

Cold Spring Economic Development

Revolving Loan Fund Policies

HISTORY

The Cold Spring Revolving Loan Fund (the “RLF”) was established in 2002 for the purpose of promoting economic development within the corporate limits of Cold Spring. The original endowment of \$500,000 was received as a grant through the State of Minnesota Department of Economic Development’s (DEED) Minnesota Investment Fund. Per the requirements of that grant, the CSEDA was required to issue the full amount of the grant to Gold’n Plump Poultry for the purpose of expanding its facilities. The grant and loan agreements required that the Gold’n Plump Poultry repay the principal and interest to the CSEDA where it is to remain for the purpose of establishing this revolving loan fund.

PURPOSE

The Economic Development Revolving Fund (RLF) Program is a revolving fund maintained by the City of Cold Spring’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 Cold Spring. There shall be two 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 Cold Spring that pay a livable wage as defined by DEED, 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.

A. Goals & Objectives

The purpose of the Cold Spring Economic Development Revolving Loan Fund is to facilitate business expansion, relocation or startups, thereby creating additional jobs in the community, further diversifying the economic base of Cold Spring, and providing for increased community growth. Funds shall be used for business development projects which shall include job creation. At least 51% of all jobs created per loan by this RLF will be made available to low and moderate income persons.

Development Projects funded by this Revolving Loan Fund must meet one of the following objectives:

- Benefit to persons of low and moderate income (LMI)
 - Aid in the prevention or elimination of slum and blight
 - Meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community
1. LARGE LOANS of \$50,000 - \$150,000 finance business start-ups, expansion, or retention for the following purposes:
 - a. Manufacturing, distribution, and commercial projects which serve to diversify and strengthen the local economy.
 - b. 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.

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- c. Projects that increase/preserve the tax base;
- d. Projects that leverage the use of private funds;
- e. Projects with infrastructure or improvements that cannot be completed due to prohibitive costs without the use of public funds;
- f. Projects that retain an existing business; and
- g. Projects where assistance is necessary to attract an out-of-state business
- h. Eligible improvements shall include:
 - Acquisition of land
 - Purchase of an existing building
 - Construction or rehabilitation of buildings
 - Site improvements
 - Interior/Exterior Improvements
 - Utilities or infrastructure
 - Machinery and equipment

Machinery and Equipment

2. SMALL LOANS of \$5,000 - \$49,999 finance business startups, expansion, or retention for the following purposes:
 - 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 of land
 - Purchase of an existing building
 - Construction or rehabilitation of buildings
 - Site improvements
 - Interior/Exterior Improvements
 - Utilities or infrastructure
 - Machinery and Equipment

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.

Ineligible Activities

Revolving Loan Fund assistance will not fund the following activities:

1. Refinancing existing debt or equity position
2. Labor for work completed by owners (unless owners are licenced to do the work)

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. Staff will provide this information upon request.

Recipients 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 reporting purposes. 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.

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. Job creation with the RLF will be directed toward full-time workers rather than part-time or minimum wage jobs.
2. The requirement that at least 25% of private sector funding must be provided, with a maximum of 75% sourced through RLF funds. The private funding is defined as financing from banks, investment companies or private investment on the part of the borrower from other sources as a result of the RLF loan. Private funding does not include city, state, or other public funding.
3. 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 special circumstances will the EDA consider participation in a project where there is not private funding.
4. 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 the affordability of payment in the early years with a balloon payment required at the end of approved or maximum term as stated herein.
5. The interest rate for any loan will be 2% and should be commensurate with the security.
6. Assets securing EDA Loans must be insured for no less than the amount of the total outstanding loans.
7. The EDA may provide deferments on principal repayments in extraordinary circumstances and upon written request from the borrower. In limited situations, subordination of loans may also be provided to meet the credit needs of the borrowers.
8. The minimum equity requirement for participation on an RLF loan is equal to 10% of project costs.
9. A personal guarantee from all owners with 10% or greater ownership will be required for all loans made.
10. RLF loans will only be restructured if the restructuring improves the borrower's repayment ability.
11. Interest earnings or other profits earned from the sale of loans will be returned to the RLF fund for re-lending.

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12. 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.

ADMINISTRATION OF THE FUND

1. Applications will be considered on a first come, first served basis.
2. A non-refundable \$400 application fee is required for all large loans, and a non-refundable \$250 application fee is required for all small loans.
3. 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 EDA staff/consultant for preliminary review.
4. 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 Council.
 - 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 is in compliance with City ordinances
 - v. whether the project is consistent with the approved comprehensive plan and zoning ordinances of the City; and
5. Due to the fluctuating nature of business and communities, this policy must remain able to accommodate the changing needs of the City. 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. This may include, but not be limited to, a consideration of loan deferments.

Loan Selection and Approval Process

The selection and approval processes will be as follows:

1. Pre-Application
 - a. A brief Pre-Application and Applicant's Certification (attached) will be required of all potential applicants in order to determine the proposed structure and eligibility of the project.

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- b. A Business Plan including the applicant's principals, history and past projects. The applicant should be able to demonstrate a specific capability in the type and size of the proposed development project.
 - c. 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.
 - d. 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. Pre-application and materials as outlined above.
 - b. Large Loan applicants must submit the following to City Staff prior to consideration:
 - i. Financial references of the applicant
 - ii. Current plus two year sales projections and cash flow after the project is completed
 - iii. The names and addresses of all persons and banks providing financial assistance
 - iv. 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.
 - c. When a full application is requested, a Staff site visit and discussion with the business about full application details will take place.
 - d. 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 and projected 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
 - e. Staff will prepare recommendation to be presented to the EDA based on its review.
 - f. The EDA reviews full approval or denial.
 - g. City Council reviews EDA recommendations for final determination.
 - h. Staff informs applicant in writing of the Council decision and directs legal counsel to prepare loan/security documents
3. Closing on loans should occur in conjunction with the closing on conventional loan sources.

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.

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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 are 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 Council 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 City Council.

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 in consultation with the City Attorney and at the direction of the City Council.

Repeal of Previous Policies

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