CITY OF EL PASO, TEXAS
AGENDA ITEM DEPARTMENT HEAD'S SUMMARY FORM

DEPARTMENT: **Office of Economic Development**

AGENDA DATE: **October 28, 2008 – Regular Agenda**

CONTACT PERSON/PHONE: **Kathy Dodson, PhD, Director 541-4670**

DISTRICT(S) AFFECTED: **ALL**

SUBJECT:

Discussion and action on a Resolution that the City Council approve revisions to the Revolving Loan Fund Plan that: address the current economic development priorities of the El Paso region; increase the minimum loan amount to $10,000 and the maximum loan amount to $100,000; revise the targeted industries for loan funding priorities; and provide non-substantive revisions to clarify loan funding procedures and program administration.

BACKGROUND/DISCUSSION:

The City of El Paso operates its Revolving Loan Fund under guidelines established in the Revolving Loan Fund Plan. From time to time, the plan is reviewed and amended to better serve the region's economic development priorities and targeted industries.

PRIOR COUNCIL ACTION:
Has the Council previously considered this item or a closely related one?
Yes. February 2001.

AMOUNT AND SOURCE OF FUNDING:
How will this item be funded? Has the item been budgeted? If so, identify funding source by account numbers and description of account. Does it require a budget transfer?
N/A

BOARD/COMMISSION ACTION:
Enter appropriate comments or N/A.
RLF Board reviewed and favorably recommended approval of the amended Revolving Loan Fund Plan at its November 15, 2007 board meeting.

**********REQUIRED AUTHORIZATION**********

LEGAL: (if required) _____ **FINANCE: (if required)**_____

DEPARTMENT HEAD: _____
(Example: If RCA is initiated by Purchasing, client department should sign also). ***Information copy to appropriate Deputy City Manager***

APPROVED FOR AGENDA:

CITY MANAGER:_____ **DATE:** _____

RESOLUTION

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EL PASO:

That the City Council approves revisions to the Revolving Loan Fund Plan that: address the current economic development priorities of the El Paso region; increase the minimum loan amount to $10,000 and the maximum loan amount to $100,000.00; revise the targeted industries for loan funding priorities; and provide non-substantive revisions to clarify loan funding procedures and program administration. The amended Revolving Loan Fund (RLF) Plan hereby adopted is attached as Exhibit "A."

APPROVED this _____ day of October, 2008.

CITY OF EL PASO

_____
John F. Cook
Mayor

ATTEST:

_____
Richarda Duffy Momsen
City Clerk

APPROVED AS TO FORM:

_____
Marie A. Taylor
Assistant City Attorney

APPROVED AS TO CONTENT:

_____
Kathryn B. Dodson, Ph.D., Director
Economic Development Department

ECO/RLF/RESO/08/Amended RLF Plan
Document: #43277v3/MTAY

REVOLVING LOAN FUND PLAN
CITY OF EL PASO AND COUNTY OF EL PASO
CITY OF EL PASO, TEXAS

AMENDED 2007

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PART ONE: THE REVOLVING LOAN FUND STRATEGY

A: Economic Adjustment Program Overview

1. Economic Adjustment Problems. The overall economic development goal of the City and County of El Paso is the generation of new employment opportunities and retention of existing jobs for El Paso's labor force. Population studies by the United States Census Bureau and the City's Department of Planning and Research indicate that since the 1990 census, El Paso's population has grown annually by 2.5 percent. El Paso's rapid population growth has created a local labor market surplus that exceeds the employment capacity of El Paso's businesses and industries. It is this continued growth that makes the job market more competitive and hampers pay scale upgrades.

An economic study conducted by the University of Texas at El Paso utilizing information garnered from the 2004 Census indicated that there are approximately 44,377 businesses in El Paso County. Of these registered businesses, 56.6% are classified as being minority owned and 22.4% are woman owned. Of these businesses, we conclude that approximately 70% employ less than 10 individuals, and in most cases, less than 5 employees. In 2004, the estimated population of El Paso County was 713,126, an increase of 4.9% since 2000. Further projections show that the minority population in El Paso will continue to increase in the future and indicates that our minority population will account for over 85% of the population by 2030.

2. Strategy Process. The Economic Adjustment Strategy continues to be a city-wide effort inclusive of local stakeholders who are collaboratively promoting economic development initiatives. Over 25 regional economic development organizations are currently collaborating in the formulation of improved economic development strategies. A key concern for growth in El Paso centers on the retention of current businesses, their potential for growth and the availability of capital. Growth for these companies can occur with the adaptation of new technologies in response to industry demands.

Another priority of the economic development strategy is the diversification of the economy, commercial and industrial development, and the use of public funds to assist entrepreneurs through revolving loan fund programs. These elements are recognized as vital ingredients for El Paso's successful economic development strategy.

3. Area Resources/Assets. In the past, El Paso area resources and assets have been limited and only recently have local financial institutions become more receptive to the financing needs of small businesses. The City/County Revolving Loan Fund (RLF) will target small businesses that can best help the City/County achieve long term economic development objectives, as listed in a subsequent section of this document. We use the guidelines determined by the Small Business Administration (SBA) and/or the State of Texas General Services Commission, Historically Underutilized Business (HUB), to classify small businesses. This program's priority will be to extend financial assistance to small businesses which exhibit the following characteristics:

a. Businesses in need of financial assistance for start-up and expansion in the El Paso area that will create or retain jobs, and:

b. Offer a progressive career track and ultimately increase in wages and skill levels, and:

c. Within the Economic Development Department's Target Industries for Business Retention and Expansion:

- Advanced Manufacturing (defined as the integration and utilization of technology in a system of production to improve processes and techniques to produce goods and services faster, cheaper and cleaner)
- Aerospace and Defense
- Bio-Medical
- Logistics and Trade
- Technology/Innovation
- Creative Class (including R&D, publishing, software, television & radio, design, music, film, toys and games, advertising, architecture, performing arts, fashion design, and video game design)
- Maquila industry suppliers
- Services, Retail and other small business

d. Businesses located within the City's Enterprise Zones, Renewal Community areas and the Empowerment Zone.

4. Strategic Adjustment Goals and Objectives. The Revolving Loan Fund will continue to target resources toward the retention and creation of jobs for the unemployed and under-employed. All targeting efforts are performed with a high priority given to those projects yielding the highest in job creation.

Revolving Loan Fund money will be available to finance projects that can leverage a minimum of two private sector dollars to one Revolving Loan Fund dollar (a 2:1 ratio). Preference is given to projects that can leverage private dollars in ratios higher than the minimum required leverage. Private sector funding includes capital invested by the borrower and financing from private financial institutions.

All project funding must be as a result of simultaneous loan efforts for the overall project. Any previously gained loan dollars dealing with any previous expansion projects or any pre-Revolving Loan Fund funding are not eligible.

During the revolving phase of the loan fund, the Revolving Loan Fund guidelines and policies (EDA) will still be primarily targeted toward the creation and retention of new employment opportunities for El Paso workers. Preference is given to city/county projects with the greatest impact on El Paso and those that locate in the federal empowerment zone, State Enterprise zone or Renewal Community. The impact is determined by the number of jobs created and retained, total capital investment and improvement in the El Paso community. However, the retention of existing jobs and the creation of new jobs will continue to be a significant priority of the program.

5. Implementation of Programs and Activities. The City's Economic Development Department ("EDD"), in conjunction with the County and its 26 partners offer an array of technical assistance programs available to companies obtaining Revolving Loan Fund financing, such as technical assistance, business plan assistance, financing workshops, workforce training, and others.

6. Organizational Structure and Responsibility. The City's EDD is the agency responsible for the overall operation, oversight, and day-to-day management activities of the Revolving Loan program, however, the City's EDD may contract with a third party to serve as Program Administrator to perform any or all of its administrative and/or clerical functions, except overall program oversight and monitoring. The Program Bank and participating Banks will provide loan underwriting, servicing, and limited collection services for subordinated loans made from the Revolving Loan Fund, as well as participate in the Revolving Loan Fund program as a senior loan Program Lender.

Technical and management assistance to RLF Applicants/Borrowers will be coordinated by the City's EDD or designated Program Administrator. Depending on the specific needs of the loan recipients, local partners will be used to help them accomplish their goals. Unless borrowers can demonstrate a high level of experience, coupled with a high level of business success, they will be encouraged to enroll in business assistance/development training available through multiple training development partners within the community.

Any revenues derived from the application and closing fees charged to loan recipients will be tracked and used for the administration of the Revolving Loan Fund program.

The City's EDD or designated Program Administrator will facilitate the appointment and maintenance of the Revolving Loan Fund Board (RLF Loan Board or Board), which will govern the Revolving Loan Fund program. The Board will consist of several business and community representatives with financing expertise and business acumen. The Board will have the task of evaluating and approving the projects to be financed by the Revolving Loan Fund program and will be given the authority to grant final loan approvals or deny any loan application.

Before presentment to the RLF Loan Board, all loan assistance packages will be reviewed and evaluated by the City's EDD or designated Program Administrator for program compliance. If the loan applications meet the RLF criteria, then the RLF Loan Board will convene.

The City's EDD will monitor the program for compliance with all applicable local, state, and federal laws and regulations. The Program Bank and when applicable, the City's EDD or designated Program Administrator will make required quarterly, semi-annual, and annual reports to the City's EDD on the status of the loan portfolio or other reports and documentation as necessary to comply with EDA requirements.

B: The Business Development Strategy

1. Business Development Objectives. The Revolving Loan Fund is programmed to fund private business enterprises including but not limited to: manufacturing, aerospace and defense, bio-medical, logistics and trade, technology/innovation, creative class industries, and maquila industry suppliers with maximum amount of job retention and/or new job generation capacity. The Revolving Loan Fund will not offer assistance in the areas of loan guarantee financing prior to full disbursement of grant funds. All loan opportunities must result in the hiring of permanent, full time employees, and retention of existing jobs. These companies must be consistent with the intent of the Revolving Loan Fund to retain and/or create better paying jobs for the citizens of El Paso.

All Revolving Loan Fund applicants will be evaluated on the five criteria items listed in Part I, Section D, of this document. Revolving Loan Fund financing will be available to finance the expansion of locally owned small businesses and new industries to El Paso which meet the RLF criteria. Revolving Loan Fund financing will be available for equipment, inventory and working capital. All of the projects proposed for funding must comply with all of the rules of the Economic Development Administration's Revolving Loan Fund guidelines and/or other guidelines contained within this document when appropriated for RLF County loans.

Funds will be used primarily to finance expansion projects for small businesses in the City and County, preferably businesses using the Participating bank's SBA loan program, but not limited exclusively to SBA loans. Other bank loans that meet the EDA guidelines may be reviewed. We classify small businesses as per the guidelines determined by the Small Business Administration (SBA) and/or by the State of Texas General Services Commission, HUB Certification Section. Emphasis will be on those projects that require financing for retention and expansion projects and shorter term financing opportunities. Fifty percent of total grant funds will be used for loans for fixed asset improvements and the other fifty percent of grant funds will be used for working capital and are considered to be an important financing option. No unsecured loans will be made, and a key-man life insurance policy may be required as appropriate to the loan package. The City/County recognizes that risk assumption is integral to the success of the Revolving Loan Fund. However, reasonable prudence must be shown in protecting the assets of the Joint Revolving Loan Fund.

2. Targeted Loan Recipients. These funds will be loaned out to an array of small business enterprises within the city and county areas that qualify for SBA's loan guarantee program. The Revolving Loan Fund is programmed to fund privately owned non-restaurant small businesses, primarily in the advanced manufacturing, aerospace and defense, bio-medical, logistics and trade, technology/innovation, creative class industries, and maquila industry suppliers with maximum amount of job retention and/or new job generation capacity.

Companies requesting the use of this financing vehicle must be in good financial condition as well as exhibit the ability to repay the loan dollars. A strong competitiveness in the marketplace and positive business progress will be relevant. This strategy is attainable if the Banks make a concerted effort to promote and actively participate in the RLF program as part of their loan policy for small business loan expansion. For every two dollars of direct bank loans/SBA guaranteed loans generated; one dollar from the RLF can be leveraged.

The environmental impact that a prospective loan recipient and their industry has on the community is a consideration. Additional consideration will be given to those regarded as "environmentally friendly." No attempts will be made to discourage any business from applying for or receiving RLF money provided they meet local, state, and federal environmental requirements.

3. Economic Development Objectives. The Revolving Loan Fund will promote economic development and revitalization through implementation of the following objectives:

a. Make available private financing at sufficiently affordable rates and terms.

b. Provide increased employment opportunities for residents of the City and County.

c. Offer the Revolving Loan Fund financing opportunities to companies for either long-term or short-term efforts.

d. Diversify and expand the composition and makeup of the City/County's economic base.

e. Enhance the formation and expansion of minority and women-owned businesses as well as HUB's (Historically-Underutilized Businesses).

f. Leverage EDA funds on a 2:1 ratio with private sector funds.

g. Create one job and/or retain two employees per every $25,000 loaned.

4. Programs and Activities Undertaken by the Public Sector. There are many regional institutions that offer services ranging from short courses and seminars on how to improve one's business to individual consulting on unique business strategies offered by the partners. Banks will give referral information to loan applicants, i.e., in all pre-loan preparatory paperwork necessary for RLF loan package submission, this training information will be included.

C: The Financing Strategy

1. Current Financing Needs and Opportunities in the El Paso Area. The opportunities for El Paso businesses appear to be brighter today than at any point in recent memory. The primary drivers of this optimism include the advent of growth in troop strength at Fort Bliss and other regional military installations; the development of a four year research oriented medical school; growth in the number of engineering graduates at UTEP and NMSU; the resurgence of the US economy, and the re-emergence of Cd. Juarez as Mexico's maquila industry leader.

These factors will generate opportunity to recruit new business and industry to our community, expand existing businesses, and improve potential market opportunities. El Paso's geographic location also places it in a unique position from the standpoint of both challenges and opportunities. The region offers three distinct operating environments for companies to choose from - El Paso, Southern New Mexico, and Mexico. This same value proposition also creates competitive pressures that do not exist in many North American locations.

The financing needs of the area are somewhat unique. Area small businesses need a readily available source of financing to assist in funding distinctive business expansion projects. These projects can range from working capital financing to facility expansion efforts.

2. Availability of Public and Private Financing. A review of the El Paso capital market and discussions with local small businesses indicate the local capital market has the following characteristics:

- El Paso is a capital poor city with a high demand for financing assistance which exceeds the lending capacity of a limited deposit base.
- El Paso banks follow conservative policies and practices regarding allocation of deposits for lending purposes.
- There is a reluctance to provide financing to high-risk companies or to companies located in blighted or depressed areas of the community.
- There is a shortage of long-term and working capital commercial financing available to small businesses located in El Paso.

Local banks are reluctant to make loans smaller than $100,000 due primarily to equity deficiency on the part of the borrower, thus making the need for small loan financing opportunities a must for El Paso. In order to accomplish the stated goals of the Revolving Loan Fund, participation with the banking community, which will use the SBA's loan guarantee program loans, is expected to fill a very important niche in El Paso's financial community.

3. The Role of Revolving Loan Fund Financing. The Revolving Loan Fund serves a critical purpose in the City and County's economic development programs by providing direct assistance with project financing for small businesses. These loans will assist in facilitating business expansions, resulting in the creation of new jobs or retention of jobs. The types of companies utilizing the Revolving Loan Fund program will vary. With many of the businesses in El Paso being involved in service and retail businesses, the program specifically targets manufacturing, aerospace and defense, bio-medical, logistics and trade, technology/innovation, creative class industries, and maquila industry suppliers with unique financing needs.

4. Revolving Loan Fund Impact. By making Revolving Loan Fund money available to companies in need of expansion capital or as a supplement to help during temporary cash flow problems, companies can continue to operate successfully while making the changes necessary to remain competitive as well as retain and/or increase employment levels.

Revolving Loan Fund money will be used to strengthen the capital net worth of new and existing expanding businesses, thus allowing the companies to qualify for SBA and other direct loans. The Fund also enables small businesses access to viable financing assistance. Longevity of new jobs can be increased by providing Revolving Loan Fund working capital.

D. Financing Policies

1. Standard Lending Terms and Special Financing Techniques. The El Paso Revolving Loan Fund will employ the following factors in determining which businesses can meet the program's goals and provide jobs to the unemployed and under-employed:

- Businesses and industries that are in the target base linked with job creation and that offer upgrades in wages and skill levels for the El Paso work force.
- Businesses in need of financial assistance for expansion that can leverage their private sector dollars at a 2:1 ratio to EDA's funds.
- Businesses that retain and create the greatest number of jobs available to the unemployed or under-employed.
- Businesses that show previous experience and good financial condition to repay the loan, and businesses that have already been approved for a direct bank loan or with an SBA guarantee provision.
- Businesses with an interest in community development, with a desire to strengthen and/or rebuild their businesses according to the RLF's guidelines.

2. Terms. All Revolving Loan Fund loans will be issued with the understanding that new or retained jobs are a focus of the program and is required.

Range of Allowable Interest Rates. The minimum interest rate that may be charged is four (4) percentage points below the current money center prime rate quoted in the Wall Street Journal, but in no event may the interest rate be lower than four (4) percent. The maximum interest rate allowed will depend on the project under consideration; rates, however, will not exceed what is allowed by the EDA guidelines or the maximum allowed under State law, whichever is lower.

RLF Funding Formula. The Revolving Loan Fund program requires the borrower to provide 10 percent of the equity, assets or cash investment in terms of financing the entire project. The 10 percent required investment exemplifies the level of commitment to the project by the company (owner). The following considerations will be made:

a. The triad of RLF/Bank/Borrower financing will remain in place for both new and existing firms. Since little historical data will be available for new start-up projects, the Revolving Loan Fund will be requesting supplemental information from start-up projects. The additional information is necessary to the decision making process.

b. Working capital loans have been identified as a major financing need for small businesses, which the Board will consider on a case by case basis, as well as loan requests for greater than 50 percent working capital utilization. Please note: During the revolving phase of the fund, it is expected that the ratio of fund usage between fixed asset financing and working capital may increase to the maximum allowed for the portfolio of 50 percent for working capital and inventory. However, the general standards to be achieved for the portfolio, as a whole, will be as stated above.

Standard Repayment Terms. The repayment terms for each project financed through the RLF will correspond to the senior bank loan with compliance to SBA loan guarantee guidelines or other credit enhancement programs. The contract terms will have the same basic elements, and exact terms will be determined on a case-by-case basis.

3. Security. All Revolving Loan Fund loans will be secured with various types of collateral. The RLF will take a second position to the SBA/bank loan. The forms of collateral can differ from contract to contract depending on the assets of the company. The level of financing granted by the Revolving Loan Fund can also determine the extent of the collateral required. Some examples of the preferred forms of collateral are: real estate, machinery and equipment, various types of motor vehicles or personal assets to secure personal guarantees. These items are to be solely owned by the company, free and clear of any liens, as well as be in good working order. The Revolving Loan Fund will seek a first or second lien position for the collateral depending on how the entire project is structured. The value of the collateral must be commensurate with the amount of the loan, with future value being taken into consideration.

Collateral for working capital loans will include second positions in inventory, accounts receivable and fixed assets. Depending on whether a working capital loan is part of a larger, well secured loan or totally for working capital, some flexibility can be utilized as to whether subordinated positions on assets is reasonable. Personal guarantees are required from shareholders with 20 percent or more ownership in the applicant company.

4. Revolving Loan Fund Size. The maximum Revolving Loan Fund loan size will be limited by the current fund balance available for new loans. The Revolving Loan Fund will participate on a 2:1 ratio, ranging from $10,000 to $100,000. The RLF will not commit to funding greater than $100,000 for any one project without prior EDA approval.

E. Portfolio Standards and Targets

1. Anticipated Revolving Loan Fund Investment Profile. El Paso continues to be a service oriented city, with an abundance of professional, health care and other support service providers. Additionally, there are many firms engaged in construction and different forms of light manufacturing which support the heavy manufacturing sector in northern Mexico. Many of these organizations are of modest size and occasionally need working capital. The Revolving Loan Fund is programmed to fund privately owned small businesses, primarily in the advanced manufacturing, aerospace and defense, bio-medical, logistics and trade, technology/innovation, and creative class industries with maximum amount of job retention and/or new job generation capacity.

The primary role of the Revolving Loan Fund is to assist in retaining and expanding current and new industries, giving them an opportunity to expand their employment capabilities. The Revolving Loan Fund can also be used to assist in attracting established business expansions from outside El Paso. Industry attraction is an important part of the City/County's economic development goals, and the Revolving Loan Fund program can help to make some expansions into El Paso a reality. Those will be viewed on a case- by- case basis under exceptional circumstances.

2. Anticipated Loan Profile. The anticipated percentage of Revolving Loan Fund portfolio investments will be 20 percent for industrial, 30 percent for commercial and 50 percent for service businesses. In accordance with these anticipated stated percentages, 40 percent will go to new businesses, 50 percent to expanding businesses and the remaining 10 percent to loans for retaining businesses. Exceptions to these percentages will be the responsibility of the RLF Loan Board, reviewing loan package proposals on a case- by case- basis.

As mentioned earlier, working capital loans have been identified as a major financing need for local small businesses. Therefore, it is anticipated that 50 percent of Revolving Loan Fund dollars will be issued in the form of working capital loans but will not exceed this stated amount. The remaining loans will be utilized for fixed asset investments.

3. Portfolio Private Investment Leveraging Ratio. All projects proposed to the Revolving Loan Fund program will be in the form of a three part package. This package will be made up of at least 10 percent owner investment/equity and overall Revolving Loan Fund portfolio investment ratio will be 2:1.

4. Cost per Job for the Overall Portfolio. The City/County Revolving Loan Fund considers a cost per job ratio of approximately $25,000 loaned out for every one job created and the same amount for every two jobs retained.

F. Revolving Loan Fund Selection Criteria

Each loan application will be evaluated and considered on its own merit and not with any other proposed Revolving Loan Fund project. The overall economic return and impact to the community, in the form of jobs retained or created, and the amount of capital investment and the overall value of the business to the City/County as a whole will all be factors for consideration. In addition to jobs, the Banks will take into consideration the expected revenues of an applicant and determine if intent of the business is to reinvest generated funds in the community.

G. Performance Assessment Process

With assistance from the RLF Loan Board, The City of El Paso and/or the designated Program Administrator, will be responsible for the overall monitoring of the program. The City's EDD or a designated Program Administrator will communicate with the Banking Community, SBA, business service providers and small businesses to get their impressions and input on the annual progress of the RLF program.

Administrative modifications to the Revolving Loan Fund program will be implemented on an as needed basis to ensure the plan is consistent with the current economic development strategy and that Revolving Loan Fund is being operated in accordance with the policies and procedures contained in the plan. Full amendments to any portion of the program plan will be submitted for EDA approval prior to implementation.

PART TWO: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. Organizational Structure – To be provided by the City's Economic Development Department.

1. Staff Capacity and Structure. Staff support for administering the Revolving Loan Fund Program is provided by the City's EDD or a designated Program Administrator. The administrative functions include, but are not limited to, the following:

- Marketing the RLF to small businesses and lenders;
- Providing assistance and guidance to companies making application to the program;
- Loan portfolio management to include tracking, processing, etc.;
- Compliance with all grant requirements;
- Defaults and foreclosures will be turned over to the City's legal department for collection after the bank completes its due diligence; and
- Advising the RLF Loan Board on the eligibility of the applicants and putting forth the qualifying applications, defaults, and/or delinquent loans.

In order to administer the program successfully, the City's EDD or designated Program Administrator will also perform the following functions:

a. Assistance to Applicants. The City's EDD or designated Program Administrator will make direct referrals to appropriate agencies that can offer small business guidance and assistance as well as loan application packaging assistance.

b. Identification and Development of Appropriate Financing Opportunities. The RLF will rely on a number of sources to identify and develop appropriate financing projects. One of these sources will be the local banking community for those applicants who do not meet all of the bank's loan requirements and where a third party lending source is required to make the project possible. The RLF Program can fill this gap financing. Other public and private sector lending programs, such as Small Business Administration programs --will have the RLF as a resource when a third party lending source is required to make projects possible. The City's EDD or designated Program Administrator will also make presentations to local business groups and individuals to intensify the recruiting of projects for lending opportunities.

c. Provision of Business Assistance. In an effort to insure that loan applications meet the required standards for consideration of loan approval, professional loan packaging assistance will be provided by the City's Economic Development Department or the designated Program Administrator.

In addition to loan packaging assistance and general business development assistance, loan recipients will be encouraged to attend business seminars. The City's EDD or designated Program Administrator will work closely with regional economic development providers, as well as with private business consultants, to increase the opportunities for success for these companies.

2. RLF Loan Board. The RLF Loan Board shall consist of 10 board members, with five members representing El Paso County and five representing the City of El Paso. It is required that the board members will have one or more of the following characteristics in order to serve: previous experience in lending, accounting or bookkeeping experience or general business acumen with demonstrated experience. Board members will come from the private sector.

An effort will be made to recruit board members who are currently working in the targeted industries and/or business sectors, provided there is no conflict of interest. In an effort to maintain the most current business practices for the RLF, it is preferred that these individuals currently hold positions closely associated with the aforementioned areas of experience where possible without causing a conflict of interest to a loan application or the program. All board members will comply with local and state conflict of interest policies and procedures and in its deliberations for loan approval the RLF Loan Board will adhere to the conflict of interest requirements contained in the EDA Standard Terms and Conditions, dated 2002.

The RLF Loan Board will be given the authority of making the final loan approval. The Board will evaluate and approve the projects to be financed by the City/County Revolving Loan Fund program.

The duty of the RLF Loan Board is to provide the final approval or disapproval for each prospective company that is put forth by the Bank. It will be the duty of the Board to approve loan modifications (or waivers with recommendations by the Program Lender and/or a 3rd party.

Each RLF board member will be expected to serve a term of two years. The terms will be staggered, with five members on each tier to provide continuity to the program. If a board member resigns prior to the completion of his or her term, the replacement person will serve the remaining portion of the term.

City/County RLF board meeting will be called monthly to review and discuss new loan applications, delinquent loans and defaulted loans. The loan board meetings will be governed by a quorum requirement of at least of 51 percent of the current RLF Loan Board members. At least one member with financing experience must be present for each loan decision.

B. Loan Processing Procedures - To be submitted by Program Lender

1. Standard Loan Application Requirements. All loan applicants must supply the following list of documentation in order for the loan review process to begin:

- Accounts receivable, aged
- Fully completed loan application
- Loan write-ups (See Section 7 below)
- Past three years' financial statements with profit and loss and balance sheet
- Listing and description of any real property, machinery and equipment that will be used for collateral
- Work history of principals in company
- Past three years' IRS tax returns for the company and the individuals
- Cash flow projections for the next twelve months
- Current flow projections for the next twelve months
- Current personal financial statement for any principal (and spouse) or any owners with 20 percent or more ownership

2. Credit Reports. A credit report will be required on each company and on any of the principals that are providing a personal guarantee for the repayment of the RLF loan.

3. Appraisal Reports. Current appraisal reports will be sought on any real property, machinery and equipment that will be used as collateral to secure the RLF loan. These reports are crucial to the loan decision process.

4. Environmental Reviews. For those projects involving the purchase of real property, environmental clearance must be achieved prior to the disbursement of funds from the RLF. The loan agreement will clearly state this stipulation.

5. Collateral Requirements. In cases where collateral and personal guarantees are necessary, collateral decisions will be made using the loan policy of the Program Lender(s).

6. Standard Equity Requirements. Existing companies requesting an RLF loan will be required to provide 10 percent equity requirement for the total financed project. The company may also choose to provide matching dollars in company equity. Company equity will be assessed as an amount or percentage of capital or lien free assets.

7. Loan Write-Up. The loan write-up that summarizes the key aspects of the loan will differ for each loan project/company. The loan write-up will be prepared by the participating bank for review by the RLF Loan Board. The loan write-up will use the guidelines in the U.S. Department of Commerce Economic Development Administration Revolving Loan Fun Plan Guidelines 2002 Part II, Section B.7. The loan write-up will be presented to the City's EDD or designated Program Administrator at least ten (10) business days prior to RLF Loan Board meeting to check for program compliance. After the EDD or designated Program Administrator has established that the loan meets the program guidelines, the EDD or designated Program Administrator will convene the RLF Loan Board. Loan write-up will discuss the following points:

- A summary of the firm's history
- Management practices, principles, strategies and structure
- Product(s) or service(s)
- Production capabilities
- Existing and projected market conditions
- Financing structure and continuity
- Collateral specifications
- Assessment of repayment ability
- The mitigated or soon to be mitigated environmental concerns
- The projected increase of business as result of the loan and the number of new employees that will result.
- Letter from Bank stating need for RLF participation

8. Procedures for Loan Approvals. After the loan application package is complete the City's EDD or designated Program Administrator will recommend and present the project information to the RLF Loan Board. After substantial review, the RLF Loan Board will make the final decision on approval or disapproval of the loan application.

The entire process will be documented by the City's EDD or designated Program Administrator by following State of Texas Open Meetings Act regulations. Immediately following the board's final decision on a loan application, each applicant will be notified by telephone and by mail detailing the next step in the loan process or reasons for denial.

C. Loan Closing and Disbursement Procedures

1. General Closing Requirements. Prior to any loan being closed, the borrower will be responsible for providing confirmation of the needed equity injection and proof of any private lender financing.

a. Confirmation of the Needed Equity Injection. The borrower must provide a certified letter or other evidence from the company's financial institution indicating that the company has the required amount of equity dollars for the project. When the company's equity is leveraged collateral, the company must provide current letter(s) of appraisal or other acceptable documentation qualifying the real property and/or machinery and equipment.

b. Confirmation of Private Lender Financing. In order to confirm the private lender financing needed to make the project possible, the Bank will forward to the RLF Board its approved credit memorandum for bank loan. The credit memorandum will include stated loan terms agreement, any collateral utilized in the loan process and adequate justification as to why RLF participation is needed.

2. Loan Closing Documentation Requirements. For all loans made by the RLF, the following documentation will be required prior to the loan closing:

- Proof of ownership
- Confirmation of applicant's equity
- Confirmation of private lender financing
- Current appraisal(s) or other acceptable documentation of value of any real property real or personal property used as collateral
- Current Uniform Commercial Code (UCC) filing on any personal property used as collateral.

If any of the above mentioned documentation items are not supplied, the loan closing will not occur. Only after the borrower has a complete loan closing package as specified above, will the loan closing continue.

3. Loan Disbursement Requirements. Depending on the type of loan requested, the borrower must provide proof that the loan proceeds will be used for the intended purposes prior to disbursement. For example, if the borrower has secured the RLF loan for the purchase of machinery and equipment, the borrower must show proof, e.g., an invoice, that the equipment has been ordered.

D. Loan Servicing Procedures

1. Loan Payment and Collection Procedures. The borrower will be responsible for making timely loan payments on the repayment of the RLF loan account. Each borrower will be given a schedule of payments for the entire repayment period of the loan by the Participating Bank. The program will make every effort to allow the borrower to use an automatic payment withdrawal plan. The automatic payment plan would be accomplished by the borrower's bank making an electronic direct payment to the appropriate City of El Paso account (RLF).

2. Loan Monitoring Procedures. The City's EDD or designated Program Administrator will be responsible for the continuous monitoring of each RLF loan in all stages of the loan process: application, approval, post loan disbursement and the entire repayment period. Communication will be the key to the monitoring process; each loan will have its own portfolio of timely information. Every transaction and communication will be maintained by hard copy within each loan portfolio. Each RLF borrowing company will be required to submit an unaudited quarterly financial statement, prepared by a Certified Public Accountant. The quarterly financial statement will serve as an early warning sign as to the condition of the loan recipient so that the earliest intervention possible can be made to assist a company that might be experiencing problems.

Depending on the terms and conditions of each loan, companies may be required to submit proof of purchase of property insurance. Additionally, if equipment is collateralized, the company will be billed for an annual UCC search that will be conducted to protect the RLF. Borrower site visits will take place on an annual basis to insure that the company is visually in operation and to verify that collateralized machinery and equipment remains on the premises in good working condition. More frequent site visits may take place if warranted by unsatisfactory repayment practice or any other early warning sign of company operational difficulties.

3. Late Payment Follow-Up Procedures. RLF loan payments will not be considered late until they have passed the tenth business day following the due date. Late payments may carry a late payment penalty in conformity with Participating Lender policy. If payment is not made after the tenth business day from the due date, the Program Lender's policies on late payment and collection will be implemented.

Late payment that exceeds 30 days warrants a site visit by the Bank in order to discuss repayment. Late payment that exceeds 90 days will be considered to be an event of default of the loan note and the entire remaining balance of the loan will immediately become due with notification to the Borrower. Subject to any senior loan priority, complete and thorough subrogation proceedings will be commenced to include notification to guarantors of the event of default, the seizure of any collateralized machinery and equipment for immediate resale or other appropriate asset liquidation procedures.

The Bank will notify the City's EDD or designated Program Administrator of all late and/or default loans and their status on a monthly basis.

4. Procedures for Late Payments Over 90 Days. As mentioned above, payments that are not made within 90 days will result in the RLF loan being declared in default, and the entire balance - on the loan becoming immediately due. The City's EDD or designated Program Administrator will provide monthly reports to the City's and County's Attorney's offices on all loans that are delinquent and/or in default and document what collection efforts have been taken to remedy the delinquency. Any proceedings that include the seizure of all collateralized equipment for immediate resale will, where necessary, correspond to senior bank debt. Any subsequent balance due will be brought against the company for immediate collection by any and every means permissible by state and federal law.

5. Write Off Procedures. The RLF will "write off" as uncollectible any loans that are: 1) in excess of 120 days in arrears, 2) concluded by seizure of collateralized equipment, if possible,; and, 3) deemed not collectible by the advice of the City Attorney's office (with the County Attorney's assent if County funds are involved). For accounting purposes, loans deemed uncollectible will be 100% allowed for.

E. Administrative Procedures

1. Procedures for Loan Files and Loan Closing Documentation. The City's EDD or designated Program Administrator is responsible for maintaining all RLF loan program documentation on its premises at all times in a secure location. All executed loan agreements will also be on file at the Program Lender for documentation and safekeeping purposes. These documents will be kept in a fireproof file cabinet.

Each RLF loan project will have its own file folder complete with a paperwork retaining system. These files will have a copy of the following:

- Pre-loan package
- Property appraisals
- Fully executed contract/notes
- Personal guarantees and security agreements
- Loan proceeds draw-down schedule
- Repayment schedule(s) with record keeping cards
- Copy of the private lender loan agreement
- Financial statements (all editions) UCC filing information
- Annual insurance certifications
- Job creation reports
- Annual site visit reports
- All original notes and any other information and/or documentation that is pertinent to the file of each project.

2. Procedures for Complying with Economic Development Administration and Texas Department of Housing and Community Affairs Reporting Requirements. The Program Bank will be responsible for accepting, posting and tracking all loan disbursements and repayments. The Program Bank will be responsible for tracking the RLF loan funds on a monthly basis, verifying that all RLF payments are posted to the appropriate account, then reporting the Fund's status on a quarterly basis to the City's EDD and the designated Program Administrator. It is also the responsibility of the City's EDD or Program Administrator to monitor the level of funds available for lending and to allocate the appropriate dollars to the administration account of the RLF. All late payment fees,

repayment of loan proceeds and any other revenue generated by the RLF program will be added to the capital fund for loan disbursement.

The joint Revolving Loan Fund will be comprised of one account with contributions made by the City in the starting amount of $586,000 (77.82%) and the County in the amount of $167,000 (22.18%).

It is anticipated that $167,000 or 22.18 percent of the RLF shall be dedicated to making loans in the non-entitlement areas of the County (these areas do not include the area within the City limits). The remaining portion of the RLF, $586,000 or 77.82 percent, may be used for projects within the city limits of the City and/or outside the city limits, but within the County.

The RLF program will concentrate its efforts on making sound loans to qualified businesses and will work hard to make certain the RLF dollars do not remain idle. The RLF program will strive to exceed more than a 75 percent utilization of funding rate, meaning that we will strive to keep less than 25 percent idle. All idle RLF dollars will continue to gain interest in an interest bearing City of El Paso account (RLF).

3. Grantee Control Procedures. The City's EDD and Program Administrator will make certain that the City is in the strictest compliance with all grant requirements to maintain the federal grant dollars in El Paso. Loan monitoring will continue to be accomplished by the City's EDD or designated Program Administrator. The City Comptroller's accounting supervisor and the City's internal auditor will also have a significant role in assisting in maintaining the program's grant compliance, financial records, disbursements, and information maintenance. Legal matters will continue to be handled by the City Attorney's Office to ensure all legal matters are adequately and efficiently taken care of. Since receiving RLF funding from the Economic Development Administration in 1984, the City has always upheld and maintained all grant requirements with the standards of and on request by the Economic Development Administration.

As initially provided in the original grant, the City will have legal counsel review, then re-certify all required documents that were amended and updated, as per the amended RLF plan. The minimum documents required are: Promissory note Agreement, Security Agreement(s), and Subordination Agreement, as per this document.

THE CITY:
CITY OF EL PASO, TEXAS

By: _____

Name: Joyce A. Wilson
Title: City Manager

APPROVED AS TO FORM:

_____

Marie A. Taylor
Assistant City Attorney

APPROVED AS TO CONTENT:

_____

Kathryn B. Dodson, Ph.D., Director
Economic Development Department

THE COUNTY:
COUNTY OF EL PASO, TEXAS

By: _____

Name: _____

Title: _____

ATTEST:

County Clerk

APPROVED AS TO FORM:

_____

Assistant County Attorney