

Economic Development Revolving Loan Fund

Proposed Program Changes Discussion Summary

Purpose: This summary highlights the principal policy choices arising from the revised RLF Manual and program review. The proposed changes are intended to strengthen CDBG compliance, improve underwriting and risk management, make the loan products more competitive, and increase the pipeline and timely deployment of available funds. The recommended changes are intended to achieve federal compliance, program improvement, or both.

The recommended changes do not require the RDA to accept greater risk. Rather, they provide flexibility, while requiring documented underwriting, appropriate loan terms, and compliance controls before assistance is approved.

Key Decisions

- Loan pricing: retain the current formula or adopt lower fixed/tiered rates.
- Loan participation: retain the 50% project-cost cap or allow greater participation when justified by underwriting.
- Public benefit: retain the \$35,000 aggregate limit or allow up to HUD's \$50,000 individual activity limit for higher-impact projects.
- Risk structure: authorize flexible collateral and lien subordination when repayment remains supportable.
- Administration: adopt independent underwriting, clearer federal compliance controls, and quarterly portfolio/pipeline reporting.

Discussion Matrix

Policy Area	Current Policy	Recommended Change	Type	Reason
Interest rate	1/2 Prime + 1% for qualifying projects; Prime for general projects.	Adopt fixed or tiered interest rates, generally 1%-4%, based on public benefit, risk, redevelopment impact, and job creation.	Program improvement	Makes the product more competitive given added CDBG requirements and supports faster expenditure.
RLF share of project cost	RLF assistance may not exceed 50% of total project cost.	Allow assistance above 50% when a documented gap exists, owner equity is meaningful, and underwriting supports the amount.	Program improvement	CDBG does not establish a fixed percentage cap; assistance must be limited to the amount necessary.
Assistance per job	Aggregate limit of \$35,000 per FTE job.	Retain \$35,000 as the standard but permit up to HUD's \$50,000 individual-activity limit for high-impact projects with documented justification.	Both	Preserves discipline while allowing flexibility for catalytic projects that generate fewer direct jobs.
Public-benefit compliance	Per job assistance limits mentioned but the individual and aggregate public benefit standards not stated	Document both the 24 CFR 570.209 individual activity standard and the aggregate standard in each underwriting review.	Federal compliance	Creates a clear compliance record for the public benefit standard.
Underwriting	Business-plan assistance and staff review; no independent financial underwriting.	Require an underwriting analysis by a qualified consultant, with City staff completing eligibility and federal compliance review. Should not be business plan consultant	Both	Demonstrates necessity, feasibility, repayment capacity, cost reasonableness, and appropriate assistance.

Policy Area	Current Policy	Recommended Change	Type	Reason
Scoring and approval	Financial feasibility and community benefits may be considered together.	Complete eligibility and underwriting first; apply the scoring matrix only to financially feasible projects. Document the detailed criteria and metrics.	Program improvement	Prevents strong community benefits from offsetting unacceptable financial weakness.
Collateral and subordination	General security requirements; subordination policy is not fully stated.	Authorize mortgages, UCC filings, assignments, guarantees, and subordination to lower lien positions when cash flow, collateral, and viability support the risk.	Program improvement	Improves flexibility and helps leverage senior private financing with prudent risk review.
Federal requirements	Manual references several requirements but needs clearer project-level determinations.	Require documented applicability reviews for environmental review, Davis-Bacon, Section 3, relocation, civil rights, conflicts of interest, and anti-job-pirating.	Federal compliance	Ensures requirements are addressed before commitment, closing, and disbursement.
Program income and cash management	Program income management was not mentioned in manual	Define program income and substantially disburse revolving-fund cash before Treasury draws for the same activity; maintain separate accounting and accurate IDIS reporting.	Federal compliance	Ensure RLF program income policy per 24 CFR 570.504 is adequately described.
Portfolio and loan servicing	General annual review and delinquency language.	Adopt 30/60/90-day servicing procedures, annual credit review, restructuring standards, collateral-release rules, and risk-based monitoring.	Program improvement	Identifies problems early and protects long-term portfolio performance.
Marketing and pipeline	General marketing strategy; limited formal pipeline reporting.	Use lender and partner referrals, success stories, technical assistance, and quarterly reporting on applications, commitments, closings, cash, and projected demand.	Program improvement	An attractive product and active pipeline are essential to deploy RLF funds.
Governance and authority	RDA board does final loan approval based on staff recommendation	State clearly that staff perform compliance review, the underwriter performs financial analysis, the RDA recommends, and the Common Council makes the final decision.	Program improvement	Clarifies accountability and creates a consistent approval process.

Suggested RDA Board Direction

- Confirm the policy direction for above changes that have been decided.
- Authorize staff to finalize the Manual using the revised underwriting, compliance, servicing, and reporting provisions.
- Direct staff to return with a final updated Manual, updated scoring matrix, underwriting checklist/report format, and other related documents.