

Safeguarding Tomorrow Revolving Loan Fund Program Operational Elements

2024



FEMA

Agenda

- Operational Structure
- Loan Requirements and Recommendations
- Financial Management Best Practices
- Technical Assistance



Entity Loan Fund Administration

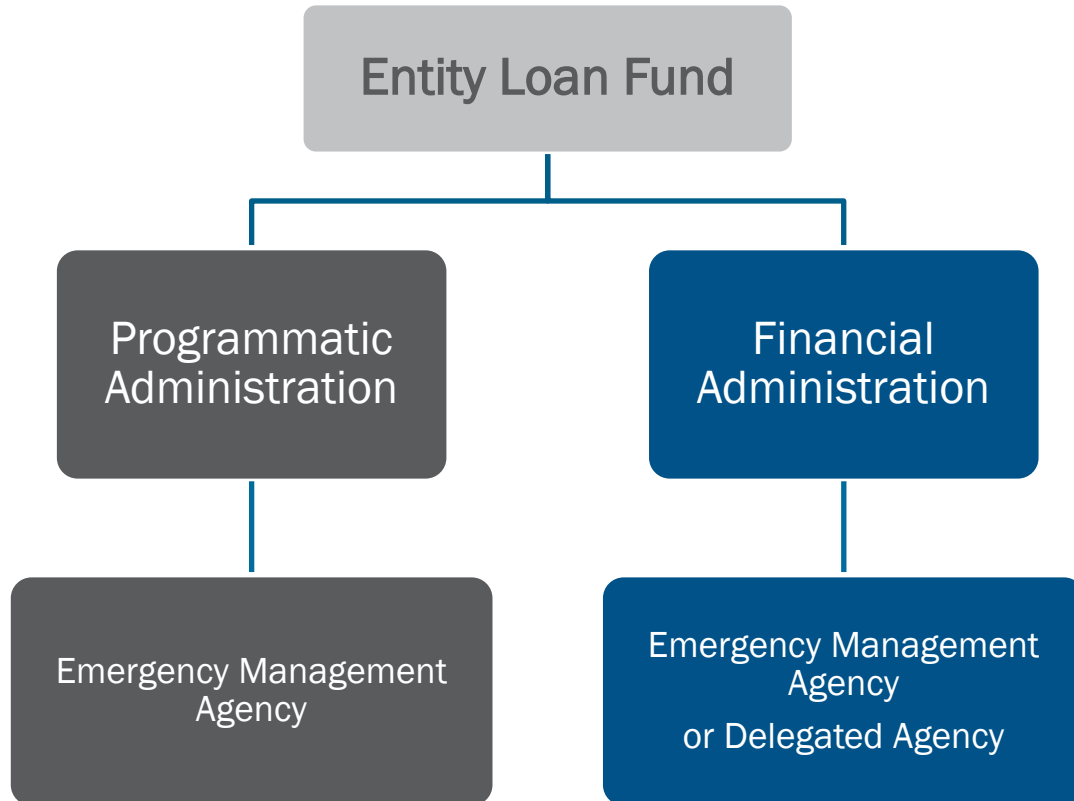
- Effective management of the entity loan fund requires the entity to:
 - Develop internal processes to ensure successful operations
 - Communicate the processes to FEMA to demonstrate compliance and effectiveness



This icon is displayed throughout the presentation to help reinforce critical information that should be included in the **Intended Use Plan**

Operational Structure

Programmatic and Financial Administration



- Programmatic Administration
 - Development of Intended Use Plans and Project Proposal Lists
 - Coordination with local governments
 - Management of entity loan fund staff
 - Provision of administrative duties and technical assistance
- Financial Administration
 - Accounting for financial resources
 - Establishment of loan agreements
 - Strategic financial planning
 - Monitoring of loan repayment and performance

Entity Loan Funds – Statutory Requirements

Programmatic Administration

- **Must** be administered by the agency responsible for emergency management, who **must** keep control of:
 - Applying for a capitalization grant
 - Establishing entity program priorities
 - Carrying out oversight activities



Details of the roles and responsibilities for the **programmatic and financial administration** should be included in the **Intended Use Plan**

Financial Administration

- **May** be combined with the financial administration of any other revolving fund established by the entity, **if**:
 - Documentation demonstrating partnership with the entity's emergency management agency is provided
 - The partnering loan fund is also under the authority of the entity
 - Amounts tied to the program are accounted for separately from other amounts in the entity loan fund

Leveraging Expertise

Existing institutions within an entity may have the expertise to support the effective administration of the entity loan fund

Partners to look for

- State Revolving Loan Funds
 - Environmental Protection Agency Drinking Water & Clean Water State Revolving Funds
- Green Banks
- Resilience Funds
- Other Agencies and Authorities (e.g., Economic Development, Transportation, Environmental, Housing, Education, Rural Development, Arts and Culture, etc.)

Best Practices to Consider

- Staffing
 - Qualified and technically experienced financial and accounting staff
- Underwriting and Loan Terms
 - Reduce financial risk and match local needs
- Other Regulations
 - Entity loan fund requirements from authorizing legislation and local regulations

Allowable Uses for Capitalization Grant – Entity Administrative Costs

- Entities may use a portion of the capitalization grant for costs associated with administering their revolving loan fund
- The statute requires entity loan fund administrative costs shall not exceed the following limits, whichever is greatest:
 - \$100,000 per year
 - 2% of the capitalization grants made in that fiscal year
 - 1% of the value of the entity loan fund



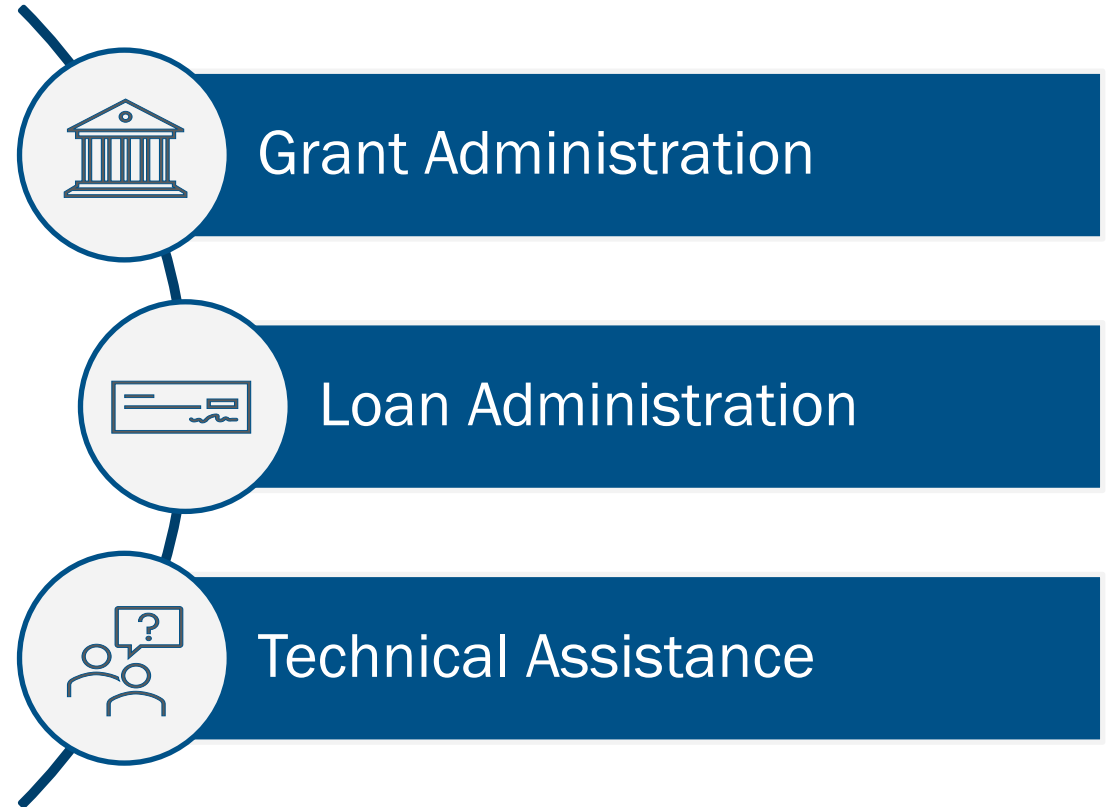
Allowable Uses for Capitalization Grant – Loans to Local Governments

- The entity provides low-interest loans (maximum 1% interest) to local governments to expedite eligible mitigation activities in their communities
- Statutory project limitations direct that an entity:
 - Not commit more than 10% of a capitalization grant for loans to implement zoning and land use planning changes
 - Not commit more than 10% of a capitalization grant for loans to perform mitigation planning
 - Not provide a loan greater than or equal to \$5,000,000 to finance a single hazard mitigation project



Allowable Administrative Costs

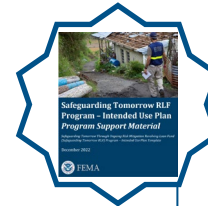
- Administrative costs may be used for grant and loan management by the entity
- Technical Assistance (TA) funding is considered part of administrative costs and is capped, based on which administrative costs calculation is used. If administrative costs calculation is used. If administrative costs are capped at:
 - \$100,000, TA is capped at 5% of grant
 - 1% of loan fund, TA is capped at 5% of grant
 - 2% of the grant, TA is capped at 2% of grant
 - TA cannot exceed the amount available for administrative costs



Loan Requirements and Recommendations

Loan Recipient Requirements

- Eligible Recipient – The loan recipient must be a **local government**
 - For tribal government entities, this may include any sub-component within their respective governmental structure or an authorized tribal organization
- Statutory Loan Recipient Requirements
 - FEMA-approved Local Hazard Mitigation Plan
 - Dedicated source of revenue to repay loans
- Entity-level Loan Recipient Requirements
 - Entities may determine additional requirements to meet their specific hazard mitigation needs and program priorities



Entities may **expand eligibility requirements beyond the requirements set in the statute** to meet their specific hazard mitigation needs and document the requirements in the **Intended Use Plan**

Loan Requirements

- Statutory Requirements for Loan Terms
 - Principal amount must be less than \$5 million for a single loan
 - Interest rate can be no greater than 1%
 - Amortization rate can be no more than 20-years, or 30-years for low-income geographic areas
 - Pass-through requirements (Environmental and Historic Preservation, etc.)
- Additional Loan Terms
 - Entities may work with loan recipients to adjust terms to the meet needs of their program



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Loan Agreements and Conditions

- Loan Agreements are legally binding contracts that detail the loan specifics between an entity and a loan recipient



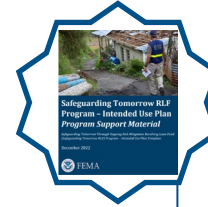
- Loan Agreements may include conditions that outline:
 - Parties to the Agreement
 - Loan Purpose
 - Loan Terms
 - Repayment
 - Interest and Fees
 - Revenue Source
 - Default and Remedies
 - Prepayment and Early Repayment
 - Conditions Precedent
 - Reporting Requirements
 - Notices
 - Amendment and Waiver

Environmental and Historic Preservation (EHP)

- **Requirement** – Projects that involve construction or ground disturbance must go through an EHP review prior to funding
 - Loan recipients must complete EHP checklist to compile all necessary information (e.g., Scope of Work, maps, project designs, photos) for EHP review and submit to the Entity
 - If construction/ground disturbance occurs before EHP review is complete, the project will not be eligible for funding
 - The following project types do not require an EHP Checklist for the loan: Mitigation Planning, Zoning and Land Use Planning, Building Code Adoption and Enforcement, Hazard Mitigation Assistance Cost Match
- Entities should monitor proposed projects that require EHP to better coordinate the completion and submission of the checklist and to know what is eligible

Revenue Sources for Repayment

- Prior to receiving a loan, the entity loan fund must confirm that potential loan recipients establish a dedicated source of revenue for repayment
- Potential revenue streams for loan repayment may include:
 - Property taxes
 - Sales and use taxes (e.g., corporate income taxes, hotel taxes, business license taxes, capital project sales tax, valorem tax, etc.)
 - Fees and permits (e.g., hospitality, water, sewerage, and parking meter fees)
 - Other state or federal grant programs where such a use would be eligible



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Loan Disbursement

- Loan Distribution Schedule
 - Immediate Loan Disbursement – disburse total loan amount upon finalization of the loan agreement
 - Incremental Loan Disbursement – establish a regular schedule for funding (e.g., monthly)
- Tracking Loan Disbursement for Continuous Improvement
 - Tracking trends will also help entities communicate to loan recipients the availability of funds, support budget projections, and ensure optimal utilization of grant funds



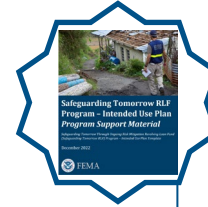
A clear description of the fund's disbursement policy should be included in the entity's **Intended Use Plan**

Loan Repayment

- Loan Repayment Terms
 - Establish a repayment schedule (e.g., monthly, quarterly, or annually)
 - Identify the first payment due date - repayment must start no later than one year after project completion
- Flexible Repayment
 - Offers local governments multiple options to match their repayment schedule to their financial circumstances by altering the length of repayment terms, frequency of repayments, and deferred repayments

Delinquency and Default

- Delinquency versus Default
 - A **delinquent** loan is a late loan repayment within a specified timeframe
 - A **default** is when a loan recipient makes a series of missed or late payments
- Potential Outcomes
 - Late fees, collection efforts, or legal action
 - Opportunities for the loan recipient to resolve repayment challenges



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Charging Fees

- Entity loan funds are allowed to charge fees to help pay for the administration of the program, however fees should be evaluated to account for administrative costs, equity considerations, and financial burdens
- The program-eligible uses of fee income collected are established in the grant agreement and are generally tied to administrative uses
- Examples of fees:
 - Application fees
 - Loan closing fees
 - Loan servicing fees
 - Fees on the outstanding principal balance
 - Loan origination fee
 - Commitment fee
 - Late repayment fee
 - Prepayment penalty
 - Monitoring and compliance fee
 - Amendment fee

Financial Management Best Practices

Monitoring and Oversight

- Entities Monitoring Loans
 - Entities need to establish loan monitoring and oversight processes to ensure financial success
- FEMA Monitoring Entity Loan Fund Capitalization Grant
 - Program evaluation by FEMA to ensure statutory compliance and alignment to program objectives



All financial analysis metrics used to evaluate the health of the fund (including any models and modeling inputs, outputs, and assumptions) should be clearly described in the entity's **Intended Use Plan**

Financial Management Best Practice Examples

Portfolio Analysis

- Examines the various aspects of the loans within the fund's portfolio to assess their performance, risk, and overall impact

Trend Analysis

- Insight on how specific indicators have changed over time which can provide an understanding of whether certain changes to fund management policies have been effective and what other changes may be necessary

Other Analysis

- Entities are encouraged to leverage any existing financial analysis capabilities

Cashflow Modeling

- An analysis of the financial impact of fund management decisions over time to answer questions about future lending



Technical Assistance

Technical Assistance

<https://www.fema.gov/grants/mitigation/storm-rlf>

FEMA-STORMRLF@fema.dhs.gov



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