUITY**
  For loans requiring equity injection, evidence of funds on hand or on deposit.

- **APPROPRIATE REVIEW**
  Prior to loan closing, staff will prepare an "Appropriate Review" documenting pertinent information relative to the public benefit and appropriateness of the loan.

2. Loan Closing Documents

RLF staff will perform a final loan review and will work with the City Attorney to perform all necessary functions related to loan closing. RLF staff will also review the public benefit, job creation/retention, and other requirements of the loan.

Prior to the disbursement of any EDA funds, RLF staff shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:

- Loan application.

- Loan agreement.

- Loan committee meeting minutes approving the RLF loan.

- Promissory note.

- Security agreement(s).

- Deed of trust or mortgage (as applicable).

- Agreement of prior lien holder (as applicable).

- Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.

The following documentation, including the minimum documentation, will be reviewed pursuant to loan closing:

- **LOAN APPLICATION**
  Schedules, tax returns, credit reports, verifications, related attachments

- **CREDIT MEMORANDUM**
  Additional contingencies and special requirements

- **LOAN AGREEMENT**

- **REAL PROPERTY**
  Schedule of collateral
  Grant Deed
  Deed of Trust
  Assignments of deeds or notes
  Quit claim deeds
  Requests for notice
  Realty tax service

- **TITLE REPORTS**
  Title policy or preliminary report or lot book report
  Instructions to Title Company to clear or remove disapproved exceptions

- **DISBURSEMENT INSTRUCTIONS**
  Direct Payment instructions
  Instructions to Title Company
  Cash injection verifications
  Closing statement
  Bulk transfer instructions

- **COLLATERAL**
  Insurance
  UCC search
  UCC-1 filing
  Personal guarantees
  Schedule of equipment and fixtures

- **SECURITY**
  Security agreements
  Legal descriptions
  Promissory Note

- **CERTIFICATES**

Collateral receipts
DMV pink slips
Stock

- **APPRAISALS**
  Appraisal report
  Environmental assessment/review

- **FIRE/HAZARD/FLOOD**
  Flood zone rating sheet
  Evidence of insurance

- **PUBLIC BENEFIT**
  First consideration agreement
  Documentation of private financing
  Leveraging ratios

3. Loan Disbursements

Once security interests are perfected and the above-described review has been completed, the Director of Financial Management will disburse funds as directed by the Loan Committee action and in accordance with the loan agreement. Fixed asset loans may require the opening of a loan escrow for perfection of collateral and the coordination of fund distribution. Working capital loans will be funded in a single disbursement or upon a prearranged schedule if circumstances warrant. The borrower will certify in the loan agreement that funds are to be used for the purposes specified in the loan application.

D. LOAN SERVICING PROCEDURES

1. Loan Payment and Collection Procedures

RLF loans will be serviced by the Department of Financial Management and by a loan servicing agency. The City's current loan servicing agency is Weststar. Coupon books are provided to the borrower and late notices are automatically sent at predetermined intervals, as necessary. Late fee charges will be 5% of regularly scheduled payment or $50.00, whichever is greater and will begin to accrue on the 10th day after the payment is due. Insufficient funds checks will result in an additional fee of $25. The loan servicing agency remits loan payments to the City on the 15th and 30th days of the month. These payments are deposited into a City account specified for RLF program income.

Weststar provides monthly reports on the loan portfolio status, and more frequent reports on past due or delinquent loans. All defaulted loans will be handled according to the program guidelines and supervision by the City Attorney, the Director of Economic and Property Development, and representatives from the Financial Management Department.

2. Loan Monitoring Procedures

RLF staff continually monitor the RLF. Quarterly reports are developed on loan activity, including status of job creation activity. The RLF staff meets biweekly to discuss the status of loan applications and inquiries, UCC-1 filing and renewal activity, loan repayment activity, delinquencies, and loans with special requirements or conditions.

A database is maintained and updated on all loans in the portfolio. The database provides key information on required renewals, expirations of special conditions, balloon payments, and other non-recurring elements of loan funding.

Borrowers pledging job creation/job retention activity will be contacted quarterly to ascertain the status of those activities. The information gathered will be used to compile a quarterly report on the RLF loan portfolio.

RLF staff will follow-up on complaints and violations of discrimination and report to the EDA any unresolved violations of federal civil rights requirements.

3. Late Payment Follow-up Procedures

If a payment is overdue for a period of 10 days after the due date, a predetermined late charge will apply.

After 10, 30, and 60 days of delinquency, a standard letter is sent to the borrower inquiring as to the reasons for the delinquency and encouraging prompt repayment according to the amortization schedule. A staff person is assigned to make personal contact with the borrower within 60 days.

After 60 days of delinquency, or earlier if necessary, RLF staff will visit the site to inventory the collateral and to discuss with the borrower a plan to resolve the delinquency. The City Attorney will be consulted with respect to the possibility of a successful workout. A restructure agreement may be negotiated with the borrower to modify the loan terms to accommodate the borrower's needs. Restructuring an RLF loan will be considered only to improve repayment prospects of the borrower and to protect the investment of the RLF. The Loan Committee shall approve a loan restructuring if the original amount of the loan is less than $100,000. City Council approval is necessary for loans $100,000 or more.

After 90 days of delinquency, or earlier if necessary to protect the interests of the RLF, the loan will be declared in default and referred to the City Attorney for further action and resolution.

4. Procedures for Handling Loans Over 90 Days in Arrears

Delinquent loans and all defaulted loans are referred to the City Attorney to initiate a default notification and demand request to the borrower. The City's Commercial Services Collection Division and Weststar Loan Servicing Agency provide collection services. Program income from the RLF is used to pay for services including collection, competitive procurement procedures will be followed in accordance with 15 CFR Part 24.

RLF staff determines actions to initiate recovery against collateral on defaulted loans. Upon determination of staff, the City Attorney will exercise all rights and privileges of the lender to collect the proceeds on delinquent loans, including:

- Coordination of collection efforts
- Demand letters
- Legal notifications to guarantors and other lenders
- Filing of legal claims and lawsuits
- Negotiations with borrowers or their representatives
- Settlement recommendations

Per Section 307.12 (c) of Title 13 of The Code of Federal Regulations (CFR), when an RLF Recipient (City) receives proceeds on a defaulted RLF loan that is not subject to liquidation pursuant to § 307.20, such proceeds shall be applied in the following order of priority: (1) First, towards any costs of collection; (2) Second, towards outstanding penalties and fees; (3) Third, towards any accrued interest to the extent due and payable; and (4) Fourth, towards any outstanding principal balance.

5. Restructures

Special financing techniques and restructuring options will be considered in loan repayment to accomplish the objectives of the business development strategy. These considerations will serve to meet special needs of borrowers or to encourage early repayment. Techniques will include interest-only payments for a specified term not to exceed six months, payment deferral for a specified term not to exceed three months, and longer amortization schedules with balloon payments at the end of the loan. Restructuring of an RLF loan will normally be considered only upon delinquency or default to improve repayment prospects of the borrower and to protect the interest of the RLF. Normally, a restructured loan will carry an interest rate of at least one percent higher than the original loan.

RLF loans may be restructured when restructuring will improve the borrower's ability to repay the RLF loan, as long as the business is financially viable as evidenced through a business credit analysis. The RLF staff will work with the owner(s) of the business to determine the need for restructuring, and, if appropriate, the RLF staff, with the approval of the RLF Loan Committee, may restructure the RLF loan to improve cash flow within the business. Restructuring can include interest only payments, adjusting the rate of interest, or providing additional working capital.

6. Write-off Procedures

Write-offs will be determined after 180 days of the initial delinquency. However, collection efforts will continue until RLF staff in coordination with the City Attorney determines that continued efforts are not cost effective. Losses will be charged against the balance of the RLF.

E. ADMINISTRATIVE PROCEDURES

1. Procedures for Audits and Accounting

The Long Beach RLF shall operate in accordance with generally accepted accounting principles ("GAAP") as in effect from time to time in the United States and the provisions outlined in OMB Circular A-133 and the Compliance Supplement, as applicable. In accordance with GAAP, a loan loss reserve may be recorded in the City's financial statements to show the fair market value of the RLF's loan portfolio, provided this loan loss reserve is non-funded and represents non-cash entries.

Within 60 days prior to the initial disbursement of EDA funds, an independent accountant familiar with the Long Beach RLF's accounting system shall certify to EDA and the Long Beach RLF staff that such system is adequate to identify, safeguard and account for all RLF Capital, outstanding RLF loans and other RLF operations.

RLF Income shall be placed into the RLF Capital base for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF Income may fund administrative costs, provided:

- Such RLF Income and the administrative costs are incurred in the same six-month Reporting Period.
- RLF Income that is not used for administrative costs during the six month Reporting Period is made available for lending activities.
- RLF Income shall not be withdrawn from the RLF Capital base in a subsequent Reporting Period for any purpose other than lending without the prior written consent of EDA.
- RLF staff completes an RLF Income and Expense Statement (the "Income and Expense Statement") as required under § 307.14(c).

When charging costs against RLF Income, RLF staff shall comply with applicable federal cost principles and audit requirements as found in: (1) 2 CFR part 225 (OMB Circular A–87 for State, local, and Indian tribal governments), 2 CFR part 230 (OMB Circular A–122 for non-profit organizations other than institutions of higher education, hospitals or organizations named in OMB Circular A–122 as not subject to such Circular), and 2 CFR part 220 (OMB Circular A–21 for educational institutions); and (2) OMB Circular A–133 for Single Audit Act requirements for States, local governments, and non-profit organizations and the Compliance Supplement, as appropriate. RLF income will be used to cover administrative costs.

Annually the City completes an audit of the Comprehensive Annual Financial Report (CAFR) and the Single Audit Report (federal grant OMB requirement). The fund SR 149 is part of the CAFR and any federal grants in SR 149 would be part of the Single Audit Report. Both audits are conducted in accordance with the auditing standards in regards to risk and materiality to the financials or grants reported as a whole with both reports.

2. Procedures for Loan Files and Loan Closing Documents

Original loan documents will be maintained in a fireproof vault located at City Hall. These documents will include promissory notes, loan agreements, personal guarantees and security agreements, collateral perfection documents, and other original legal documents.

Copies of original loan documents will be kept in loan files located in ordinary file cabinets within a lockable room. The loan files will contain a complete record of each individual loan, including original applications and supporting documents and verifications, credit memoranda, copies of notes and deeds, and correspondence and checklists.

RLF staff shall maintain closed loan files and all related documents, books of account, computer data files and other records over the term of the closed loan and for a three-year (3) period from the date of final disposition of such closed loan . The date of final disposition of a closed loan is the date: (1) Principal, interest, fees, penalties and all other costs associated with the closed loan have been paid in full; or (2) Final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the closed loan have occurred.

RLF staff shall at all times: (1) Maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF Income expended for eligible RLF administrative costs. (2) Retain records of administrative expenses incurred for activities and equipment relating to the operation of the RLF for three years from the actual submission date of the last semi-annual report that covers the Reporting Period in which such costs were claimed. (3) Make available for inspection retained records, including those retained for longer than the required period. The record retention periods described in this section are minimum periods and such prescription does not limit any other record retention requirement of law or agreement. In no event will EDA question claimed administrative costs that are more than three years old, unless fraud is at issue.

3. Hold Harmless Policy

All RLF loan documents and procedures will protect and hold the Federal government harmless from and against all liabilities that the federal government may incur as a result of providing an EDA RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site. These protections apply to the extent that the Federal government may become potentially liable as a result of ground water, surface, soil or other natural or man-made conditions on the property caused by operations of the EDA RLF Recipient or any of its borrowers, predecessors, or successors.

4. Procedures for Complying with EDA Reporting Requirements

The Department of Financial Management distributes a quarterly loan portfolio report that documents the outstanding balances of loans and the performance of the portfolio with respect to the required guidelines. This report is an operational report, which will guide the marketing practices of the City staff and assist in maintaining lending ratios within desired limits.

RLF loan repayments and program income will be tracked and budgeted through the City's Department of Financial Management Accounting System. All funds will be accounted for within the operational requirements of the City and will be subject to all restrictions and practices required by the California Government Code. Loan repayments and fees will be deposited into a separate City account to track program income.

RLF staff will be responsible for the preparation of required EDA reports. It will also prepare the required annual certification that the RLF Administrative Plan is consistent with and supportive of the current Economic Adjustment Strategy and that the RLF continues to operate in accordance with policies and procedures of the RLF Administrative Plan. This certification will be in the form of an action taken by the EDC.

RLF staff shall complete and submit a semi-annual report in electronic format, unless EDA approves a paper submission. The committee shall certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan and describe (and propose pursuant to § 307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool. If using either fifty (50) percent or more (or more than $100,000) of RLF Income for administrative costs in a six-month (6) Reporting Period, the loan committee shall submit to EDA a completed Income and Expense Statement (Form ED–209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission.

5. Procedures for Complying with Other Funding Source Agency Reporting Requirements

All borrowers will be required to comply with federal civil rights laws, specific requirements of funding sources and applicable federal regulations, e.g., National Historic Preservation Act, Public Works & Economic Development Act, Americans with Disabilities Act, Environmental Protection Agency, Davis-Bacon Act, Contract Work Hours and Safety Standards Act, Earthquake Hazards Reduction Act.

6. Grantee Control Procedures for Ensuring Compliance with All Grant Requirements and for Monitoring the RLF Portfolio

The City will utilize current documents and procedures for operation of the RLF. Basic loan documents are in place, as are operating procedures and guidelines. Collateral and credit files will be reviewed quarterly to determine consistency, completeness, and correctness. All accounts, books, and records will be reviewed and audited annually as part of the City's audit requirements. Any proposed changes to the RLF Administrative Plan will be submitted to the EDA for approval prior to implementation.