FEMA Program Support Material

Safeguarding Tomorrow through Ongoing Risk Mitigation Revolving Loan Fund Program–Entity Loan Fund Administration

The Safeguarding Tomorrow through Ongoing Risk Mitigation Revolving Loan Fund (Safeguarding Tomorrow RLF) program allows entities to establish or manage loan funds when receiving capitalization grant funding. This document offers details about program requirements and suggestions for loan fund administration, and strategies for the management of loan funds.

Entity Loan Fund Administration Overview

Section 205 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5135) (https://www.fema.gov/disaster/stafford-act) authorizes FEMA to provide capitalization grants to eligible entities to manage hazard mitigation revolving loan funds through their emergency management agency. The primary goals of the Safeguarding Tomorrow RLF program are to create entity revolving loan fund programs that can provide loans to local governments to fund hazard mitigation projects and to ensure that entities use the funds correctly and maintain them continuously.

The way each entity manages the program and funds will differ based on their specific conditions; some examples include demand for entity funding, loan recipients' needs, entity goals, market conditions, types of hazards, and any rules or laws in their area. The following sections describe program requirements and best practices for effective loan fund management.

Entity Loan Fund Structure

The agency responsible for emergency management in an entity's government must create a revolving loan fund before receiving a capitalization grant award. An entity starting a revolving loan fund will need to meet all laws and regulations that apply. There may also be other requirements for combining financial administration with an existing revolving loan fund. The entity will need to explain their loan fund structure in the Intended Use Plan submitted to FEMA. FEMA will check the entity's structure, as outlined in the Intended Use Plan submitted to FEMA, to make sure it follows program rules. FEMA will also regularly review and check an entity's revolving loan fund performance to ensure it lines up with the most recently approved Intended Use Plan. To stay eligible and follow the rules throughout the program's life, it's important for the entity to provide details about their loan fund in the Intended Use Plan.

The entity's emergency management agency must control program administration. This includes applying for a capitalization grant, setting the entity's goals for the program, selecting which projects or activities get loans, overseeing projects, and reporting performance to FEMA.

Entities eligible for grant funding include any state of the United States, the District Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands, as well as federally recognized tribal nations that have received a major disaster declaration.

FINANCIAL MANAGEMENT

The emergency management agency can choose to directly manage both the program and finances of the entity loan fund, or they can manage the program and let an existing loan fund handle the financial responsibilities.

FEMA knows that some states and tribal nations split emergency management activities between different offices. Entities may also have existing loan funds that are able to assist with financial management. The Safeguarding Tomorrow RLF program will work with entities to understand their approach and the best way to meet legal requirements for the loan fund structure.

Financial management of a revolving loan fund means careful planning and oversight for, the fund's resources to make sure it is strong and successful at giving loans to local governments. The loan fund needs to separately track all sources of money paid into the fund. This includes capitalization grant(s), the entity's cost match, loan repayments, interest earned, and any fees collected by the entity. Financial management also includes making loans and tracking that local governments meet loan conditions through a signed loan agreement.

Combining Financial Management with Another Revolving Loan Fund

The entity may combine the financial management of their revolving loan fund with the financial management of any other revolving loan fund created by the entity if:

- Documentation showing an appropriate partnership with the entity's emergency management agency is submitted with the Intended Use Plan;
- The partnering loan fund is also under the entity's authority; and
- Funds attached to the Safeguarding Tomorrow RLF program are tracked separately from other funds in the entity loan fund.

Entities that want to combine financial management of their loan funds, must show how the program funds will be separately tracked and how the emergency management agency will maintain control of program decisions and oversight in the Intended Use Plan.

Using Another Organization to Provide Financial Management

Some entities in the program have chosen to use entity-run organizations, such as green banks or infrastructure banks, to oversee the financial management of their revolving loan fund. These entity-run organizations have managed loans for different programs that help the public, ranging from affordable housing, water quality improvement, energy, and transportation.

Intended Use Plan Example Language: The Entity Emergency Management Agency (EMA) is hereafter designated as the programmatic administrating agency for the purposes of this Intended Use Plan (IUP) and will have programmatic oversight for administering the fund.

The Entity Infrastructure Bank, established as a public body corporate and as a political subdivision of the Entity, will be responsible for certain financial aspects of the Entity Revolving Loan Fund.

The Entity Revolving Loan Fund shall be financially administered and managed by the Entity Infrastructure Bank, as described in the IUP, subject to the rights of the EMA following consultation with the Entity Infrastructure Bank to direct the distribution of loans from the Fund.

LEVERAGING ENTITY EXPERTISE OUTSIDE OF THE EMERGENCY MANAGEMENT AGENCY

The Safeguarding Tomorrow RLF program is one of many federal programs giving grants for entity loan funds. Emergency management agencies interested in this program are encouraged to reach out to other entity agencies who manage similar loan fund programs with the Environmental Protection Agency, Department of Energy, and Economic Development Administration.

These partners may be helpful in understanding how to apply for and manage a federally funded revolving loan fund program, and how entity laws and rules can affect operations. They can give advice about staffing, reporting, financial management, and tips on setting up a revolving loan fund.

Since program management cannot be done by others, check with existing loan funds to make sure that revolving loan fund best practices are built into the fund management from the start. The Environmental Protection Agency's Clean Water and Drinking Water State Revolving Fund programs are other federally capitalized loan programs that require Intended Use Plans; reaching out to these or similar programs can help make sure that your Safeguarding Tomorrow RLF program application is detailed and done correctly.

Entities that delegate financial management can use these partners to help the emergency management agency use existing staff and skills to support the overall operation of the loan fund. This helps to make sure that the entity is using successful and legal practices to run the entity loan fund.

Costs for Managing the Entity Loan Fund

ADMINISTRATIVE COSTS

Entities may use some of the capitalization grant to cover the cost of running their revolving loan fund. The yearly administrative costs cannot go over $100,000, 2% of the capitalization grant for that fiscal year, or 1% of the value of the entity loan fund, whichever amount is greatest. These costs can be used every year up to the maximum allowed.

Administrative costs can be used for setting up and managing the entity loan fund. Entities should think about what is needed to deliver the program, such as:

- Following grant requirements (submitting yearly Intended Use Plan and Project Proposal List)
- Managing project proposal reviews and selecting projects or activities for loans
- Making sure loan projects follow federal laws and rules, such as those included in the Environmental and Historic Preservation review
- Carrying out loan agreements, including disbursing loans, monitoring projects, tracking loan repayments, and dealing with late payments
- Updating FEMA on how the program is going and the health of the fund
- Helping loan recipients with technical assistance

Entities can help local governments with applying for and receiving loans. Technical assistance given by the entity to local governments is a part of administrative costs and has a maximum limit. Technical assistance costs pulled from the fund's administrative cost allowance cannot exceed 5% of the capitalization grant. This funding can be used based on the administrative costs calculated for the entity based on the amount of funding available in their revolving loan fund.

- If administrative costs are capped at $100,000, technical assistance is capped at 5% of the grant
- If administrative costs are capped at 1% of loan fund, technical assistance is capped at 5% of the grant
- If administrative costs are capped at 2% of the grant, technical assistance is capped at 2% of the grant
    - If administrative costs are capped at 2% of the grant, technical assistance cannot exceed this limit as it is subject to the overall cap on administrative costs

Technical assistance works to improve the financial understanding of local governments and encourage creative hazard mitigation projects and activities to improve the process and results of the program. Entities should consider technical assistance activities that support local governments through:

- General Technical Assistance
    - Helping figure out solutions for specific hazards and seeing how they fit into the program
    - Planning for proposed projects
    - Figuring out ways loans can be used for creative products that usually do not get funded
- Financial Technical Assistance
    - Figuring out and creating ways to get money to repay loans

- Planning when and how to repay the loan
- Studying local government financial information

ENTITY LOAN FUND FEES

Entity loan funds can charge fees to help pay for program management. Fees may be for applying, closing a loan, or covering the cost to give the loan. There may also be fees for starting the loan, late repayment fee, monitoring and compliance fee, and amendment fee. The fees from loan recipients must be fair and should not create extra financial problems, making sure the program's goals—like providing funding to communities that need it most—can be achieved.

Any fees collected must be deposited into a separate account from the entity loan fund. The program has specific rules on how to use the fees, typically linking them to management costs or providing technical assistance to loan recipients. Entities should ensure that their use, fee collection, and payments follow these rules.

> **Intended Use Plan Example Language:** The Revolving Loan Fund will charge participating borrowers a small administrative fee to recoup its operating and administrative costs (to offset the use of Safeguarding Tomorrow RLF funds available for administrative costs), like the Entity Infrastructure Bank's two other financing programs.
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> Application Fee: 2% of the project cost amount due up front (incorporated in loan amount – i.e., no cash outflow for borrower at time of closing).
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> Annual Loan Servicing Fee: 0.17% of total original long-term loan amount each year.

Loan Fund Personnel and Staffing

Entities setting up a revolving loan fund will need to develop a staffing plan based on their needs and intended structure. This staffing plan may be brand new or can be included within an existing operational structure that will be managing this loan fund. The entity must have skilled grant management and loan management staff to meet program goals. The entity should also think about how much staff is needed and how to fund those jobs.

Entities should include details about their staff, roles, responsibilities, and training in the Intended Use Plan. Staffing details should show how the loan fund will have enough staff to manage it, and how they will deal with gaps in staffing, resources, or information. Things to think about:

- Does the agency have enough skilled staff to properly manage the revolving loan fund?
- Do existing staff need more training to meet all rules for the loan fund?
- Are there agencies that currently manage revolving loan funds that the emergency management agency can partner with to use existing skills to best manage the fund?
- Will the entity be able to hire enough staff using just the funding allowed from the grant or will extra funds be needed?

- Will the entity loan fund use a committee to make loan decisions? If yes, what kind of backgrounds, skills, and other things should the committee members have?

Staff should know lending rules and common terms to be able to talk clearly with bankers, borrowers, and public officials. The loan fund should give staff regular training to make sure they know program rules and have the skills to handle finances and approve loans. Without financial experts and training, there's a higher risk of not following federal rules and not meeting the program's goals.

LOAN COMMITTEE

A loan fund may have a committee to help make fair and clear decisions about loans. The committee is a part of the loan fund and approves or denies loan requests by looking at applications and checking their financial strength.

The committee may include many members, such as top management and lending experts who know about credit, risk, and the industry. The committee should also include hazard mitigation experts to make sure that projects are financially smart and reduce natural hazard risk. Entities that want a committee should explain how to set up a loan committee, what it's for, what power it has, and how it makes decisions in the Intended Use Plan.

Intended Use Plan Example Language: An entity in the Safeguarding Tomorrow RLF program has a committee made up of the emergency management agency, agency handling floodplain regulations, and the agency managing the money in their loan fund.

Additional Information

FEMA continues to engage stakeholders and incorporate best practices learned to inform future funding opportunities and ensure the long-term viability and success of the program at all levels. For additional information and resources, visit the Safeguarding Tomorrow RLF webpage.