

# **REVOLVING LOAN FUND GUIDELINES AND POLICIES**

## **City of Kasson Economic Development Authority**

### **RLF – I. INTRODUCTION – SOURCE AND PURPOSE OF FUNDS**

The purpose of this policy is to provide written guidelines for the processing and award of loans under the City of Kasson Economic Development Authority (EDA) Revolving Loan Fund (RLF) Program. It is intended to be used as the procedure for the EDA to follow in the granting and administration of the RLF Program. The City of Kasson EDA maintains a RLF to assist in retaining and expanding existing businesses, assist new start-up companies, assist companies relocating to Kasson, and promote job creation or retention.

The initial capitalization for the RLF will be funded by the City of Kasson EDA. The RLF will be used primarily to provide fixed asset financing to businesses in the City of Kasson. The RLF may also be used for limited working capital financing. The form of the RLF's involvement in the financing may be as a direct loan to the business or as a guarantor to a conventional bank loan. It is the goal of Kasson's RLF to leverage its funds to the greatest extent possible. It is the intent of the RLF program to primarily use its direct loan program for fixed asset subordinated mortgage financing and its loan guarantee component for working capital loans.

The Revolving Loan Fund Program is a "gap financing" tool used to assist in the financing of business projects, in combination with local private sector financing (banks), which would otherwise lack the required funding. Non-Profits may apply for RLF assistance if certain requirements are met. Applicants must first explore opportunities to obtain funds for their projects from commercial lenders or other private sources before consideration for a RLF loan.

The Revolving Loan Fund Program is administered by the seven-member City of Kasson Economic Development Authority, subject to final approval by Kasson City Council. The following is an overview of the RLF program, general guidelines for eligibility, application guidelines, and the criteria and process for evaluation of applications.

### **RLF – II. GENERAL GUIDELINES**

- A. Applicant/Project Eligibility, Private/Equity Participation, and RLF repayment terms shall follow the City of Kasson EDA Business Subsidy Criteria Policy.
- B. Applicants may be individual owners, partnerships, corporations, tenant operators, or contract for deed purchasers of any legitimate business whose primary place of business is located in Kasson (or within 2,000 feet of City boundaries). Loans are limited to one per year to any Borrower/Applicant. Lending institutions, real estate brokers, and media

businesses are ineligible. While the RLF is intended to service the private sector, non-profit applicants may be considered if their project is considered beneficial to the Kasson economy, has a firm source of revenue for repayment, and other requirements are met.

- C. At least sixty percent (60%) of the total project cost shall be funded privately or through a private lender, with no less than ten percent (10%) of the project provided by the businessowner/applicant in cash or owner equity. **The remaining forty percent (40%), recognized as the financing gap, may be provided by the Kasson Revolving Loan Fund.**

If denied for conventional financing, the applicant may increase the gap financing request no greater than sixty percent (60%) the total project costs, up to \$20,000.

- D. All loans shall be secured by collateral adequate to safeguard the lenders. If the Kasson EDA is the sole lender, it will take a first security interest in the assets financed.
- E. Following the funding of a project, periodic financial reporting, record keeping, and other similar requirements are necessary. Failure to abide by City requirements and approved plans will result in the recall of a loan at the City's request.
  - A. Each loan must document job creation or retention, which is the purpose of the RLF program. The expected number of jobs to be created or retained will be contingent on the size and purpose of the loan.
- F. Construction of a project shall not commence until the appropriate City approvals have been given to the application for financing.
- G. Applicants for RLF funds shall complete an application form and supply all additional information requested by the EDA.
- H. At all times, procedures and policies related to the proposed or actual approval of the City's financial assistance will comply with the laws of the State.
- I. Applicants should not make any legally binding commitments to third parties based on the assumptions that an EDA RLF loan will be approved or issued by a specific date. The EDA will not accept responsibility for premature commitments inappropriately made by applicants.
- J. All applications and supporting materials and documents shall become the property of the City and, as such, are public records. Classification of the data shall be governed by the Minnesota Data Practices Act, M.S. 13.01 et seq., and other Minnesota Statutes as appropriate.

### **RLF – III. ELIGIBILITY, LIMITATIONS, INTEREST AND TERM**

- A. Interest Rate & Term policy for Revolving Loan Fund loans are as follows:

1. For loans of less than \$10,000: an interest rate of the U.S. prime rate minus 2% (no lower than 3%) for a term of five years or less;
2. For loans of \$10,000 to \$30,000: an interest rate of the U.S. prime rate minus 1% (no lower than 4%) for a term of 5-10 years;
3. For loans of \$30,000 or greater and/or a term longer than 10 years: an interest rate equal to the U.S. prime rate (no lower than 5%).

U.S. prime rate will be determined by the rate published in the Wall Street Journal one business day prior to the loan closing date.

B. The terms of the loan shall be determined by the Kasson Economic Development Authority's Loan Review Committee as informed by the following details. Eligible uses and length of term shall be based on the useful life of assets, and the following guide:

- |   |                                      |
|---|--------------------------------------|
| 1. Land acquisition                     | - Limited to 20-year financing terms |
| 2. Building acquisition                 | - Limited to 20-year financing terms |
| 3. New construction*                    | - Limited to 20-year financing terms |
| 4. Building renovation*                 | - Limited to 15-year financing terms |
| 5. Site improvements*                   | - Limited to 15-year financing terms |
| 6. Machinery, equipment, and fixtures** | - Limited to 7-year financing terms  |
| 7. Working capital/Inventory***         | - Limited to 1-year financing terms  |

\* Owners or contractors are required to pay prevailing wages to any employees involved in construction, renovation, or site improvement work.

\*\* The remaining effective life on equipment, machinery, and/or fixtures must be equal to, or exceed, the life of the loan, determined through IRS Publication 946.

\*\*\* Working capital loans are limited to the value for two (2) months of operating costs for the business. Inventory loans are limited to \$5,000.

C. Use of RLF funds to guarantee a conventional bank loan are subject to certain limitations. The RLF may be used to guarantee up to fifty percent (50%) of outstanding principal balance for a conventional bank loan, with the amount not to exceed \$10,000.

The EDA's criteria for underwriting loans resemble those used by lending institutions in business loan evaluation. The EDA has a focus on economic and community development, as such, the underwriting criteria will include considerations regarding economic impact and community benefit.

D. Ineligible uses and businesses:

- |   |                                       |
|---|---------------------------------------|
| 1. Refinance debt                               | 6. Residential real estate investment |
| 2. Pay delinquent taxes                         | 7. Gambling                           |
| 3. Professional offices                         | 8. Media businesses                   |
| 4. Product development costs                    | 9. Agricultural businesses            |
| 5. Organizational costs for start-up businesses | 10. Speculative investments           |
|   | 11. Owner distribution                |

**RLF – IV. APPLICATION PROCEDURE**

A. Prior to any consideration, the pre-application procedure must be completed as follows:

1. The applicant must deliver the following documents to the EDA:
  - a. Completed Revolving Loan Fund Preliminary Application.
  - b. Release Authorization(s).
  - c. The EDA does not charge any application processing or loan servicing fees. However, fees may be required from applicants if the EDA incurs any third part charges for document filing, credit checks, appraisals, or loans that require a consultant. \*

\*The fact that the City accepts an applicants' fees is not to be construed as a guarantee that the City will authorize the project under consideration.

2. The EDA Loan Review Committee and EDA Staff, as an ex-officio member of the committee, will review the pre-application and provide a recommendation to the Authority and Council whether a full application should be considered, based on consideration of the proposed project in accordance with the EDA's Business Subsidy Criteria.

B. Full Application. The Applicant must provide all supplementary information and attachments as required for the RLF funds being requested, and:

1. A "but for" letter documenting the need as set forth in the *Business Subsidy Criteria Policy* section of the City of Kasson Economic Development Authority Policy and Procedures Manual.
2. The following may be requested from the Applicant, where applicable:
  - a. Letter of commitment for bank/private financing;
  - b. Retail or office market analysis;
  - c. Property appraisal for the proposed project;
  - d. Pro forma analysis; and/or,
  - e. A credit check.

3. A statement addressing environmental review requirements and evidence of compliance with applicable requirements.
4. Balance of fee deposit incurred for any third part charges for document filing, credit checks, appraisals, or loans that require a consultant.
5. Building and site plans.
6. Property information, including legal description, tax parcel ID number, size of parcel(s), current market value, and estimated market value upon completion (land and improvements), and survey map showing exact boundaries of proposed development (if applicable).
7. Statement of property ownership or control (e.g. purchase agreements and contracts).
8. Historic information on the business, and a copy of the Applicants business plan.
9. Business financial statements including the past three years of profit/loss statements and balance sheets. (See RLF – II. I)
10. Resumes and personal financial statements of all principals with twenty percent (20%) or more ownership of the business. (See RLF – II. I)
11. List any other development projects the Applicant has completed. List the value, debt load, lender(s) of each project, and note whether the Applicant has ever defaulted on any loan commitment, development or redevelopment agreement, or other subsidy for any of the projects listed.
12. Any other information deemed necessary or desirable by the EDA or City Council. Should the EDA or City Council request a background check, the applicant must agree to a background check before one may be conducted.

## **RLF – V. APPLICATION REVIEW AND PROJECT APPROVAL**

### **A. Preliminary Approval.**

The EDA Loan Review Committee and EDA Staff, as an ex-officio member of the committee, and/or a third party will review the full application and provide a recommendation for preliminary approval to the EDA and City Council.

The EDA will make a finding based upon information presented as to whether the proposed project is consistent with the City of Kasson EDA Business Subsidy Criteria Policy and RLF guidelines outlined in this document. If deemed appropriate, the

EDA/City Council may direct staff and/or consultants to prepare the required documents and agreements.

**B. Final Approval.**

Final approval of a RLF Loan shall occur with the approval and signing of all required documents and agreements including, but not limited to, the following:

1. Business Subsidy/Development Agreement.
2. Loan Agreement.
3. Promissory Note.
4. Collateral adequate to safeguard the RLF Loan, with the understanding that the City interest in the assets financed may be subordinate to the primary lender.
5. Personal Guarantees may be required in any project at the sole discretion of the EDA and/or City Council. Personal Guarantees may be collateralized with personal assets when appropriate.
6. Certificate of Insurance Coverage listing the City as a loss payee each year of the loan.
7. Disclosure of all Federal, State, and Local tax liens and payables from all Principals.

**C. Data privacy.**

All applications and supporting documents shall become the property of the City, and the classification, retention, destruction, and/or disclosure of data shall be governed by the Minnesota Data Practices Act, M.S. 13.01 et seq., and other Minnesota Statutes as appropriate.

**RLF – VI. LOAN SERVICING AND FOLLOW-UP REPORTING REQUIREMENTS**

**A. Loans may be closed by the EDA President/City of Kasson Finance Director. General closing procedures are as follows:**

1. When the loan closing is completed and funds are disbursed, the Economic Development Coordinator will establish a loan servicing file to contain:
  - a. All closing documents;
  - b. A log of all conversations and correspondence relating to the loan; and,
  - c. A master follow-up file to ensure loan monitoring functions are performed on a timely basis.
2. An Amortization Schedule including the calculation of principal and interest, and monthly payment reports will be executed at the time of the loan closing and will be forwarded to the City of Kasson Finance Department for payment collection.

- B. Loan accounting will be a part of the City of Kasson Finance Department's responsibility. The Borrower or Borrowing Entity will be responsible for providing the Finance Department with loan accounting reports. The Finance Department will be responsible for collecting and maintaining evidence of ongoing compliance with any loan requirements. The EDA Coordinator will be responsible for collecting and maintaining evidence of ongoing compliance with respect to job creation and retention, insurance, financial reporting, and any special conditions in the initial agreement. Reports may be requested for individual loans including principal, interest, fee payments, etc.
- C. Delinquency will be handled by the EDA Coordinator in a firm, yet flexible way, with provision 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.
- D. Defaults will be handled on a case-by-case basis by the EDA Coordinator. In the event the business is in default on any of the terms and conditions of the loan agreement, all sums due and owing, including penalties, shall, at the City of Kasson EDA's option, by acceleration or otherwise, become due and payable. To exercise this option, the City of Kasson Attorney shall prepare a written notice to the business. The notice shall specify the following:
  - 1. The default;
  - 2. Action(s) required to cure the default;
  - 3. A date, not less than thirty (30) days from the date of the notice, by which the default must be secured to avoid foreclosure or other correction action(s); and,
  - 4. Any penalties incurred as a result of the default, inability to create jobs, etc.

The City of Kasson EDA shall use its discretion in terms of when and how to collect and liquidate secured collateral.

- E. Any total or partial sale, assignment, conveyance, lease or transfer with respect to the loan and security interest is not allowed without prior review and written approval by the EDA Board, which approval shall not be unreasonably withheld.
- F. Compliance with Minnesota Business Subsidy Law. Each business receiving assistance with the principal amount over \$75,000 from the Revolving Loan Fund shall be subject to the provisions and requirements set forth by Minnesota Business Subsidy Statute 116J.994 and the City of Kasson EDA Business Subsidy Policy. All Revolving Loan Fund Loans

## **RLF – VII. USE OF LOAN REPAYMENTS**

The Kasson RLF is a self-replenishing fund. Interest and principal payments on previous loans will be used to issue new loans in accordance with the RLF guidelines and policies.

## RLF – VIII. COVENANTS

- A. Use of proceeds. The Borrower and/or business will use the proceeds of the Loan in the manner outlined by this document and stipulated in the loan closing documents. Failure to satisfy this covenant may result in Material Adverse Effect.
- B. Compliance with Laws. The Borrower and/or Business will be required to maintain good standing with the States, Counties, and Cities where they exist. Failure of the Borrower and Business to maintain compliance with laws may result in Material Adverse Effect.
- C. Taxes. The Borrower and/or Business are required to pay their obligations with respect to all tax liabilities, assessments, and government charges. The failure to make payment of tax liabilities, assessments, and governmental charges may result in Material Adverse Effect.
- D. Job Creation and Retention. The Borrower and/or Business will be required to create and maintain the number of jobs as decided by the EDA Board and outlined in Loan Closing documents. Failure to comply with this covenant may result in Material Adverse Effect.
- E. Insurance. The Borrower and/or Business will be required to maintain adequate policies for the Business and properties associated with the Business after the Loan Closing date.
- F. Maintaining Records and Reporting. The Borrower and/or Business will be required to maintain and deliver records to the lender for review on an annual basis. Failure to provide adequate records and access to properties may result in Material Adverse Effect. The required documents are as follows:
  - i. Taxes. A statement from a Banking Institution verifying the Borrower and/or Business have filed annual taxes.
  - ii. Job Creation and Retention. The Borrower and/or Business will maintain a record of employment figures.
  - iii. Insurance. The Borrower and/or Business will submit proof of insurance for the Business and properties associated with the Business.
- G. Site Visit. The Borrower and/or Business will be required to allow access to, and inspections of, properties associated with the Loan by an agent of the EDA (i.e. Board Member, Coordinator, etc.). These site visits are to be carried out on an annual basis. Failure by the Borrower and/or Business to allow EDA access to properties associated with the Loan may result in Material Adverse Effect.

## RLF – IX. DEFINITIONS

As used in this document, the following terms shall have the following meanings:

“Amortization Schedule” shall mean a complete table of periodic loan payments, showing the amount of principal and the amount of interest that comprise each payment until the loan is paid off at the end of its term.

“Assignment” shall mean the transfer of property, benefits, interests, liabilities, rights under a contract, by one party to another.

“Borrower” shall mean the approved Applicant for a Revolving Loan Fund loan.

“Business Plan” shall mean a document setting out a business’s future objectives and strategies for achieving them.

“Business Subsidy” shall have the meaning assigned to such term in Minnesota Business Subsidy Law, Minnesota Statutes Section 116J.993 through 116J.995.

“But-for” shall mean the analysis that determines whether a proposed project would not occur, but for the Revolving Loan Fund assistance.

“Certificate of Insurance Coverage” shall mean a certificate issued by an insurance company or broker that verifies the existence of an insurance policy held by the Borrower.

“Collateral” shall mean something pledged as security for repayment of a loan, to be forfeited in the event of a default.

“Default” shall mean the failure to fulfill the obligation to repay the loan.

“Delinquency” shall mean when the Borrower or Business, with a contractual obligation to make loan payments against the debt of the RLF loan, does not make those payments on time or in a regular, timely manner.

“Development Agreement” shall mean a voluntary contract between a local jurisdiction and a person who owns or controls property within the jurisdiction, detailing the obligations of both parties and specifying the standards and conditions that will govern development of the property.

“Economic Development Authority” shall refer to the City of Kasson Economic Development Authority (EDA), a professional and confidential agency whose goal is to help develop and support economic growth within the city of Kasson.

“Environmental Review” shall refer to the assessment of the environmental consequences of a plan or project prior to the decision to move forward with the proposed action.

“Ex-Officio” shall refer to the Economic Development Coordinator, who is part of the EDA by virtue of their position as an employee of the EDA.

“Financial Statement” shall refer to the formal record of the financial activities of the Borrower or Business.

“Fixed Assets” refers to assets which are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment.

“Gap Financing” shall refer to the sum of money lent by the City of Kasson EDA to cover the difference between secured financing and the financing needed to carry out a project.

“Guarantor” shall mean the City of Kasson EDA, which is providing the RLF Loan.

“Interest” shall mean:

- a. the fee rate for the use of RLF funds, determined by the amount and length of the loan.
- b. the amount of ownership a stakeholder has in a company.

“Legal Description” shall mean a geographical description of a property which identifies location, boundaries, and any existing easements on the property.

“Letter of Feasibility” shall refer to a letter which includes the background of the project and provides an assessment of the practicality of the proposed project.

“Material Adverse Effect” shall mean a material adverse change to the business, operations, property, or financial condition of the Borrower and/or Business, taken as a whole, the validity or enforceability. The Lender, or EDA, is allowed to cancel the transaction if a material adverse change occurs.

“Partnership” shall refer to a business or firm owned and run by two or more partners.

“Personal Guarantee” shall mean a promise made by an individual or entity to accept responsibility for some

“Prime Rate” shall mean the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board.

“Principal” shall, in the context of borrowing, refer to the initial size of the loan, and/or the subsequent remaining balance.

“Principal Owner” shall mean any person or entity who, now or hereafter, directly or indirectly owns a twenty percent (20%) or greater interest in the business.

“Promissory Note” shall mean a signed document containing a written promise to pay a stated sum to a specified person or the bearer at a specified date.

“Pro Forma” shall mean an analytical projection of the potential financial position of a company based on a review of historical information, operating metrics, and potential costs associated with anticipated changes.

“Resume” shall mean a brief account of a person’s education, qualifications, and previous experience.

“Revolving Loan Fund” shall mean a gap financing measure primarily used for development and expansion of small businesses. It is a self-replenishing fund, utilizing interest and principal payments on previous loans to issue new ones.

“Security Interest” refers to an enforceable legal claim or lien on collateral that has been pledged to obtain a loan.

“Subordinate Financing” is debt financing that is ranked behind that held by secured lenders in terms of the order of which the debt is repaid.

“Tax Parcel ID” shall refer to the identification number assigned by Dodge County to a certain plot of property.

“Term” refers to the length of time a borrower has to make payments on a loan.

“Underwriting” shall refer to the criteria and process of the City of Kasson EDA used to determine whether a borrower’s loan application is an acceptable risk.

“Working Capital” shall mean the capital of a business which is used in its day-to-day operations.

## **RLF – X. PROVISION FOR AMENDMENTS**

The City of Kasson Revolving Loan Fund Policies may be amended by the Kasson City Council after a public hearing on such amendment(s) and, in accordance with Minnesota Business Subsidy Law, Minnesota Statutes Section 116J.993 through 116J.995, upon recommendation by the Kasson Economic Development Authority.