



REVOLVING LOAN FUND POLICY

Approval Date 07-05-2017 by City Council

Purpose

The purpose of the City of Pine City Economic Development Authority (EDA) Revolving Loan Fund is to expand the tax base of the City of Pine City and to promote new job opportunities by providing businesses and developers with “gap” financing necessary for their projects to get off the ground. The administrative procedures set forth in this document are to assist the members of the EDA and their staff engaged in making loans through the Revolving Loan Fund. The information contained in this document should be used by those engaged in interviewing applicants for Fund assistance and accepting, screening, processing applications, and servicing loans for the Fund program.

Scope of EDA Activities

Purpose

The administrative procedures are a guideline for internal requirements of the Revolving Loan Fund program and how it should be managed by the Pine City EDA.

The EDA was created with the intention of assisting small businesses primarily by providing financial assistance for the growth and expansion of local, small businesses. The EDA and the Revolving Loan Fund are intended to provide such assistance within the specified boundaries of the City of Pine City. Any revenue generated by the Revolving Loan Fund to the EDA is incidental to the community benefits as measured by increased tax base, the creation and retention of jobs, expanded business ownership activities, and improved community services.

Authority

Chapter 469 of the Minnesota State Statutes, as amended, authorizes the EDA to make loans to prospective private businesses. Recipients of financial assistance under this program are subject to non-discrimination requirements of the laws and policies governing such government assistance.

Project Financed By the Revolving Loan Fund

The purpose of the City of Pine City EDA Revolving Loan Fund is to provide assistance to businesses. This may occur by directly providing financing to

the businesses or indirectly by providing gap financing to an organization who will build a facility to assist a business.

**Eligible Applicant
Defined**

Applicants may be small and medium sized businesses, or developers that are organized as sole proprietorship, partnership, limited liability company, corporation, or large non-profit companies.

**Size Eligibility
For Businesses**

For purposes of the City of Pine City EDA Revolving Loan Fund, a business may qualify if its sales are less than \$6 million annually for each of the last two (2) fiscal years preceding the application for assistance from the Fund. The EDA may make exceptions to this rule on a case-by-case basis.

**Sound Business
Purpose**

The proceeds from a loan made through the City of Pine City EDA Revolving Loan Fund are used to assist with an identifiable small business concern or an organization in accomplishing a sound business purpose. A sound business purpose would not exist if any of the following conditions occur:

- a) If the project proposed will destabilize existing multi-tenant facilities or have an adverse impact on them.
- b) If it is to accomplish an expansion or conversion which is unwarranted in light of the business concern's past experience and management ability.

**Ineligible
Projects**

- a.) Non-profit institutions, with less than 100 employees
- b.) Gambling organizations
- c.) Lending or investment organizations
- d.) Land held primarily for sale or investment
- e.) Housing developments

Project

Costs

“Project costs” should be limited to direct expenditures necessary to acquire, construct, convert, or expand a business including site improvements and professional fees directly attributable and essential to a project such as survey, engineering, architectural, legal and accounting. In this context, legal expenditures for such items as zoning changes, title searches, title insurance, recording fees, etc., which are clearly essential to the total project can be included as project costs. While there is considerable flexibility in determining the composition of a project, in general, it should be a productive asset when completed. In the classic sense, this would be: land, building, machinery, and equipment.

Elements of Project Costs

In developing the aggregate project costs for the City of Pine City EDA Revolving Loan Fund, the following guidelines will be used:

Land

Valuation of land injected by the small business concern into the project should be at the appraised value based on an appraisal acceptable to the EDA. The appraisal should conform to current bank regulatory requirements.

Land Improvements

Improvements which are paid through special tax assessments or user fees should not be included in determining project costs. Improvements to the land which are a portion of the project cost could include but are not limited to the following:

- 1.) Grading
- 2.) New streets or street improvements including curb and gutter
- 3.) Parking lots
- 4.) Utilities ~ water, sewer, drainage, gas, electric, fiber, etc.
- 5.) Landscaping and signage

Purchased and/or Remodel an Existing Building

The cost of purchasing an existing building generally includes the value of the land and applicable fees and charges required to gain clear title to the property. Purchasing an existing facility with funds provided by the City of Pine City EDA Revolving Loan Fund is permissible.

Building Construction

Construction includes the erection of a new building and/or a major addition to an existing building.

Purchase Machinery and Equipment

City of Pine City EDA Revolving Loan Fund proceeds can be used to finance the purchase of major items of machinery and equipment independent of land and building. These items are defined to have a useful life of at least seven (7) years. The terms of the loan will be commensurate with the life of the asset.

Ineligible Project Costs

The following costs should not be construed as part of the project costs under this program:

- a.) Management fees
- b.) Financing costs and fees
- c.) Franchise fees
- d.) Debt consolidation
- e.) Moving costs

Leasehold Improvements

Financing should be permitted for leasehold improvements including construction on leased land. The lease should be equal to or greater than the term of the loan. The remaining economic life of the facility or leasehold improvements should be equal to or greater than the term of the City of Pine City EDA Revolving Loan. Financing may be provided if the land or building owner allows the EDA to secure lien positions on the land or building and improvements, sufficient to fully secure its exposure or if other collateral sufficient in value to fully protect the interest of the City of Pine City EDA Revolving Loan Fund is offered.

Limited or Single Purpose Assets

The construction or the purchase of limited use assets should not be financed under the City of Pine City EDA Revolving Loan Fund unless the liquidating value of the asset plus other available collateral, if sold, would be sufficient to protect the City of Pine City EDA from realizing a substantial loss.

Working Capital Proceeds from a City of Pine City EDA Revolving Fund loan should not be used for working capital or to directly refinance prior obligations of the small business concern.

Availability of Personal Resources Since the primary focus of the City of Pine City EDA Revolving Fund is economic development, personal resources of the owners or principals of the small business concern should not usually disqualify the small business concern from receiving assistance. Where credit factors indicate the need for additional capitalization, the injection of personal resources may be required to make the loan credit-worthy.

Personal Guarantees The EDA requires the personal guaranty of any person owning 20% or more of the small business concern regardless of the form of ownership.

Participants and Structure of Project Financing Maximum Private Sector Exposure.

The City of Pine City EDA Fund is designed to foster projects contributing to sound economic growth in Pine City in such a way that maximum private sector exposure is stimulated and encouraged. The City of Pine City EDA Fund should not be a substitute for conventional business financing or be used in place of other specialized state, federal or local programs that may be better suited to the specific project needs. In most City of Pine City EDA Fund projects, a private sector lender will make a separate secured loan equal to a certain percentage of the total project cost and will usually be secured by a junior lien position on project assets. The EDA will use the City of Pine City Revolving Fund to participate with the private sector lender in making the total loan to the small business concern.

Private Sector Lender Financing may be provided by regulated and/or non-regulated financial institutions or non-institutional sources, if they are in the business of providing financing for commercial purposes, and they are not associated with the small business concern receiving financial assistance. The terms and conditions of such financing must be acceptable to the City of Pine City EDA based on the small business concern's ability to repay the City of Pine City EDA Revolving Fund loan.

Interest Rate The lender and EDA may establish their own rate provided the rate is legal and reasonable. The lender and the EDA may charge either a fixed or variable

rate of interest on their loan. A negotiable rate of interest is acceptable provided terms and conditions are established and agreed to both by the City of Pine City EDA and the lender at the time of the loan approval. The EDA must be aware of the lender's terms and conditions in assessing the small business concern's ability to repay the City of Pine City EDA Revolving Fund loan.

Balloon Payment	As part of the lending process, the fund will work with the lendee to determine whether the amortization schedule shall be set up with balloon or balanced payments. Balloon payments may be considered where circumstances warrant their use.
Amount	The maximum amount of private lender financing should be included in each project. At least 50% of the project cost should be funded by a private lender.
Maturity	Maturity must be reasonable in relation to the life of the assets being financed. In no instance should the maturity of the City of Pine City EDA Revolving Fund loan exceed the maturity of the loan being provided by the private lender.
Personal Guarantees	The EDA requires the personal guaranty of any person owning 20% or more of the small business concern regardless of the form of ownership. Where ownership ranges from 5% to 19%, the requirement for personal guarantees is discretionary. A partial guarantee may be considered for less than the total amount of the loan. Generally, a guaranty will not be required where ownership is less than 5%.
Alter Ego Loans	<p>For tax and other reasons, some small business owners prefer to separate the ownership of the asset from the operating small business concern. In such cases, the small business owners form two legal entities: One entity owns part or all of the fixed assets and the other entity is the operation company. Loans will be permitted to the "alter ego" (passive concern) which is an eligible small business concern when:</p> <ol style="list-style-type: none">a) The applicant (passive concern) as a business entity that is organized and operated for profit, whether operating as an individual proprietorship, partnership or corporation;b) The operating small business concern is an eligible small business and the proposed use of proceeds would be allowable for such assistance if the operating small business concern were the owner of the property that is owned or to be owned by the applicant;

- c) The ownership interests in the applicant shall be completely identical with and in the same proportion as the ownership interest in such operating small business concern;
- d) Collateral includes an assignment of the lease between the applicant and the operating small business concern and a lien on the property itself. The lease, including options, shall be for a term of not less than the term of the loan;
- e) The operating small business concern must be either a guarantor or co-borrower, and any owners of 20% or more of the equity of the operating small business concern and of the applicant must also guarantee the loan.

**Franchises
Operational
Requirements**

A franchise may be eligible for the EDA Revolving Fund.

Responsibilities of the City of Pine City EDA Revolving Fund.

The City of Pine City EDA will offer its assistance to small business in need of financing. It will cooperate with other lenders participating in projects. The EDA and the City of Pine City may be able to:

- a.) Package and process loan applications;
- b.) Close and service loans;
- c.) Make available management services or cause such services to be made available;
- d.) Maintain the organizational and operational requirements set forth in these administrative guidelines.

Disclosure of Information.

On a loan application, no recommendations of any individual (including a loan officer, city staff person, or EDA board member) may be divulged directly or indirectly to an applicant, or to any of its representatives or any other unauthorized source. Only final EDA actions may be released.

Diversified Portfolio.

The EDA will not concentrate the EDA Revolving Fund in any one type of industry. The EDA is encouraged to make loans to a variety of businesses in

different industries. The City of Pine City EDA Revolving Fund is designated primarily to assist businesses, new or existing, to grow and create jobs. While new businesses (defined as those businesses in existence for less than two (2) years), do create jobs, they should be considered for EDA Revolving Fund financing only after careful scrutiny as to management capability, experience, and financial support. In order to create a diverse portfolio and to minimize the risk to the EDA Revolving Fund in connection with any single loan, the maximum amount of any loan shall be in the amount of \$50,000. However, an increased amount may be considered by the EDA on a case-by-case basis.

Place of Business The EDA shall maintain an accessible place of business open to the public during regular business hours and maintain staff adequate to perform normal business transactions. The EDA's place of business shall be located as part of the Pine City Administration Office located at the Pine Government Center, 315 Main Street S, Suite 100, Pine City, MN 55063.

Fiscal Year The EDA's fiscal year coincides with the City's fiscal year (January 1 through December 31).

Records The EDA shall maintain financial records, including books of accounts and minutes of all meetings of the Board of Directors. All records and supporting documents relating to the EDA's transactions shall be kept at its principal office. Records and documents which are the basis for or related to the financial statements or loans shall be preserved for the periods required by the Internal Revenue Service (IRS) in accordance with generally accepted accounting practices.

**Maintaining
Loan Portfolio
Documents**

The EDA may service the loan or the EDA may require that the private lender service the loan. In this instance, a servicing agreement will be completed between the private lender and the EDA. Costs of servicing will be paid for by the applicant.

For loans which it services, the EDA shall develop a filing and control system which insures that the following information and documents relating to its loan portfolio are available at its principal office. The EDA filing system must contain information and documents related to each loan made through the City of Pine City EDA Revolving Fund as follows:

- 1.) Loan application, including all exhibits;

- 2.) Loan authorization and all correspondence related to the loan prior to closing;
- 3.) Loan closing documents including all document relating to participation with the private lender;
- 4.) Evidence of a 10% equity injection by the small business concern;
- 5.) Amortizations schedule;
- 6.) Financial statements of the small business concern;
- 7.) Related correspondence;
- 8.) Evidence of field visits;
- 9.) Condition of collateral;
- 10.) Tickler file for insurance and UCC;
- 11.) Evidence that taxes and insurance have been paid;
- 12.) All other items relating to the loan.

Restrictions

Conflicts of Interest/Self-Dealing.

Self-dealing by the EDA, its Board of Directors, employees or any other related parties to the prejudice of the small business concern, or the EDA is prohibited. The EDA shall not permit a significant relationship to exist or to be created between the EDA and a small business concern to be assisted while assistance through the City of Pine City EDA Revolving Fund is outstanding.

Notice of Default

In cases where the private lender is servicing the loan, the lender must agree to furnish the City of Pine City EDA with written notice of any default by the small business concern within thirty (30) days of the date of default. The lender must give the City of Pine City EDA sixty (60) days notice prior to a foreclosure sale. This agreement must incorporate provisions providing for a timely written notification from the lender to the City of Pine City EDA of any default, delinquency by the small business concern on the lender's portion of the financing and the right of the City of Pine City EDA to an immediate purchase of the lender's senior position in the loan thereby allowing the EDA

the opportunity to protect its position and to avoid the accumulation of legal costs, preservation expenses, etc.

Loan Processing

Repayment Ability.

A City of Pine City EDA Revolving Fund loan must be secured so as to reasonably assure repayment. Reasonable assurance of repayment takes into consideration earnings, management ability and financial condition of the borrower as well as the value of collateral and credit history.

Process for Analyzing Loan Applications

The intake of loan applications will be completed by the Planning and Economic Development staff of the City of Pine City. Upon receipt of a complete application, the staff and the EDA subcommittee will complete the due diligence with an initial review with recommendations from the City's financial advisor to determine the ability of the program to address the identified financing need. If the project meets the intent and general parameters of the program and is approved by the EDA Board of Commissioners the Board will make a recommendation to the City Council who will hold a public hearing and will make the final decision on the EDA loan request. The public hearing may be held by the EDA prior to making the recommendation to the City Council. At the time of the scheduled public hearing, City staff or the City's agent will make a final recommendation to the City Council and EDA regarding this application.

The cost of the consulting services shall be the responsibility of the applicant and shall be paid for out of an escrow account established at the time of application submission. Escrow amounts shall be determined by the City Administrator or their designee.

Credit Information and Credit Reports.

Upon receipt of the loan application, a credit report will be ordered from the private lender participating in the project. The report will be provided to the City of Pine City EDA if the lender receives permission from the borrower. If the application package includes an acceptable credit report or sufficient credit information is supplied by the small business concern/lender or is available from other sources a new credit report may not be needed. Letters should be written by the private lender to credit references and others where necessary, to determine the applicant's credit standing. Telephone contact should be made with credit references where appropriate.

Credit Requirement.

The applicant must meet certain practical credit requirements including the following:

- 1.) The applicant must demonstrate credit worthiness as determined by the private lender and the City of Pine City EDA.
- 2.) There must be evidence that management has the ability to operate the business successfully.
- 3.) The applicant must have enough capital in the business so that with the assistance through the City of Pine City EDA Revolving Fund, it will be possible for the business to operate on a sound financial basis.
- 4.) While the questions of security and collateral are important in determining whether financial assistance will be extended, they are not the only factors upon which the approval or rejection of an application is determined. The City of Pine City EDA attaches great importance to management, the inherent soundness of the small business concern, the small business concern's earnings records and prospects, the small business concern's long-range possibilities for successful operation and whether the granting of financial assistance will increase employment or have other favorable effects on the economy of the City of Pine City.

Financial Statement Requirements.

The loan officer of the private lender must evaluate the reliability of the financial statement submitted. All statements must be signed and dated by the proprietor, a partner, or an authorized officer of the applicant, unless they are accompanied by an independent accountant's report. Statements submitted on a compilation basis must be signed by the small business concern, owner, or designated officer.

Business Financial Statements.

Balance sheets, profit and loss statements, and statement of change in financial position are normally required for the preceding two (2) full years. In addition, an interim statement for the current period is required when the applications is received more than ninety (90) days after the end of the last

fiscal year. An aging of accounts receivable and payables should accompany the interim balance sheet.

Business Plan.

For businesses seeking gap financing for a business not yet established, City of Pine City EDA requires the applicant supply a complete business and financial plan. The applicant will work with city staff, its financial advisors, and the RLF subcommittee to address any issues or inconsistencies with the business plan document. The applicant shall be responsible for any costs related to financial advising and such costs shall be drawn from the applicants' escrow account. The applicant shall also supply supporting documentation that attests to the credit worthiness of the applicant as presented above.

Analysis of Loan Applications

Additional Data.

Additional financial data or written explanation may be required where necessary for an adequate analysis. This is especially true for new businesses, or for existing businesses planning major changes in their operations. Both cases should require earnings projections. Cash flows or other types of data may be required where deemed necessary and appropriate.

Personal Financial Statements.

Personal financial statements are required for proprietors, general partners, each owner of 20% or more of the business, including limited partners and guarantors. All statements must be signed and dated.

Processing Time.

All loans are intended to be processed within sixty (60) working days. The processing cycle will begin with the day the application is received as indicated by a date stamp and ends when the loan authorization is issued. Time awaiting the receipt of additional information will be excluded from the processing time. If major delays are anticipated in receiving additional information to complete the package, the application will be returned to the small business concern within three (3) working days.

Additional

Loan Requirements Upon loan approval, the loan applicant shall enter a business subsidy agreement for at least five (5) years from the benefit date in accordance with the City's business subsidy policy. The applicant must further commit to remain in the site for which the business subsidy agreement was granted for at least five (5) years. The applicant must further abide with reporting requirements as specified under the business subsidy agreement. These reporting requirements may include specific information pertaining to job, wage, property valuation, or other criteria established by the City. Additional information on these criteria may be found in the City's Business Subsidy Policy.

In the event that the loan recipient fails within two (2) years of the benefit date, as defined in Minnesota Statutes, Sections 116J.993-116J.995 as amended, to meet the job and wage goals set forth in the business subsidy agreement, the recipient or its successors and assigns shall be liable to repay to the City the assistance plus interest. The City may prorate repayment to reflect partial fulfillment of the goals set forth in the business subsidy agreement. The rate of interest charged must be set at no less than the implicit price deflator for government consumption expenditures and gross investment for local governments prepared by the Bureau of Economic Analysis of the United States Department of Commerce. The city may, after holding a public hearing, extend the time for compliance with the business subsidy agreement job and wage goals by up to one (1) year.

Loan Servicing There are two (2) options for loan servicing. The EDA may elect to have loans serviced by lenders participating in the financing for any project or service the loan internally. The EDA may require the servicer, whether internal or third party, to obtain and review the financial statements of the small business concern annually; review the small business concern's payment of taxes and insurance, review the uniform commercial code filings on collateral and monitor other financing senior to the loan to assure that payments are current.

The EDA may also require the servicer to make field visits as necessary to review the condition of collateral and report to the EDA any default or any other adverse trend condition or information as they occur and take or propose remedial servicing actions as ordinarily performed by a prudent lender. The EDA will provide written instructions to the servicer outlining the services that need to be provided as a part of the servicing contract. In addition, the servicer will not, without prior written authorization of the City of Pine City EDA, authorize any actions regarding the EDA loan including:

- 1.) Make or consent to any substantial alteration in the terms of the loan instrument.

- 2.) Make or consent to release of collateral.
- 3.) Accelerate the maturity of the note.
- 4.) Sue upon the loan instrument.
- 5.) Waive any claim against the borrower, guarantor, obligor, or stand-by creditor arising out of the loan instrument.
- 6.) Directly or indirectly charge or receive a bonus, fee, commission or other payment of benefit in connection with the making and servicing of the loan except as authorized by the program.
- 7.) Require or obtain any funds, certificates of deposit or compensating balance not under the unrestricted control of the small business concern or any other agreement establishing any preference in favor of the lender.

Repayment

The servicer is required to insure the timely forwarding of the small business concern's monthly payment to the City of Pine City EDA Revolving Fund.