

# PIERZ ECONOMIC DEVELOPMENT REVOLVING LOAN FUND POLICIES

*Updated June 13, 2016*

## PURPOSE

The Economic Development Revolving Fund (RLF) Development Account is a revolving fund maintained by the City of Pierz's ECONOMIC DEVELOPMENT AUTHORITY (hereafter referred to as EDA) for the purpose of financing development costs as part of its economic development efforts. This account provides an on-going source of funding that can be used to assist economic development by stimulating private investment in order to improve, expand, maintain or start a business within the City of Pierz. There shall be three loan categories:

1. LARGE LOANS (\$50,000 - \$150,000) The emphasis is to create new permanent jobs or retain endangered jobs within the City of Pierz that pay a livable wage, as defined by DEED (2014 - \$12.61/hour adjusted annually), encourage private investment within the City, and/or help to leverage conventional business financing.
2. SMALL LOANS (\$5,000 to \$49,999) The emphasis is to finance business startups, expansions, or retention.
3. COMMERCIAL REHABILITATION Deferred Loans (\$10,000 or less) The emphasis is to promote commercial building improvements addressing rehabilitation/renovation issues contributing to slum/blight and/or urgent community needs that are consistent with the adopted comprehensive plan of the City.

### A. Goals & Objectives

The purpose of the revolving loan fund is to create new employment or to maintain existing employment and for business start-up, expansions, and retention. Requests for loans from the RLF are expected to be many and diverse. The use of the fund should therefore be directed to those businesses that will do the most to solidify and strengthen the economic base of the area, provide permanent full-time employment to persons who are unemployed/underemployed. In its marketing and review process, the RLF will target the following and give funding priority to them.

1. LARGE LOANS of \$50,000 - \$150,000 from the revolving fund can be used to make business loans for start-up, expansion, or retention purposes:
  - a. Manufacturing and distribution projects which serve to diversify the local economy or add value to agricultural products grown in the region. These businesses tend to build on existing resources (agriculture) or diversify and strengthen the economy (manufacturing and distribution). These businesses can also serve as magnets for other businesses especially in the service sector.
  - b. Commercial projects will only be considered for large loans when the project results in a fifty percent increase in the total market value of the project site.
  - c. Projects with a high number of full-time permanent jobs at good wages. This meets with the goal of increasing employment for underemployed and unemployed persons and raising the average income.

- d. Projects that increase/preserve the tax base;
  - e. Projects that leverage the use of private funds;
  - f. Projects with infrastructure or improvements that cannot be completed due to prohibitive costs without the use of public funds;
  - g. Projects that retain an existing business; and
  - h. Projects where assistance is necessary to attract an out-of-state business
  - i. Eligible improvements shall include:
    - Acquisition of land
    - Construction or rehabilitation of buildings
    - Site improvements
    - Utilities or infrastructure
    - Machinery and Equipment
    - Demolition of existing structures that have passed their useful life.
2. SMALL LOANS of \$5,000 - \$49,999 finance business start ups, expansion, or retention for:
    - a. Projects that attract, retain or help to expand an existing business; and/or
    - b. Projects that address an unmet need in the community.
    - c. Eligible improvements shall include:
      - Acquisition
      - Rehabilitation of buildings
      - Site improvements
      - Interior/Exterior Improvements
      - Machinery and Equipment
      - Demolition of existing structures that have passed their useful life.
  3. COMMERCIAL REHABILITATION DEFERRED (CRD) Loans (\$10,000 maximum).

## **B. Types of Assistance**

Funds from the Revolving Loan Fund may be used for:

1. Infrastructure (if appropriate)
2. Loans
3. Other forms of assistance with private sources of financing.

## **C. Ineligible Activities**

Revolving Loan Fund assistance will not fund the following activities:

1. Inventory
2. Fixtures, furniture and office equipment (FF&E)
3. Professional fees
4. Refinancing existing debt or equity position
5. Labor for work completed by owners

#### **D. Wage Goals**

For loans or assistance provided from the RLF, the EDA reserves the ability to utilize the wage established in the adopted Business Subsidy Criteria and will give priority to assistance requests that equal at least 110% of the federal poverty level for a family of four, which as of February 1, 2014 is \$12.61 per hour. The federal poverty level changes each year.

Recipients of assistance in excess of \$25,000 must provide information to the City regarding goals and results for two years after the benefit date or until the goals are met, whichever occurs last. This information is required by the State for Minnesota Business Assistance reporting. If the goals are not met, and repayment of assistance is required, the recipient must continue to provide information on the assistance until the assistance is repaid.

#### **E. STANDARDS FOR THE RLF PORTFOLIO**

The RLF portfolio taken as a whole will meet the following standards. At times individual loans may vary from these standards due to highly unusual circumstances or overriding factors which may make deviation a necessity.

Following are the minimum standards for the RLF portfolio:

1. A minimum ratio of \$15,000 in RLF proceeds per job created (or retained).
2. Job creation with the RLF will be directed toward skilled craft-persons and technicians; semi-skilled workers; and, service trade industry workers, rather than part-time or minimum wage jobs.
3. The requirement that \$1 of private sector funding be contributed for every dollar of RLF funds. The private funding is defined as financing from banks, investment companies or private investment on the part of the borrower for other firms as a result of the RLF loan. Private funding does not include city, state, or other public funding.
4. It is not the intent of the RLF to replace conventional/bank financing but rather to fill the gap between bank financing, equity and the funds needed to accomplish the project. Only under rare and special circumstances with the EDA consider participation in a project where there is not a lead private lender.
5. Loan terms for fixed assets shall not exceed 10 years for land and building and 7 years for machinery and equipment. Loans may be amortized over a longer period to enhance to affordability of payment in the early years with a balloon payment required at end of approved or maximum term as stated herein.
6. Interest rates are to be negotiated and should be commensurate with the security, but not less than 2.5% or more than the maximum interest rate allowed under state law.
7. Assets securing EDA Loans must be insured for no less than the amount of the total outstanding loans.

8. The EDA may provide deferrals on principal repayments in extraordinary circumstances and upon written request from the borrower. Subordination of loans may also be provided to meet the credit needs of the borrowers.
9. The minimum equity requirement for participation on an RLF loan is equal to 15% of project costs.
10. It is the intention of the EDA to secure each loan with a first or second mortgage on real estate or a UCC filing on equipment, inventory and/or receivables.
11. A personal guarantee from all owners with 10% or greater ownership will be required for all loans made.
12. RLF loans will only be restructured if the restructuring improves the borrower's repayment ability.
13. Interest earnings or other profits earned from the sale of loans will be returned to the RLF fund for re-lending.
14. The EDA will require that proposed borrowers provide bank commitment letters evidencing the limitation of private capital to their project and the need for RLF funding.

**F. ADMINISTRATION OF THE FUND**

1. Applications will be considered on a first come, first served basis.
2. Applications will be available at City Hall. City staff will receive applications, check for completeness and collect the appropriate loan fee. Complete applications will be sent to ED staff/consultant for preliminary review.
3. The EDA will make recommendation to the Council for final decision on all loan requests, and the Council's decision shall be based on its sole discretion. The duties of the EDA shall be:
  - a) Review of all preliminary/final applications and make terms and final structure recommendations for loans under the terms of this program.
  - b) Meet with applicants, when appropriate, and resolve any questions or issues prior to recommendation to the Board
  - c) Oversee the preparation and review of loan documents.
  - d) Oversee compliance, repayment and collection of loans.
  - e) From time to time, recommend amendments to the RLF program rules.

In determining the desirability of the project, the EDA will consider the following:

- i. whether the loan is sufficiently secure
- ii. whether the project generally enhances the quality of life within the City
- iii. whether the project removes slum or blight conditions
- iv. whether the project would generate significant environmental problems
- v. whether the project is in compliance with City ordinances
- vi. whether the project is consistent with the approved comprehensive plan and zoning ordinances of the City; and
- vii. whether the project meets good public policy criteria.

4. The EDA reserves the right to consider each request on a case by case basis based on its sole discretion and deviate from this Loan Policy if the situation merits. The EDA will hold a public hearing when it deviates from the policy and document the reasons for the deviation in the meeting minutes.

## **G. Loan Selection and Approval Process**

The selection and approval processes will be as follows:

1. Pre-Application – For Large and Small Loan Applicants
  - a. A brief 3-page pre-application (attached) will be required of all potential applicants in order to determine the proposed structure and eligibility of the project.
  - b. All pre-applications will be screened by staff for eligibility and considered by the EDA. Applicants for large loans shall receive a request to submit a full application or a preliminary denial within thirty days of submission of the pre-application. Preliminary denials may be appealed to the City Council. The EDA shall make recommendations to the City Council for approval or denial of small loans within thirty days of submission of the pre-application.
  - c. Applicants must submit project bids/estimates, drawings for exterior and sign improvements. Applicants will be directed to submit the last two years of business and personal income tax returns and personal financial statements of all owners to the City’s consultant for review. Such financial information will be kept confidential to the extent allowed by law.
  
2. Full Application (Large Loans Only)
  - a. No form is provided. Applicants must submit the following to City Staff prior to consideration:
    - i. Financial references of the applicant
    - ii. A Business Plan including the applicant’s principals, history and past projects. The applicant should be able to demonstrate a past successful general development capability, as well as a specific capability in the type and size of the proposed development project.
    - iii. Current plus two year sales projections and cash flow after the project is completed
    - iv. The names and addresses of all persons and banks providing financial assistance
    - v. A letter of commitment from a bank or financing company confirming that it will provide a specified amount of financial assistance to the developer’s project.
  
  - b. When a full application is invited, a Staff site visit and discussion with the business about full application details will take place.
  
  - c. When completed applications are received, Staff will conduct a thorough review including:
    - eligibility with RLF policy
    - economic benefits of the proposed project
    - review of historical & project financial information
    - repayment ability
    - management skills
    - collateral and lien position

- credit risk of applicant
  - need for special requirements, i.e. insurance, personal guarantee
  - environmental review
- d. Staff will prepare recommendation to be presented to the EDA based on its review.
  - e. The EDA reviews full application, staff recommendations and makes recommendation to the City Council for final approval.
  - f. Staff informs applicant in writing of the Board decision and directs legal counsel to prepare loan/security documents
  - g. Closing on loans should occur in conjunction with the closing on conventional loan sources.

#### **H. Requirement for Business Subsidy Agreements**

According to Minnesota Statutes 116J.993 to 116J.995, a City or EDA Authority providing financial assistance of between \$25,000-150,000 or a business subsidy worth \$150,000 or more is required to complete an approval process as described below. Prior to providing assistance of \$25,000 or greater, a City must adopt criteria for awarding business subsidies following a public hearing. For each project then, the City must:

For financial assistance of \$25,000-149,999:

1. Enter into an assistance agreement.
2. Complete the Financial Assistance Report annually for two years

For a business subsidy of \$150,000 or more, the Authority must complete the following:

1. Conduct a public hearing on the subsidy, after providing at least 10 days published notice in the local newspaper.
2. Enter into a subsidy agreement which must include the following information and requirements:
  - a. A description of the subsidy.
  - b. A statement of the public purpose and goals of the subsidy.
  - c. Wage and job creation goals (or job retention goals, if job loss is imminent and demonstrable) to be achieved within 2 years of receiving the subsidy;
  - d. A description of the recipient's financial obligation if the goals are not met. The recipient must pay back the assistance with interest if goals are not met, although pro-ration to reflect partial fulfillment of goals is permitted.
  - e. A statement of why the subsidy is needed.
  - f. A commitment from the recipient to continue operations at the site for at least 5 years;
  - g. The name and address of the parent company of the recipient;
  - h. A list of all other financial assistance to the project; and
  - i. A requirement for the recipient to provide the Authority and the Department of Employment and Economic Development with annual information regarding goals for two years after receiving the subsidy or until the goals are achieved. The reports must be filed by March 1 for the prior year.

Further requirements of the business subsidy agreement include:

- a. Business subsidies in the form of grants must be structured as forgivable loans.
- b. If a business subsidy benefits more than one recipient, the grantor must assign a proportion of the business subsidy to each recipient that signs a subsidy agreement.
- c. The recipient and the authority must sign the agreement upon approval by the City Council.
- d. Failure to meet job and wage goals or other requirements in the agreement, will cause the recipient to repay the subsidy, plus interest. Terms of repayment must be established in the agreement. The interest rate for repayment of the subsidy must be set at the implicit price deflator defined under Minnesota Statutes section 275.70, subdivision 2. However, the grantor, after a public hearing, may extend for up to one year the period for meeting the goals provided in a subsidy agreement.
- e. A recipient that fails to meet the terms of a subsidy agreement may not receive a business subsidy from any grantor for a period of five years from the date of failure or until a recipient satisfies its repayment obligation, whichever occurs first.

#### **I. Loan Servicing**

Loan closings will be handled by staff and the City Attorney in conjunction with the attorney of the borrower and the primary lender.

Loan servicing will be handled by City staff. A separate accounting system within the City's general ledger will be established. Staff will monitor and keep records of all accounts in terms of repayments and special provisions. Monthly reports should be generated for all individual loans including principal, interest, fee payments, etc. in an effort to track delinquencies and overall loan status.

A late fee/penalty of \$50 will be assessed for any payments not received within 10 days of the due date. Payments that are not received within 30 days will be considered in default the City may pursue full collection.

Delinquency will be handled in a firm yet flexible way with provisions for modifying or restructuring consistent with program objectives and responsible money management. Any modifications of loan terms and conditions must be requested in writing by the applicant and approved by the EDA Board.

In general, defaults will be handled on a case by case basis. Specific action, beyond the above referenced procedure, will depend on the nature and circumstances, amount and availability of collateral and costs versus benefit of liquidating assets or other collateral. Any action taken will be handled by Staff and at the direction of the City Council.

#### **J. Sources of Funding To Cover Administrative Costs**

Administrative costs will be financed through application/deposit fees charged to the borrower at the time of application.

The EDA will charge a \$300 Application Review fee for a LARGE or SMALL loan and \$150 for a CRD Loan, due at the time of application. The use of these funds will be to pay the costs associated with conducting an appropriate review of applications by staff and/or its consultants. Applicants will also be

charged for the EDA's legal fees associated with the review and preparation of loan documents and recording fees. The City will bill the applicant for fees incurred over and above the Application Review Fee at the loan closing.

**K. Repeal of Previous Policies**

This policy repeals any previous revolving loan fund policies or business subsidy policies in the City of Pierz relating to the Economic Development Authority.

Passed by the City Council of the City of Pierz, Minnesota this 13<sup>th</sup> day of June, 2016.

Approved

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Toby Egan, Mayor

Attest

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Gina Funk, City Clerk



# EDA Loan/Assistance Process

