



# ECONOMIC DEVELOPMENT & FINANCING CORPORATION



## EDFC Annual Report 2017-2018 Fiscal Year

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# Organizational Accomplishments & Deliverables for 2017 - 2018 Fiscal Year

In the 2017 – 2018 Fiscal Year, EDFC accomplished the following:

- Hired a new Executive Director
- Awarded Community Development Financial Institution Fund Financial Award Grant for \$350,000 (\$300,000 for loan funds)
- Awarded \$500,000 in USDA Rural Development Intermediary Relending Program loan funds
- Provided technical assistance through our Rural Microentrepreneur Assistance Program via West Company and Community Development Services to 41 business owners and entrepreneurs.
- Provided an “Access to Capital” Workshop in Ukiah and Fort Bragg on May 17, 2018.
- Provided digital access to content from “Access to Capital” online in perpetuity
- Participation in the Healthy Mendocino Poverty Action Teams for inland Mendocino and the Mendocino Coast
- Lent out \$150,000 to 3 businesses
- Applied for 3 grants to support economic development work
- Participated in meetings to re-establish a Mendocino County Committee for the North Bay Workforce Alliance
- Participated in the Broadband Working Group to develop a broadband plan
- Participated in the CalRecycle Recycled Marketing Development Zone and created new marketing materials to promote RMDZ and EDFC.
- Revision and distribution of the “How to Do Business in Mendocino County Resource Guide”
- Created a page on our website with links to current economic and demographic data for Mendocino County.

## 2017-2018 Loan Program Activity

Due to the lack of an executive director, EDFC’s loan program was mostly inactive for a good portion of the year. EDFC has used this time to review and improve the lending procedures and portfolio management systems needed to build long term organizational sustainability. Despite the shift in focus, EDFC funded four microloans in the 2017-2018 fiscal year totaling \$150,000.

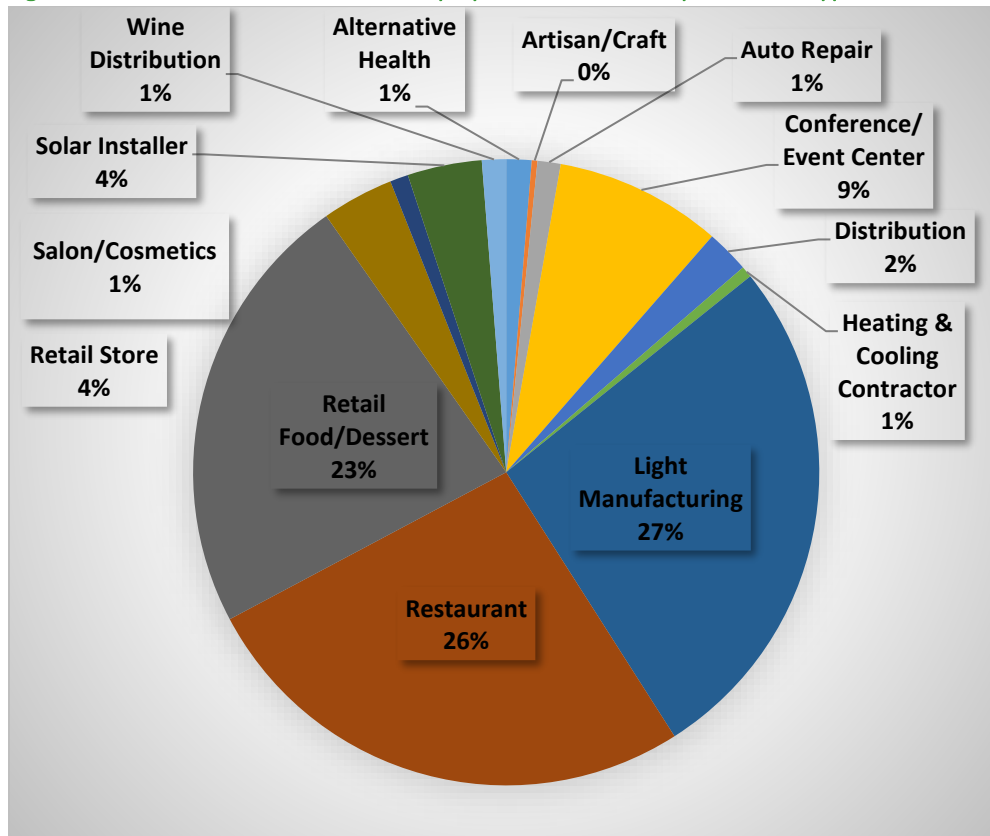
Over the course of the year, EDFC received 5 additional loan applications. One loan was approved but the project terminated before the loan was disbursed. Two applications were incomplete, and two were determined ineligible through the underwriting process. In the fourth quarter of the fiscal year, EDFC received 10 inquiries regarding our loan programs. In the last fiscal year, EDFC had two charge offs totaling approximately \$97,748. We recovered \$54,670 through the sale of collateral or through the CalCap loan guarantee program. We currently have 3 loans that are in default status.

## 2017-2018 Loan Portfolio Performance

As of June 30, 2018, EDFC had a total portfolio of \$1,778,805 and 35 active loans in Mendocino and Lake Counties. The current loan portfolio includes 35 loans made to 26 businesses in Mendocino and Lake Counties. EDFC has invested 26% of the portfolio in restaurants and an additional 23% in food and dessert retail businesses. Between the two categories, retail food businesses all together including restaurants, delis, grocery stores, and bakeries, makes up 49% of the EDFC portfolio.

Another major portion of the portfolio is light manufacturing which accounts for 27% of the portfolio by dollar amount. It is important to note that this significant sum of \$475,480, is held by only 2 businesses. The remaining quarter of the loan portfolio is relatively diverse by industry as shown in the graph below.

Figure 1: EDFC Loan Portfolio Diversity by Dollar Amount by Business Type



EDFC has loans throughout Mendocino and Lake Counties. Of the total number of loans, 83% are in Mendocino County, the largest portion of which are in Ukiah, followed by Fort Bragg. It is worth noting that there is only one loan in Willits and no loans in the northern portion of the county, which may warrant some additional outreach to Willits, Covelo, and Laytonville. The following chart shows the breakdown of loans by county and city:

<b>Mendocino County</b>	<b>Number</b>	<b>Current \$ Value</b>
Elk, CA	1	\$34,383
Fort Bragg, CA	6	\$306,673
Gualala, CA	1	\$125,546
Hopland, CA	3	\$153,513
Little River, CA	3	\$75,279
Mendocino, CA	2	\$80,915
Point Arena, CA	2	\$114,274
Ukiah, CA	10	\$557,953
Willits, CA	1	\$35,683
<b>Total</b>	<b>29</b>	<b>\$1,484,217</b>
<b>Lake County</b>		
Clear Lake, CA	1	\$45,287
Cobb, CA	1	\$26,449
Kelseyville, CA	1	\$9,437
Lakeport, CA	2	\$191,275
Lower Lake, CA	1	\$22,141
<b>Total</b>	<b>6</b>	<b>\$294,588</b>

**Financial Performance**

Compared to year-end of the 16-17 fiscal year, the total portfolio balance has dropped from \$2.1 Million to \$1.7 Million. This is the result of loans being repaid, but not enough new loans to take the place of loans paid off. In particular, two active loans were paid in full prior to coming to full term, thus resulting in a significant decrease in the capital lent out.

The percentage of over 90 day past due loans has increased 2% in the last year. This is in part due to one loan degrading over the last year, and one loan that continues to be problematic, compounded by an overall smaller portfolio. See the two following charts for comparison:

Fig. 2: EDFC Portfolio Performance 2017-2018 Fiscal Year

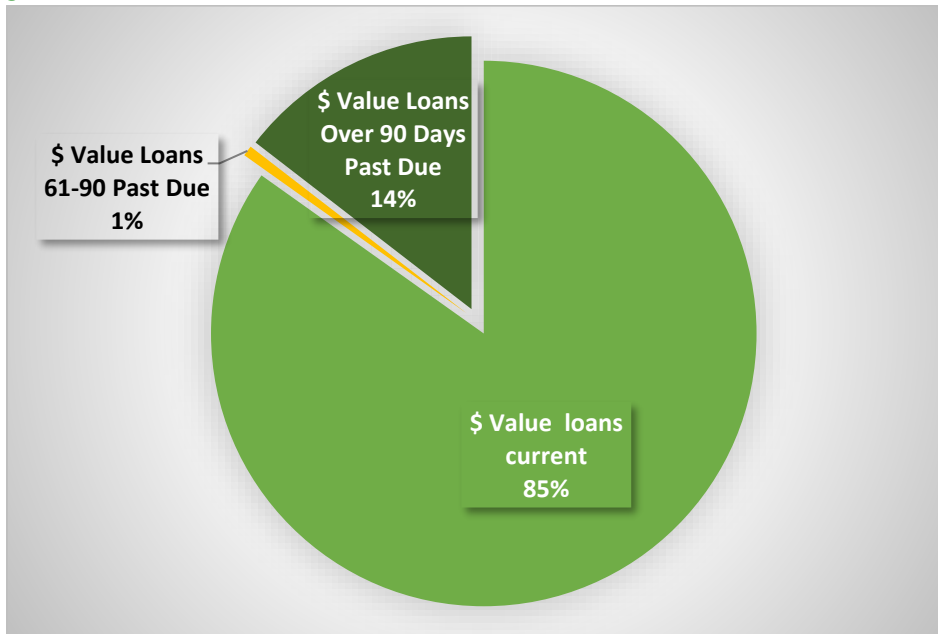
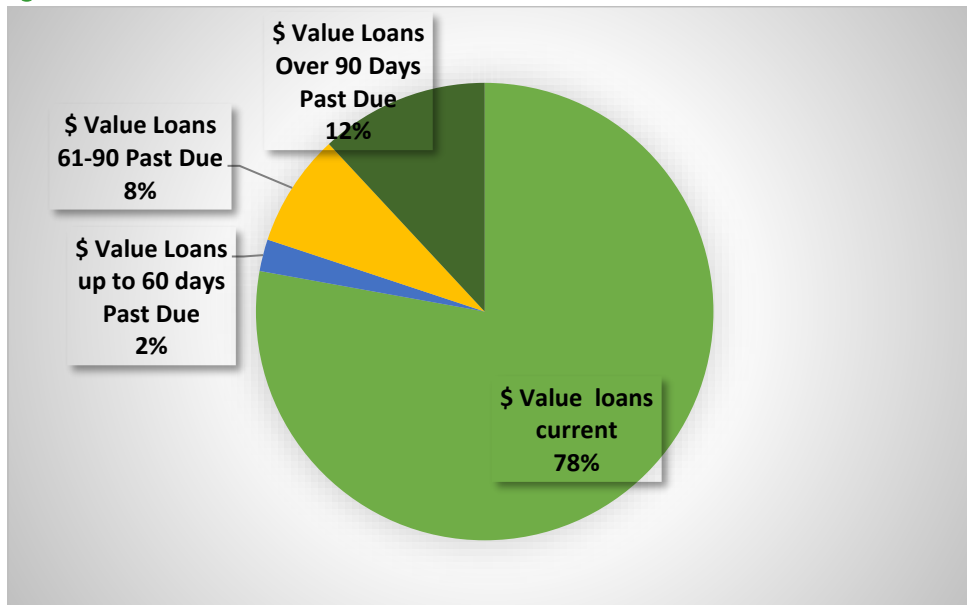


Fig. 3: EDFC Portfolio Performance 2016-2017 Fiscal Year



EDFC currently has almost \$1.37 Million available to lend. The following is a breakdown of the capital available in each program. The chart below shows the available amount for each program.

<b>Fund Name/Source</b>	<b>\$ Available</b>
Community Development Financial Institution Fund	\$297,500
EDFC Revolving Loan Fund	\$7,335
Rural Microentrepreneur Assistance Program	\$311,783
Direct Public Offering	\$150,000
Intermediary Relending Program (new & revolved)	\$605,660
<b>Total Available for lending</b>	<b>\$1,372,278</b>

In addition to these programs, EDFC also administers the Community Foundations Microloan Program which currently has an estimated \$13,000 available to lend. These funds can be used as match for USDA loans that require 25% where the borrower does not have any.

**Loan Program Income**

EDFC’s loan program income is a critical base for the financial health of EDFC. In the 2017-2018 fiscal year, EDFC had a gross profit of \$91,839, which is lower than the 2016-2017 fiscal year which saw a gross profit of \$103,162. The chart below shows the interest income, interest expense, and the gross profit available to support operations and the long-term sustainability of the loan program.

	<b>2016-2017</b>	<b>2017-2018</b>
Interest Income	\$133,209	\$125,039
Interest Expense	\$30,047	\$33,200
<b>Gross Profit on Loan Program</b>	<b>\$103,162</b>	<b>\$91,839</b>

The gross profit on the loan programs did not cover the operating expenses of the organization which was \$250,000 in the 16-17 fiscal year and approximately \$200,000 (final numbers are not yet available) in the 17-18 fiscal year. This fact underscores the importance of local government support, additional grants, and the generation of income by providing economic development services.

**Loan Program Summary**

It is estimated by industry experts that a loan program needs anywhere from \$1.5-\$2 Million in active and current loans to support each full-time staff position. EDFC has the capacity to grow and cover two full time staff, however, it will be necessary to make loans that will be repaid, which is the greatest challenge of a high-risk lender. EDFC also needs to consider the future economic situation of Mendocino County. There are conflicting opinions about whether the county and/or the country are headed into a recession. While this may be impossible to predict, we know from the past that the recession in 2008 had a major negative impact on the organization and the lessons learned from that experience should be taken into account in future lending decisions.

As noted above, the current “over 90 days past due” loans make up 14% of our overall portfolio. While EDFC has not yet adopted portfolio performance standards, this is generally accepted as a higher than acceptable portion of a loan portfolio both in banking and in the microlending field. It is the highest priority for EDFC to start making loans as soon as possible using a system that supports local businesses and improve the health of the loan portfolio.

## Economic Development Activities

In this fiscal year, EDFC renewed its efforts to build stronger collaboration and coordination with the five jurisdictions it serves. The executive director has met with the economic development staff, city managers, and CEO from the five jurisdictions and is working on improving the communication and support it provides in exchange for the contributions of these organizations.

EDFC successfully secured an additional contract to serve as the county's broadband coordinator for the next fiscal year. This is an important economic development activity that greatly impacts the county and will also provide a source of income to improve our organizational capacity.

EDFC has also been actively engaging with the County of Mendocino Executive Office in providing support in planning for Economic Recovery and Resiliency as it relates to the recent Redwood Valley fire and other economic shifts in the county and were asked to be a co-applicant on an application to the Economic Development Administration to support this work.

## Plans for the Future

As the new fiscal year begins, we are going to be fully re-launching our loan program in Mendocino and Lake Counties with \$1.37 Million to lend. The organization will also be engaging in the following activities in Mendocino County over the coming year:

- Economic Recovery and Resiliency Planning
- Broadband project coordination and planning
- Participation in the Healthy Mendocino Poverty Action Team
- Public outreach and education about our local economy and economic development efforts

Economic Development and Financing Corporation was founded with the purpose of coordinating economic development activities in Mendocino County and providing a source of alternative financing for existing and start-up businesses in the county. As EDFC continues this work in the future, we look forward to working with our partners and renewing our collaborative efforts with our local governments and community partners to improve our economy.