FEMA

Implementation of the Traditional Community Disaster Loan (CDL) Program

Meeting Objectives

- To present an overview of the CDL Program
- To present the loan determination process
- To discuss the application procedures and financial data requirements
- To discuss loan maintenance requirements
- To address questions about the Program

What is a CDL?

A loan to local governments who have experienced a <u>substantial</u> loss in tax or other revenue due to a presidentially declared disaster which affects significantly and adversely the level and/or categories of essential municipal services provided prior to the disaster.

What’s the maximum loan amount?

The lesser of…

- **25% of the Applicant’s Operating Budget for the FY of the disaster, or**
- **The cumulative estimated revenue loss plus the projected unreimbursed disaster-related expenses for the FY of the disaster and the subsequent 3 FYs.**

OR

- **50% of the Applicant’s Operating Budget for the FY of the disaster if estimated revenue loss for the FY of the disaster is at least 75% of the Applicant’s Operating Budget for the FY of the disaster.**
- **In either case the loan shall not exceed $5 million.**

What are the terms?

- Interest Rate: Rate for 5 year maturities as determined by the Secretary of the Treasury in effect on the date the Promissory Note is executed.
- Duration: 5 Year loan that may not normally exceed 10 years
- Use of Funds: Must be used to carry on existing local govt' functions of a municipal operation character or to expand such functions to meet disaster-related needs. Funds shall not be used to:
  - Finance capital improvement, repair or restore damaged public facilities, pay for non-Federal cost shares

What are the minimum eligibility requirements?

1. Located in the disaster-area
2. State law must not prohibit local govt' from incurring indebtedness from Federal loan
3. Loss of tax or other revenues due to disaster
4. Demonstrated need for financial assistance
5. Maintenance of an annual operating budget
6. Responsible to provide essential municipal operating services
7. Not in arrears with respect to any payments due on previous loans

What does "substantial loss" mean?

- Whether disaster caused a large enough reduction in cash receipts from normal revenue sources, excluding borrowing, which affects significantly and adversely the level and/or categories of essential municipal services provided prior to the disaster.
- Whether the disaster caused a revenue loss of over 5% of total revenue estimated for the FY in which the disaster occurred or for the succeeding FY.

What does “demonstrated need” mean?

- Whether there are sufficient funds to meet current FY operating requirements
- Whether there is availability of cash or other liquid assets from the prior FY
- Current financial condition considering projected expenditures for govt’ services and availability of other financial resources
- Ability to obtain financial assistance or needed revenue from other State and other Federal Agencies for direct program expenditures

What does “demonstrated need” mean? Continued

- Displacement of revenue producing businesses due to property destruction
- Necessity to reduce or eliminate essential municipal services, and
- Danger of municipal insolvency

How is the "Operating Budget" defined?

- The document or documents approved by an appropriating body, which contains an estimate of proposed expenditures, other than capital outlays for fixed assets for a stated period of time, and the proposed means of financing the expenditures.
- The operating budget includes governmental, special revenue, and enterprise funds which perform basic operating functions of the government.

How is revenue loss calculated?

- Identify revenue sources that fund the core operations of the government, including sources from G.F., other governmental funds, special revenue or enterprise funds.
- Confirm that revenue sources appear to be ones that would be affected by the disaster
- Forecast revenues for 3 FYs following the FY of disaster using 3-5 years of historical data to establish the baseline
- Estimate post-disaster revenues
- Calculate difference between pre-disaster projection and post-disaster projection

How is the baseline established?

- **Baseline:** The baseline seeks to estimate what revenues may have been had the disaster not occurred. To calculate the baseline FEMA:
  - Analyzes 3- 5 preceding FYs of revenue data, plus the current FY's projection, to determine whether there's a trend.
  - If so, FEMA calculates an annual compound growth rate and carries it forward for the 3 FY following the FY of the disaster.
  - If not, FEMA takes the average value and carries it forward for the 3 FY's following the FY of the disaster
- If FEMA identifies that a significant revenue source was brought online during the 5 years preceding the disaster or there was a unusual loss during that time an adjustment may be made to the trend.

How are post-disaster projections made?

- Based on their professional judgment and understanding of the disaster's impact on revenues and professional judgment, applicant's financial/budget officials calculate the following 3 scenarios:
  - Best Case Scenario
  - Worst Case Scenario
  - Likely Scenario
- FEMA analyzes the various projections, along with other data, to determine whether it concurs with the likely scenario

What are unreimbursed disaster-related expenditures?

- These are disaster-related expenditures not covered by any other federal program or insurance. These include items such as…
  - Interest paid on money borrowed to pay amounts FEMA does not advance towards completion of approved Project Applications
  - Cost to the applicant for required flood insurance
  - Un-reimbursed cost for police and fire
- Costs excluded include:
  - Local cost share
  - Improvements to facilities damaged by the disaster

What are the next steps?

- Applicant Verbally expresses an interest to the GAR
- The GAR sends a letter to FEMA requesting CDL Program implementation
- FEMA assigns an accountant to work with each community that intends to apply, starting with the hardest impacted counties
- Applicant submits a letter to the GAR signed by the Chief Finance Officer and Budget Director officially requesting a loan and certifying that the applicant:
  - Meets the minimum eligibility requirements as previously outlined.
  - Has incurred substantial revenue loss in excess of 5% of total estimated revenue for the FY of the disaster or the succeeding FY

What are the next steps? Continued

- Applicant provides following documentation to accountant

  1. Adopted Op Budget for FY of disaster and any pre-disaster adopted modifications

  2. Pertinent state statutes, ordinances, or regulations which prescribe the local government’s system of budgeting, accounting, financial reporting, including a description of each fund that is part of the Operating Budget

  3. The official annual reports (Revenue and Expense and Balance Sheet) for three FYs prior to the FY of the disaster, and the most recent interim financial statements for the FY of the disaster

What are the next steps? Continued

4. A description of the revenue sources that are part of the core operating business of the government

5. Three to Five immediate past FY's or more of actual revenue, as reported in the official financial statements by revenue source

6. Actual monthly revenues by revenue source for the FY of the disaster.

7. Tax assessment information including assessment dates and the dates payments are due

- Applicant works with accountant to develop best case, worst case, likely scenario for post-disaster revenue projections

What are the next steps? Continued

- Accountant analyzes information to complete loan determination process
- Applicant reviews analysis and discusses any concerns with FEMA accountant
- Applicant submits letter to GAR requesting official loan amount attaching the completed Certificate of Eligibility and financial documentation.

What are the next steps? Continued

- GAR reviews request and forwards to FEMA with a recommendation and certification that:
  - Local government can legally assume indebtedness, and
  - Any proceeds will be used and accounted for in compliance with the FEMA-State Agreement

When will loan funds be received?

- Upon FEMA’s approval, the Promissory Note must be signed by:
  - The applicant, and
  - Co-signed by the State
- If the State cannot co-sign, the applicant must pledge collateral
- On the Note, the applicant should indicate its funding requirements on the Schedule of Loan Increments

What are the loan requirements?

- Establish necessary accounting records, consistent with local government's financial management system to account for loan funds received and disbursed and to provide an audit trail.
- Establish a sinking fund to amortize the debt.
- Allow access to all federal and state auditors and program officials for the purpose of audits and examinations.
- Submit annual recent financial reports.
- Allow for re-evaluation of the loan, if requested.
- Notify FEMA of any changes to municipal official responsible for the Promissory Note.

What loan repayment rules apply?

- Pre-payments may be made without penalty
- Due and payable in accordance with Terms and Conditions of Promissory Note
- 5 year loan unless extended to 10 years by FEMA
- Interest accrues effective the date of its disbursement by the Treasury
- Interest computation is I=P*R*T
- Payment made applies to interest first, then principal
- Any costs incurred by the Federal Govt' in collecting Note will be added to unpaid balance of loan and accrue interest

What are the maintenance requirements?

- **The federal government must maintain the CDL loans per 44 CFR, 206.375, *Loan Administration***
- **In accordance with the intent of these requirements, two maintenance documents are required :**
  1. **Disbursement Request – completed with each request for disbursement**
  2. **Annual Financial Report – completed at the end of each of the applicant’s FYs**

Questions?

What are your questions?