



REVOLVING LOAN FUND POLICY

Updated July 13, 2023

INTRODUCTION

This document provides written guidelines for the award and processing of loans under the the City of Princeton's Revolving Loan Fund (RLF) Program, and is intended to be used as the procedure for staff and the City Council to follow in the administration of the RLF.

~~Partial capitalization for the RLF may be from the~~ The RLF was capitalized through funds made available by the City of Princeton's Urban Development Action Grant, the Minnesota Department of Employment and Economic Development, to include the State Minnesota Investment Fund pool, or other sources as identified and provided by the City.

The RLF Program will be operated within the city limits of the City of Princeton, whose boundaries may change as growth and annexations of new properties take place naturally over time. The RLF will be used primarily to provide fixed asset financing to small businesses.

This loan fund will be administered by staff and the Council. Staff will handle applicants, review applications for loan funds, and provide reports and recommendations to the City Council, comprised of a Mayor and four (4) Councilors duly elected by City residents.

BACKGROUND

A locally operated RLF Program allows a community to leverage public and private dollars through a fairly simple operation. RLFs can provide local businesses with direct loans, participation loans with banks and other lenders, loan guaranties, interest subsidies, and other financial assistance. It is a goal of the City's RLF Program to leverage its funds to the greatest extent possible to achieve the maximum impact with a scarce resource – loan funds for businesses.

If at a future time the City's RLF Program receives additional capitalization, this RLF Plan will be amended to add any additional requirements of the granting agency or institutions. Due to the relatively small initial capitalization of the City's RLF, it is the intention to pursue additional capitalization through a variety of sources, such as lending institutions, private foundations, state funds and programs, federal funds and programs, investors, etc. This will enable the RLF Program to continue to provide needed financing for a healthy local economy.

The City's RLF Program also may, at its option and if the need arises, sell its loans on the secondary market (within legal and prudent guidelines) to raise additional capital to continue to provide loan funds to businesses.

The City's RLF Program is designed to help firms start up, expand, develop, and remain in the community. It will be the policy of the RLF Program to assist in financing local businesses first rather than using the RLF dollars in a "smoke-stack chasing" manner, which has been proven to be a sometimes unrealistic, competitive, and expensive economic development endeavor.

OPERATING GOALS

The following are key factors in operating the RLF Program:

1. Simplify the RLF loan terms and conditions, as well as the review process so that they do not seem complicated, time consuming, or cumbersome to applicants.
2. Design loan terms and conditions that allow the City to assume greater risks than those that private lending institutions traditionally or regularly take, but do not make them so risky that the City assumes bad debts.
3. Allow for flexibility in establishing loan terms and conditions to tailor loans to the needs of individual firms and their cash flow needs.
4. Establish clear goals, objectives, and require tangible and measurable results for the RLF Program.
5. Establish and maintain a good working relationship with local private financial institutions.
6. Operate the RLF Program in a businesslike and professional manner.
7. Market the RLF Program effectively to local businesses, media, local lending institutions, private foundations, other economic development lenders, and others as deemed appropriate by the EDA Board and City Council.
8. Staff the RLF Program with competent and experienced professionals in the field of economic development, banking, credit analysis, planning, etc. in order to preserve RLF capital, secure integrity of the fund, and achieve maximum positive results for the Princeton community. Engage City staff and/or consultants that are experienced and trained in economic development, finance and encourage ongoing training and professional development.
9. Eliminate or reduce federal and/or state requirements with which clients must comply.
10. Encourage the participation of other economic development sources in local projects, such as local banks and credit unions, the Central Minnesota Initiative Fund, local utility companies, the East Central Regional Development Commission, the U.S. Small Business Administration, Minnesota Business Finance Inc., (504 SBA Program), the Minnesota Department of Trade and Economic Development, the Federal Economic Development Administration, the Federal Rural Development Board (f.k.a. Farmers Home Administration), venture capitalist firms, Minnesota Technology, and others.

MEASURABLE GOALS

The following are important and measurable quantifiable goals of the RLF Program:

1. Create and/or retain jobs in the city limits of Princeton through utilization of the RLF.

2. Increase the tax base in both Mille Lacs and Sherburne Counties, as well as the City of Princeton.
3. Create and/or retain a majority of jobs that are full-time and not seasonal in nature.
4. Create and/or retain jobs that pay higher than minimum wage.
5. The City's RLF Program is an Equal Opportunity Lender and employer and will not discriminate based on gender, race, religion, sexual preference, age, etc., in its loan decisions or employment practices.

TARGETING CRITERIA

Since it is necessary to achieve the RLF goals and objectives, this limited amount of funds must be targeted in order to meet the financial gaps/constraints mentioned previously. The following table outlines the objectives and methods of targeting RLF funds.

Goals/Objectives/Needs	Methods to Meet the Stated Goals/Objectives/Needs
Job creation for the unemployed.	State Job and Training Department to be to be used for employment resource <u>or referral</u> to RLF Program.
Increase the tax base.	Projects that increase the tax base will receive priority over those that do not.
Increase income levels of employees.	Projects that create jobs that offer higher than minimum wage will receive priority over those that do not.
Increase diversity in the employment base.	Promote the program to include opportunities for minorities, women, and low income workers; include a non-discrimination clause in all applications and marketing materials.
Diversify the economy	Projects for agricultural processing, manufacturing, forestry, energy, technologically innovative and value added products for import/export will receive priority.
Improve obsolete manufacturing facilities.	Increase availability of loans to groups or employers which demonstrate this need and qualify for RLF funds.
Occupy vacant or substandard areas in need of redevelopment.	Increase availability of loans to businesses who demonstrate location qualifications and meet eligibility requirements.
Attract Private investment in local businesses.	Projects that leverage at least a 3:1 public/private ratio to RLF funds will receive priority over those that do not.
Industries or firms that create jobs appropriate for the local labor force.	Projects that fill a need for the qualified local labor force will receive priority over those that do not.
Collaborate with other funding agencies to leverage maximum funding sources.	Coordinate and promote the RLF Program with other agencies. Prioritize projects utilizing multiple funding sources.

ELIGIBLE ACTIVITIES

The following types of activities are eligible for the RLF Program:

1. Property acquisition
2. Site improvements
3. Building construction
4. Building renovation
5. Purchase and repair of machinery and equipment
6. Working capital
7. Infrastructure improvements necessary to support new or expanding businesses

The following are examples of financial assistance that can be given to encourage economic development:

1. Make loans in participation with banks and encourage their involvement in a project by providing second position/subordinate financing that is at a lower interest rate, longer term than conventional financing.
2. Give direct and/or participation loans at favorable interest rates and terms when needed.
3. Guarantee loans made by private lenders.
4. Arrange interest subsidies together with private lenders.

TYPES OF ASSISTANCE

Existing business expansion – defined as industrial/commercial related expansion and costs related thereto, including land and building acquisition and construction, remodeling, relocation, equipment acquisition, public facilities improvements.

Business equipment acquisition – defined as the purchase of additional depreciable assets for the purpose of expanding industrial commercial activities.

Development of new business – defined as the establishment of new industrial and commercial business in all phases, including land and building acquisition and construction, remodeling, equipment acquisition.

FINANCING POLICIES

It is the goal of the RLF for dollars to be used in the most efficient manner. In order to fulfill its role, the Fund must offer funds to healthy, growing businesses or start-ups that have a high degree of equity invested by borrowers, in accordance with their net worth.

To fulfill its role, the Fund may use one or more of the following financing techniques in a package: a longer term, a lower down payment, a lower interest rate, or a subordinate position. Loan guarantees may also be used.

Start-ups

The percentage of start-ups loans in the RLF loan portfolio will be approximately 20%. While 80% of the RLF capital will be invested into businesses operating for more than one year, the Loan Committee will selectively work with entrepreneurs who have shorter track records. Such entrepreneurs will be selected based upon three primary criteria.

- a. First, the *entrepreneur must incur risk*; i.e., they must have personal capital invested into their enterprise.
- b. Second, the entrepreneur must demonstrate *adequate management capability*, including the ability to manage both human and financial resources.
- c. Finally, the entrepreneur must demonstrate *intimate knowledge of the industry* in which he/she will operate a business. Such knowledge must include knowledge of pricing, production, suppliers, potential customers, billing practices, competition, environmental/legal issues, marketing, advertising, etc. A business plan is a first good step. Each start-up will receive technical assistance through the Pine Technical College's Small Business Development Center in Pine City or in St. Cloud as appropriate.

Fixed Assets and Working Capital

- a. *Fixed Assets* – The Financing of machinery and equipment with useful lives of one to ten years, and real estate (land or building) of up to 30 years are eligible. In projects involving fixed asset loans, the RLF normally will obtain collateral on the asset or assets to be financed, as well as other assets of the company, as appropriate. Seventy percent (70%) of the RLF portfolio will be used for fixed asset financing.
- b. *Working Capital* – No more than thirty percent (30%) of the RLF portfolio will be used for working capital loans. Manufacturing projects will be given priority in considering working capital loans. The RLF Loan Committee will encourage working capital loans to be made in conjunction with fixed asset financing, rather than providing direct working capital loans.
- c. *Loan Repayment Terms* – The term of the loans will vary according to the type of project, use of funds, cash flow needs, etc. In all cases, the term will not exceed the useful life of the assets. Working capital, however, will have a maximum term of three (3) years. Fixed assets will have a term, within the discretion of the THE CITY Board, up to a maximum of 15 years. Possible reasons for deviating from these standards are:
 - Lengthening term instances where cash flow needs require it. This will only be considered when the project offers significant job creation/retention or other economic benefits.
 - Shortening term in instances where cash flow needs allow it. This may be considered when the project may not demonstrate a high degree of need for RLF financing or the project does not offer a high number of jobs created/retained.

General Provisions

1. *Interest Rates* – Rates to be charged on RLF loans shall be not less than 4 points below the highest prime rate as quoted in the Wall Street Journal at the time of loan approval by the Loan Committee or the maximum interest rate allowed under State law, whichever is lower, but in no event shall it be less than 2%. Interest rates will generally be negotiated with the borrower and will be reflected by the term of the project and the financial projections. However, interest rates will generally be below local financial institutions' short-term rates.
2. *Special Financing Techniques* – The RLF Loan Committee will reserve the ability to utilize certain financing techniques, as determined and appropriate by the Loan Committee in cases where it is necessary to meet the credit needs of borrowers.
 - a. Subordinate position with projects that include private lending institutions.
 - b. Deferred principal payments.
 - c. Balloon payments.
3. *Equity and Collateral Requirements* – A minimum of 10% borrower equity will be required of the total project cost. However, projects that possess higher than the minimum equity requirement will be viewed more favorably, all else being equal. Absolutely no loans will be allowed that are unsecured. Working capital will have assets pledged as collateral, including any security positions seen appropriate by the RLF Loan Committee. The forms of security include, but are not limited to, land, buildings, machinery, equipment, inventory, accounts receivable, general intangibles, personal guarantees, contracts for deed, etc.
4. *General Policies for Restructuring or Modifying Terms* – The RLF Loan Committee may extend the terms of a loan through a deferment of principal payments upon borrower request if circumstances warrant such action. In addition, the RLF Loan Committee may choose to include a call clause that would enable the Fund to withdraw its funds ahead of schedule from successful firms that have the called-for repayment ability. The calling of a loan under such circumstances will not take place until a review has been made by the RLF Loan Committee of the ability of the borrower to repay only the amount of the outstanding loan. Said reviews may be stipulated in the loan agreement and may take place periodically, or at the discretion of the Committee. In addition, if a business receives financing through the RLF Program and decides to leave the City of Princeton, there will be a calling of the entire unpaid balance of the loan.

The RLF Loan Committee will not begin an unscheduled review without the prior knowledge of the borrower. This mechanism gives the Fund added flexibility in managing its portfolio to achieve the most wide-spread and rapid impact over time, by shifting its resources from borrowers that no longer require them to firms that have a greater need and qualify for RLF dollars.

5. *Loan Guarantees* – Loan guarantees may be made using RLF funds. No guarantees may exceed 50% of the underlying loan. The lender may secure the entire loan and will establish the amount of borrower equity required. The lender will also set the terms and the interest rate. The RLF Loan Committee will consult with the lender and borrower to help create the best loan scenario. The RLF Loan Committee may reduce or “buy down” the interest rate through an adjusted deposit returned on the guarantee as negotiated

with the lender. The Fund will place in escrow 50% of the face value of the loan in case of default. The RLF Loan Committee will only take default action after all reasonable financial and legal remedies have been pursued by the lender.

6. *Methods for Verifying Borrowers Certifications* – The RLF will require documentation from outside sources to support the claim that the RLF is not substituting for private capital. Such documentation includes bank turn-down letters or letters from other lenders stating that credit is not available on terms and conditions proposed and the project could not be completed unless RLF funding is included in the overall package.
7. *RLF Funds in Conjunction with Other Loan Programs* – The RLF will make every effort to make its resources available to projects that include other loan programs (i.e. State Minnesota Investment Fund, State Department of Trade and Economic Development's Revolving Loan Program, Central Minnesota Initiative Fund Business Loan Program, United Power Association's Business Loan Program, Minnesota Power's Business Loan Program, SBA's 504 and 7a loan program, CDC loan programs, local revolving loan funds, etc.)

RELATED ACTIVITIES

In addition to making loans, the RLF program is expected to provide other forms of assistance and services to aid business development and benefit unemployed workers in the area.

Technical and Management Assistance

Debt financing is only one tool provided by an RLF for business development. In addition to needing capital, many businesses suffer from problems related to marketing and management. For those firms, technical and management assistance is as important as access to capital.

Pre-application loan structuring and assistance will be provided to businesses and prospects by the Fund. The Fund staff will encourage potential applicants of the Fund to meet with area business assistance providers beforehand when circumstances warrant (i.e., Business Plan development, patent development/searches, inventions, market studies, etc.). Area business assistance providers include the State Small Business Development Centers (SBDCs) in Pine City and St. Cloud. The SBDCs provide assistance in marketing, management, and financial analysis. The SBDC conducts many seminars within the area on various business assistance topics. Many area community colleges, such as Pine City and Cambridge Community College, provide instruction for small business management. The Fund may provide financial assistance on a case by case basis to off-set any or all of the costs associated with consulting services provided by assistance providers.

Other assistance providers include the Minnesota Technology Inc. office in St. Cloud, which provides technical assistance to manufacturers. The Center for Business Development at St. Cloud State University offers technical advice and evaluations on product development and patents.

Borrowers must make a reasonable effort to ensure that the RLF Loan Board has an understanding of their business operations. Borrowers should inform the RLF of any existing or potential problems, significant changes in business plans, production, expansion, purchasing, etc. When deemed necessary by the Fund, borrowers may be required to

provide financial statements (monthly in some cases of significant business problems) and reports to the Fund. The intent of the ongoing relationship is geared to prevent loan delinquencies or avoid potential problems by helping the borrower identify and correct problems before they occur.

Loan Packaging and Referral Services

The RLF Loan Committee acknowledges the fact that a number of firms applying for RLF assistance will be ineligible under the RLF loan selection criteria or may be able to get assistance from private sources or other development programs.

Assistance/referrals on these non-RLF loans will still result in development benefits to the area without drawing on the limited resources of the Fund. If an applicant fails to meet RLF criteria, they will be referred to the SBDC in their area (or other business assistance providers previously listed) if they do not have adequate business plan information, or if they demonstrate a lack of management capacity. If applicant may be financed by other sources and do not demonstrate a need for RLF financing, they will be referred to the local banks of the area. It is then up to that bank to participate directly or with an appropriate program (i.e., SBA).

The RLF staff will coordinate its efforts with other local lenders to help put transactions together to facilitate economic development projects that are not recipients of RLF financing.

MARKETING STRATEGY

The availability of the RLF Program will need to be publicized and effectively communicated. The marketing plan for the RLF Program is as follows:

1. Include notices in local newspapers of the Fund, Its activities, its meetings, and its loan fund criteria.
2. Require local lender notification of the RLF Program, its requirements, availability of funds, and applications.
3. Send a notice to all local/public/private/federal/state economic development loan programs that explains the RLF Program, its requirements, and its availability of funds.
4. Send mailings to selected businesses.
5. Include the RLF Program in the Council agendas from time to time, annual reports, press releases, etc.
6. Make presentations to local businesses and business associations.
7. Distribute RLF Loan Program materials to financial intermediaries and business professionals.

CONFLICT OF INTEREST

The City Council, and City staff shall not act on proposed loan packages by vote, data interpretation, or other means of influence in which they have a personal, financial, or other interest which would provide them or their firm/business with a monetary gain. This does not refer to salaries, per diems, travel reimbursement, etc., incurred in the normal course of Fund activities.

LOAN APPROVAL PROCESS

Selection of Borrowers

The loan selection process on the part of the RLF begins when a loan applicant or their lending institution contacts staff to discuss the proposal. Staff will interview the prospect and make a preliminary analysis. Staff will determine the eligibility of the proposed project for the Fund. Staff will communicate with economic development representatives and other economic development lenders to assess the possible use of other financing sources. If the proposal appears to meet the basic eligibility standards, the staff will make an initial briefing to the City Council or subcommittee thereof ("the Committee").

The Committee receives the staff's initial briefing on each proposal. It decides whether to ask for the submission of a formal application.

The purpose of this process is to identify ineligible proposals as soon as possible to utilize staff and Committee time in its most effective manner, as well as save the applicant's wasted time and effort. The Committee reviews all selection standards, criteria, and the staff's recommendation. If the selection standards are met, the Committee will ask for a formal application form from the prospect. This allows staff to spend more time with the prospect in developing the loan package.

Authorization of a formal application submitted does not mean that a loan approval is certain. It does mean that the proposed project meets the preliminary selection requirements. The initial eligibility determination should take no more than 15 days from receipt of all documentation from the applicant.

Review of Loan Proposals

Once the Committee authorizes the submittal of a formal application, staff will meet with the prospect and involved parties to negotiate the most desirable loan package. Responsibility for a completed loan package is with the *borrower*. Staff will spend as much time as is reasonable with a prospect. Staff will not provide accounting, legal, engineering, etc. services which the applicant shall obtain from other duly qualified professionals.

Upon completion of the loan package, staff, with assistance from other lender (if applicable), will make an extensive review of the loan package. Project cost estimates must be supported by verifiable quotations and estimates. Financial and other assumptions in the applicant's projections must be clearly identified and explained. Forecasting methods must be described and justified. Turn-around time for acting on a *completed* application should be no more than thirty (30) days.

Loan Decisions

The Committee shall make an extensive review of the loan package, with the analysis prepared by staff with recommendations for approval or denial. As soon as possible after making this review, the Council will meet to make a decision on the application. Since a goal of the RLF Program is to respond quickly to loan requests, the Council shall make its decision by majority vote of Board members within 15 days of receipt of the final staff/Committee analysis and recommendations.

The recommendation to the City Council will include the interest rates, terms of the loan or loan guarantee, limitations, and covenants (if any) on uses of loan funds and other conditions to be included in final documentation.

Once the City Council has approved a package, it will recommend a loan disbursement to the Finance Director, who will release the loan funds by the RLF Program upon completion of all necessary loan documentation. Staff, with assistance from any consultants and/or legal counsel, will prepare loan documents with assistance from the participating lending institution (if applicable) and assure that they are duly executed and filed with appropriate governmental agencies for establishment of security interests.

Upon receipt of City Council approval, the Finance Officer shall disburse funds to the approved borrower. The Council will have authorized a loan repayment schedule, with staff handling all loan repayments via a separate RLF account. The RLF fiscal staff will promptly notify borrowers in the event of late or delinquent payments to determine what course of action needs to be taken.

Staff will establish a loan file system for the RLF loans. The records and loan file information will be kept and monitored at Princeton City Hall. The RLF Program will generally provide loan servicing functions, but may opt to contract with local financial institutions or other duly qualified instructions to carry out some or all loan servicing functions.

PROGRAM EVALUATION

To ensure that the RLF Program is meeting the objectives sought out in the RLF Plan, an evaluation will be performed by staff. Said evaluation will compare actual performance in terms of the number and type of loans, number and type of jobs created/retained, and other indicators with respect to the goals/objectives of the RLF Plan. The evaluations will be conducted once per year and be included in an Annual Report to the City Council. Staff, in its evaluations, will solicit comments/suggestions from borrowers, other lenders, the public, and others in the form of a survey that measures, to a certain degree, satisfaction, and effectiveness of the RLF Program. After the staff completes the annual evaluation, it will be provided to the City Council for review and comment.

LOAN ORIGINATION FEE AND COSTS

A 2% loan origination fee shall be required at closing for all loans through the City's RLF Program. In addition, the applicant is also responsible to pay, at closing, such items as drafting documents, filing fees, copying, attorney fees, mortgage registration tax, State deed tax, credit reports, lien searches, and other necessary items as may be required.

FUNDING ACKNOWLEDGEMENT

For projects financially supported by revolving loan funds the Borrower shall:

A. Acknowledge revolving loan fund support in certain written materials including company brochures, reports, newsletters, and press releases; and

B. On the building or expansion construction site post a sign acknowledging financial support from the State of Minnesota and the City of Ramsey.

GUIDELINES FOR THE REGULATION OF STATE ECONOMIC DEVELOPMENT REVOLVING LOAN FUNDS.

A. General. The following rules, regulations, policies, and procedures govern state economic development revolving loan funds.

B. Incorporation by Reference. The dissemination, use, and regulation of state economic development revolving loan funds shall be generally governed by guidelines including:

1. The Minnesota Investment Fund (MS.116J.8731)