

EDFC is a non-profit 501(c)(3) corporation, governed by a Board of Directors. When EDFC first learned of the assessment ordered by the Supervisors on January 7, 2020, we welcomed the opportunity to have a cost benefit analysis of the organization's lending program and associated activities, by the county, because we believed that it would serve to prove our worth based on the good work we have done. In the last 8 months we have loaned over \$1M to local businesses and since 1998, we have loaned \$7.6M. In the last 4 1/2 months we have worked hard to help our existing business loan customers get through Covid-19.

EDFC was contacted in June by Robert Eyler, the contractor hired by the county, with a request that we give him " ...a spreadsheet of all loans [EDFC has] provided since 2015 by industry (by business name also), the amount lent, and the payback status (complete or % complete) to date." Our immediate concern was that the detail of information, if it was made public, would be breaching the confidentiality that we have with our businesses. Some businesses have given us permission to share their name and amount of loan. Others haven't. None have given permission to share what their loan status is. We also asked Dr. Eyler to share the scope of his contract, which he willingly did. We were taken aback at the extent of the scope, which appeared to us to go way beyond the original intent of the motion passed by the supervisors.

SCOPE of Contract with Robert Eyler:

March 4, 2020

Fiscal and Programmatic Review of EDFC County of Mendocino

Preamble

The County of Mendocino wants an analysis of the fiscal, economic and programmatic impacts of EDFC. There are some questions being asked about the efficacy and impact that loans made by EDFC have on the county economy. This analysis looks at the fiscal and economic impacts, as well as programmatic concerns to provide perspective and comparisons about practices and outcomes.

Scope of Work

Such organizations as Mendocino EDFC (EDFC) fill a market niche larger banks, community banks and credit unions could not fill given common underwriting standards. Like any other micro-business lending fund, the loans made are relatively high risk. As a community development financial institution (CDFI), EDFC has an ability to fill this space in Mendocino County.

This report explores the fiscal and economic impact of EDFC loans provided over the last five years. Comparisons to other, regional entities similar to EDFC (Arcata and Lakeport EDFCs are examples) are made, as well as looking at similar loans that originate outside Mendocino County. Loan performance in classic credit markets depends on borrower credit scoring and how a specific loan fits in the organization's portfolio. The practices and decision processes of EDFC are considered here compared to best practices.

The fiscal and economic impact analyses are connected. Loans provided in a five-year period provide funds for the borrower to spend on employees, capital, supplies, advertising, and an array of other expenses. The spending they make, and the subsequent revenues the borrowers generate, lead to local economic impacts (growth of jobs, support for vendors and other businesses directly and indirectly) and subsequent fiscal impacts (tax revenues at the local and state level primarily). When municipalities make investments in CDFIs, one metric of return on investment (ROI) is if there are subsequent fiscal impacts that potentially pay for the annual funding. This analysis provides such an estimate.

Programmatically, different CDFIs have different models of borrower services. Some provide money and do little to no subsequent monitoring, generally only taking an action if the borrower asks for help. In other cases, CDFIs are very involved in mentoring, advising, monitoring, and guiding the borrower outcomes and ability to repay. Such services generally come with additional funding, as the jobs of seeking potential borrowers and underwriting loans involve different skill sets than advising businesses once they borrow. Sometimes a CDFI partners with local or regional business advisor or economic development organizations such as Small

Business Administration's Small Business Development Centers (SBDC), SCORE, and others (WEST in Mendocino County is an example).

In pursuing this analysis, EFA would need to interview some of the borrowers, EDFC's board of directors (or a subset), the County of Mendocino staff that are involved (including county supervisors), partner and competitive organizations (WEST, Arcata EDFC, Lakeport EDFC, etc.), and perhaps others. These qualitative data provide more color to the analysis, especially on EDFC practices.

This analysis has the following, draft outline:

1. Key Findings
2. Overview of Analysis: Introduction and Report Structure as fiscal and programmatic overview
3. Overview of EDFC and Recent Leadership and Programs
 - a. Structure of organization
 - b. Summary of recent loans and total portfolio value
 - c. Financial Statement Summaries
 - i. Sources and uses of funds
 - ii. Reserve Balances
 - iii. Allocation for Loan Loss
 - iv. Comparison to lending best practices
 - d. Mission, vision, business plan overview

4. **Economic and Fiscal Impact: Estimates of what this loan fund as done for Mendocino County in last five years (2015-2019)**
 - a. Brief overview of Mendocino County economy, businesses and employment
 - b. Businesses that borrowed: in what industries and how much?
 - c. Economic Impact Analysis: overview
 - d. Fiscal Impact Analysis: overview
 - e. Results and Estimates
 - f. Summary of Economic and Fiscal impacts: ROI estimate for County of Mendocino per \$50,000 lent
5. **Programmatic Review**
 - a. CDFI overview: why do these exist and what are the major objectives
 - b. Recruiting practices for EDFC borrowers
 - c. Lending decision practices
 - d. What are the borrowers are expected to do?
 - e. Comparison organizations regionally
 - i. Arcata EDFC
 - ii. Lakeport EDFC
 - iii. Sonoma County EDB and Revolving Loan Fund
 - iv. Working Solutions
 - f. Overview of Comparisons to Mendocino EDFC
 - i. Outside organizations providing loanable funds in Mendocino County: considerations as to why this is happening.
6. **Conclusions and Recommendations**
7. **References**
8. **Appendix (as needed)**

Timeline and Budget

Draft by June 10, 2020

Budget = \$23,625 (\$175/hour x 135 hours; 120 hours on report and 15 hours of discussions with relevant parties)

We have concerns about the need for such a broad scope and it's relevance to the return on contribution of \$30,000 annually. One element that is very concerning is the Portfolio analysis comparing EDFC to several other lending non-profits. Two of these are much bigger than EDFC and the Executive Director of one, Arcata Economic Development Corp., told EDFC that he does not think comparing our two organizations is a good match. The other, Working Solutions, is one of the largest non-profit lenders in the state, serving 8 counties in the Bay Area, a market that is not comparable to EDFC's current region of Mendocino and Lake Counties.

EDFC Staff communicated with County Deputy CEO Darcie Antle, who is in charge of contracts and with the contractor Robert Eyler (various emails over a period of weeks). See the following:

Tues, Jun 23, 9:25AM

Hello Darcy,

Per our phone conversation yesterday, EDFC is concerned about protecting the confidentiality of information about our borrowers, in fulfilling the request from Robert Eyler, contractor, that EDFC submit: " ...a spreadsheet of all loans [EDFC has] provided since 2015 by industry (by business name also), the amount lent, and the payback status (complete or % complete) to date."

We request that any information that may be made public about the assessment, does not include names of any businesses, in order to protect the privacy and confidentiality of information about our clients. In order to proceed with providing the requested information to Dr. Eyler, EDFC needs to receive written confirmation that business names will not be publicly released.

We are also concerned about the scope of the contract going beyond the original intention when the Supervisors approved an assessment. We request a copy of the original resolution to be able to compare it to the current scope. If it goes beyond the resolution, we ask that the full board be informed and discuss the appropriateness of this extension beyond their original decision.

Thank you,

Diann

Fri, Jun 26, 10:14AM

copy to Darcie Antle

Good Morning Robert,

I meant to communicate with you earlier this week and apologize for not following through. After several weeks of waiting to speak to Darcie Antle about concerns of confidentiality, [in earlier emails I had clarified to Dr. Eyler that we were concerned about the names of businesses being made public] I was able to submit questions on Monday that she said will need to be taken to the Supervisors for clarification.

I also submitted a very basic question per our concern that the scope of your assessment goes much further than the original resolution approved by the Supervisors. It was our understanding that the assessment would be a very simple look at whether input into the local business economy through EDFC's lending program is an adequate return on the County's annual \$30,000 support. I have asked for the complete text of the resolution. And again, Ms. Antle indicated that the Supervisors will need to discuss our concerns.

Your description below brings up another detail that we are concerned about - the comparison of EDFC to other lending organizations including Arcata Economic Development Corp (AEDC) and Working Solutions. We feel those comparisons are not fair and appropriate, and will give a very skewed picture of EDFC's effectiveness in our much smaller market. In fact, the ED of AEDC very recently stated to EDFC that he does not think comparing EDFC to AEDC is a good match. Working Solutions is one of the largest

non-profit lenders in the state, serving 8 counties in the Bay Area, a market that is not comparable to EDFC's current region of Mendocino and Lake Counties.

EDFC will need to wait until we have a full response from the county about our concerns before moving forward to provide you with the information you are requesting.

Thank you for your patience,

Diann

I later emailed Ms. Antle asking to see the full text of the motion and asking that she let me know when this item would be put on the Supervisors meeting agenda. I did not receive any communication back from her. One of our board members found this agenda item on Sunday, July 12th and alerted staff.

In an EDFC board meeting Thursday July 9th, Supervisor Gjerde told the directors that Carmel [Angelo, CEO] had told him that EDFC refused to cooperate and give information to the Robert Eyler. We were shocked and I detailed for him the communication with Ms. Antle and Dr. Eyler. Then we saw the Agenda Summary for this time that says:

Previous Board/Board Committee Actions:

On January 7, 2020 the Board of Supervisors requested that the Executive Office perform an assessment of EDFC, documenting their total contribution and return on investment.

Summary of Request: Since the January 7, 2020 Board Meeting, County staff retained the services of Dr. Robert Eyler to perform an audit of EDFC's files. At this time, EDFC representatives are refusing to cooperate and provide an accounting and access to the County's consultant, Dr. Eyler, and County staff is at a standstill and unable to complete the assessment. The County is seeking information related to businesses and jobs created, business and job retained, success and default rate of local business loans and location of loans and whether within the County's unincorporated area. This information should not be strictly confidential and if provided by EDFC would demonstrate the contributions made to the County by EDFC. At this time, the County is unable to move forward without the cooperation of EDFC to complete the Board requested assessment.

The Board has directed an assessment that staff is unable to complete due to EDFC's lack of cooperation. EDFC cooperation in this process will allow completion of an assessment that document contribution to the county and return on investment. The Board should consider delaying future funding to EDFC until an assessment is completed and presented to the Board.

EDFC staff communicated with Dr. Eyler and with County Deputy CEO Antle, about concerns of confidentiality only per the names of business loan clients being made public. We were told to wait for the Supervisors to respond to our concerns.

EDFC never suggested that other information besides names, was confidential per "businesses and jobs created, business and job retained, success and default rate of local business loans and location of loans and whether within the County's unincorporated area". In fact, we have only been asked for the information in the email to Mr. Antle: " ...a spreadsheet of all loans [EDFC has] provided since 2015

by industry (by business name also), the amount lent, and the payback status (complete or % complete) to date". This Legislative summary also, for the first time, is narrowing down EDFC's contribution to only loans in the unincorporated areas. That was not a part of Dr. Eyler's contract. EDFC's lending, in any area of the county, contributes to the health of the whole county.

We are asking the Supervisors to amend the scope of work to a simple assessment of whether input into the local business economy through EDFC's lending program is an adequate return on the County's annual \$30,000 support. We also need the county to agree in writing to not include any individual business names in the final report that may be made public.