

MINUTES
EDC-VC BOARD OF DIRECTORS MEETING
July 18, 2019

Location: Port of Hueneme, Oxnard Harbor District, 333 Ponoma Street, Port Hueneme, CA 93041

Attendance: Will Berg – City of Port Hueneme
Vance Brahosky – NSWC Port Hueneme Division
Gary Cushing – Chambers of Commerce Alliance
Kristin Decas – Port of Hueneme/Oxnard Harbor District
Henry Dubroff – Pacific Coast Business Times
Amy Fonzo – California Resources Corporation
Greg Gillespie – Ventura County Community College District
Cheryl Heitmann – City of Ventura
Bob Huber – County of Ventura
Kelly Long – County of Ventura
Chris Meissner – Meissner Filtration Products
Roseann Mikos – City of Moorpark
Manuel Minjares – City of Fillmore
Michele Newell – VCEDA
Carmen Ramirez, *Chair* – City of Oxnard
William Weirick – City of Ojai
Peter Zierhut, *Secretary/Treasurer* – Haas Automation

Absent: Haider Alawami – City of Thousand Oaks, Liaison, ED Managers Roundtable
Gerhard Apfelthaler – California Lutheran University
Eric Bergh – Calleguas Municipal Water District (Liaison)
Dee Dee Cavanaugh – City of Simi Valley
Victor Dollar – Ventura County West
Nan Drake, *Vice Chair* – E.J. Harrison Industries
Harold Edwards – Limoneira Company
Bob Engler – City of Thousand Oaks
Carlos Juarez – City of Santa Paula Manuel Minjares – City of Fillmore
Jim Scanlon – Arthur J. Gallagher and Co
Alex Schneider – The Trade Desk
Cari Shore – Rabobank
Tony Skinner – IBEW Local #952
Trace Stevenson – AeroVironment, Inc.
Sim Tang Paradis – City National Bank
Tony Trembley – City of Camarillo
Ysabel Trinidad – California State University Channel Islands

Legal Counsel: Nancy Kierstyn Schreiner, Law Offices of Nancy Kierstyn Schreiner

Staff: Marvin Boateng, Loan Officer
Ray Bowman, SBDC Director
Stephanie Gonzalez, Program Specialist
Shalene Hayman, Controller
Kelly Noble, Office Manager
Bruce Stenslie, President/CEO

Guests: Christina Birdsey, Port of Hueneme/Oxnard Harbor District
Nancy Frawley, Office of Assembly Member Jacqui Irwin
Greg Hayward, Over the Net
Jess Herrera, President, Oxnard Harbor District
Alan Jaeger, Naval Base Ventura County
Dr. Rachel M Linares, County Executive Office
Kendra Meggett-Carr, Director, National Office of Naval Research, Technology Transfer Program
Andrew Munson, Office of Assembly Member Jacqui Irwin
Mike Pettit, County Executive Office
Cam Spencer, Port of Hueneme/Oxnard Harbor District
Bryan Went, Matter Labs
Erick Went, Matter Labs

Call to Order: Chair Carmen Ramirez called the meeting to order at 3:48 p.m. Ramirez thanked everyone for being here today and thanked the Port of Hueneme for hosting our meeting today.

Amendment to the Agenda: None

Public Comment: None

Minutes: **Approval of Meeting Minutes, June 20, 2019**
Chair Ramirez asked if there were any comments on the June 20, 2019 minutes. With none, Ramirez asked for a motion to approve the minutes from June 20, 2019. William Weirick motioned to approve the minutes from June 20, 2019. Bob Huber seconded the motion. All Board members listed in attendance in favor, motion carried.

Financial Report: **June 2019 Financials**
Shalene Hayman briefly reviewed the May 2019 financials.

With no questions, Ramirez requested a motion to approve and file the June 2019 Financials. Henry Dubroff motioned to approve and file June 2019 Financials. Cheryl Heitmann seconded the motion. All Board members listed in attendance in favor, motion carried.

Administration **Small Business Development Center 2nd Quarter Report**
Stenslie noted that the Long Beach Community College District serves as the regional “Lead Center” for federal Small Business Development Center services for Los Angeles, Ventura and Santa Barbara Counties. Long Beach secures the core funding from the U.S. Small Business Administration, then sub-contracts to local direct “service centers,” or “sub-recipients,” of which EDC-VC is one.

Our service area is all of Ventura and Santa Barbara Counties, with leeway and expectation to serve businesses throughout Los Angeles County as well, for services relating to international trade, disaster preparation and recovery and access to capital.

We have successfully operated this program since 2010, consistently exceeding performance benchmarks, earning contract renewals. *For performance in 2018*, we exceeded our contract goals for economic performance, achieving 60 business starts on a goal of 60, and helped our clients secure more than \$73 million in new capital infusion, versus a goal of \$35 million.

Our initial contract as budgeted and approved by our Board was for \$405,000. At the time we considered those approvals, staff anticipated that we are likely to receive a mid-year increase to \$475,000. That modification has now been received and approved, at the \$475,000 level.

Further on funding, we are also required to provide a 50% match in cash to the \$475,000 SBA contract. As adopted in our budget, we anticipate \$110,000 of that as supplied by the business capital infusion item noted just above, plus \$127,500 locally raised:

- up to some \$88,000 from the cities,
- \$30,000 from the County of Ventura, and
- an estimated \$45,000 from Santa Barbara City College and Cuesta College.

The total of those represents an “over-match” which provides us some confidence and cushion in assuring we can draw down our full allocation of federal funds.

Our service delivery is through the provision of direct, one-on-one professional consulting, using a corps of some 30 business advisors. Our strategy is to develop direct consulting relationships with business clients, customized around specific scopes of work responsive to their needs for growth and profitability.

Our contract goals and current outcomes follow below; a copy of the scorecard that displays outcomes for the entire Los Angeles region and for our EDC specific performance is attached. All outcomes (or “milestones”) must be documented by signed agreement from the businesses served.

| <u>Performance Goals</u> | <u>Annual Outcome Target</u> | <u>2nd Qtrr Outcomes</u> |
|--------------------------|------------------------------|-------------------------------------|
| Clients Served: | 821 | 504 |
| Capital Infusion | \$35,000,000 | \$33,957,773 |
| Business Starts | 60 | 11 |

The goals and targets are assigned by the Lead Center. The “Clients Served” category is new, replacing the former “Long-Term Clients” measure. This is a minor shift, though welcome, as the “long-term clients” measure encouraged a commitment of hours served to clients, without regard to economic outcomes.

We are confident we’ll exceed these measures, though we are well behind on new business starts, with considerable ground to cover the 2nd half of the year.

We should also note that the guidance on the use of the new \$475,000 from the Governor’s Office restricts 80% of the fund to direct client counseling. Reaching the larger goal of 821 clients and spending 80% of the \$475,000 on client counseling, plus some 30% to 40% of the regular SBDC funds on direct client counseling, will be a stretch this year. Staff will provide an update at the time of our meeting on projections and activities to manage these goals.

Update and Overview, EDC Lending Programs

EDC’s Loan Officer, Marvin Boateng informed the Board that the EDC-VC has provided business loan services since shortly after our establishment in 1996. Today’s update and presentation will include:

- a general overview of our role and priorities in business lending;
- a summary of the several loan programs and the loan portfolio;
- a summary of borrower characteristics, and
- a discussion of priorities for moving forward.

Key features of our lending programs include:

- We lend only when the business is unable to secure commercial credit (there are rare exceptions). We are neither organized nor capitalized to compete with commercial lenders. One of our essential goals is to assist firms in becoming (and continuing to be) bankable.
- We seek first to identify other conventional or non-conventional sources of capital for our clients, intending to identify the optimal match of capital to need (and preserving our capital for such cases where other resources are wholly unavailable).
- We seek to lend in the context of partnerships. For example, we frequently fund loans to businesses referred to us by local banks. These are clients that banks like but won't lend to owing to various scoring ratios or other factors that we are able to look past or remediate through concentrated consulting attention on the business plan.
- We couple our lending with our small business consulting and continuous follow-up. We seek to assure that we are bringing our full capacity and resources to the benefit of the businesses, best toward assuring their success and to manage our credit risk.
- Our objective is job creation, at least one job for each \$25,000 loaned. We may occasionally consider at-risk jobs retained, though only in small number relative to jobs created. (For our child care lending, however, the objective is the expansion of the number of licensed child care slots.)
- Consistent with the points above, we seek to lend to firms that, except for some credit blemish, for example, have strong character and a solid business plan, will contribute to the local economy and have the real potential through our assistance to become bankable through commercial lenders. *We serve an economic development agenda of fueling growth when other accelerants are not available or reachable.*

In addition to the points above, following are some additional policy guidelines:

- Loan Board: EDC-VC staff makes loan recommendations to a *Loan Board*, which for every program and every loan has final decision authority. This assures that we have professional oversight, that we're making arms-length transactions, and using expert and independent counsel in helping to craft lending decisions.
- Interest rates vary by fund source and other considerations over the history of our lending. For example, prior to the recession, rates were generally around prime plus 2%. With the prime rate running low since the recession, the spread has widened. We also consider case-by-case risk in setting the loan rate. Currently most of our loans are at around 7.25%, though for disaster assistance and for child education facilities we lend at about 4%, and at about 5.5% for the City of Ventura. As noted above, however, rates vary by program and policy priorities tied to the funds. Loans capitalized by the City of Ventura, particularly through its Community Development Block Grant funds, are lower in rate, currently around 5.5%. Our child care loans, capitalized by First 5 Ventura County, are generally at 4.5%.
- Our loan application process is rigorous, requiring three years of financials/tax returns, three years of projections, extensive business plan documentation. The single greatest barrier to getting loans done is the challenge businesses face in assembling and presenting this information, even while we provide extensive assistance for putting it together.
- Use of Funds: We primarily lend for working capital and for the purchase of fixed assets, equipment and inventory. We may loan for leasehold improvements. We occasionally lend for debt consolidation, when it results in increased operating cash and reinvestment in the business. With a couple of significant exceptions (child care lending and a building rehabilitation and code compliance fund from the City of Ventura) we avoid construction lending, in order to stay clear of complexities in prevailing wage rules and environmental review.

- We do require guarantees and collateral; our staff and Loan Board exercise craft and creativity in structuring security.
- Our maximum term is seven years, with some exceptions by fund source; our average loan is around six years.
- Co-Investment: We look for one dollar of the business owners' money invested for each of ours.
- Risk Management: Our overall default rates have been running around six to seven percent, extremely competitive relative to other revolving loan funds and demonstrating conscientious practice through the recession. As an alternative lender, we lean to the conservative end of the spectrum.

Review of the Updated General Lending Revolving Loan Fund Administration Plan. Recommendation to Approve

Stenslie informed the Board that the incorporation and launch of EDC in 1996 was very much in response to the Northridge Earthquake and the opportunity afforded by the U.S. Department of Commerce, Economic Development Administration (EDA) to access disaster recovery funds.

One of the initial grant awards from EDA capitalized a Revolving Loan Fund (RLF). That fund was initially restricted to disaster recovery, but was later expanded to general lending, countywide.

Revolving Loan Funds capitalized by EDA must adhere to federal regulations at 13 CFR Part 300, and the Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions, as occasionally amended.

These Standard Terms and Conditions prescribe that RLF's operate under the guidance of an Administrative Plan, which sets out our lending strategies, policies and procedures, and stipulates our compliance with the regulations

The federal regulations for Revolving Loan Funds was most recently amended effective January 2, 2018, with updated Standard Terms and Conditions dated March 14, 2018.

This agenda item today is to share the major updates brought into effect by the revised regulations and terms and conditions, and of course to share the substance of the overall Administrative Plan.

A copy of the Admin Plan has been distributed to the Board separately; following below is a summary of the key changes.

Notable Updates include:

P. 10 Loan Typologies: Highlighted in text below, the EDC further defined fixed asset and working capital financing.

Fixed Asset Financing – to provide capital to financing of equipment when vendor financing is not available or at excessive high rates.

Working Capital Financing – To assist when short-term working capital financing (i.e. credit cards) have moved into permanent working capital.

P. 14 Allowable Cash Percentage Rate: In this section, the EDA made changes to the allowable cash rate, referring to the grant balance that EDC may be holding, as a percentage share of the entire grant, including loan balances. The intent of this section is to encourage

grantees to keep as much of the grant funds in loans as reasonably possible. The allowable cash rate is now a floating percentage calculated by EDA.

After the initial EDA grant and match funds are fully disbursed, the RLF will be guided by EDA's Allowable Cash Percentage, as set forth in "Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions" dated March 14, 2018, Part II, Section G.1.

P. 18 Credit Elsewhere Policy: The previous policy required lenders to collect turn-down letters from financial institutions. Owing to regulatory changes, banks require a client to submit a full application for a denial letter. As a result, few of our borrowers have turn down letters, as they rarely go through the entire process of submitting a bank loan before it's clear in the communication with the bank that the borrower will not be successful in securing the bank loan.

Each application must demonstrate that financing is not otherwise available on terms or conditions that would permit completion and/or the successful operation or accomplishment of the project activities to be financed. The primary evidence for this will be the analysis provided in the credit memo supported by a review from an independent advisor.

P. 19 Refinancing Existing Debt: These are new additions to ineligible uses of RLF capital.

6. Serve as collateral to obtain credit or any other type of financing without EDA's prior written approval (e.g., loan guarantees);

7. Support operations or administration of the Lender;

8. Undertake any activity that would violate EDA property regulations found at 13 CFR Part 314;

9. Finance gambling activity, performance or products of a prurient sexual nature, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law.

P. 23 Environmental Requirements: EDA updated standard terms & conditions for environmental requirements. This brings, or keeps, the RLF program in alignment with other federal programs.

Comply with all Environmental Requirements as contained in Part G, Section .04 of the Department of Commerce Standard Terms and Conditions . . .

Ramirez asked for a motion that the Board of Directors receive and file the 2019 updates to our General Lending Revolving Loan Fund Administration Plan, in compliance with U.S. Department of Commerce, Economic Development Administration, *Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions" dated March 14, 2018, Part II, Section G.1.* Many Minjares motioned to receive and file the 2019 updates to our General Lending Revolving Loan Fund Administration Plan, in compliance with U.S. Department of Commerce, Economic Development Administration, *Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions" dated March 14, 2018, Part II, Section G.1.* Bob Huber seconded the motion. All Board members listed in attendance in favor, motion carried.

President's Report

We are scheduled to hold our October 17 meeting at Meissner Filtration, at 3:30. We will follow up to inquire about interest for a facility tour, which would start at 2:30 or thereabout.

**Committee/Liaison
Reports:**

VCEDA

None

Economic Developers Roundtable

None

Ventura County Lodging Association

None

Calleguas Municipal Water District

None

**New or Unfinished
Business:**

None

**Board Member
Comments:**

None

Adjournment:

Meeting adjourned at 5:14 p.m. to the FathomWerx Research Lab for a reception. Our next meeting is September 19, 2019.