

Revolving Loan Fund Policies and Procedures

Revised November 2012

OVERVIEW/SUMMARY

The funds, which comprise the "Arlington Revolving Loan Fund", are the result of grants awarded to the City of Arlington. These funds in turn were borrowed to qualifying companies. The repayment of these loans will enable the City to reinvest in other business expansions within the City. It is fully intended that all funds repaid to the City, by any borrower of the fund, will be reused for business expansion and economic development. All funds repaid to the City shall be retained in a special account, entirely separate from other City accounts, and may not be used for any purpose other than those described in this document.

The "Arlington Revolving Loan Fund" has been designed to respond to the local needs immediately and can be molded to meet the needs of the businesses of Arlington.

PURPOSE

The purpose of this fund is to assist in providing capital for new and existing business expansion, create new employment or to maintain existing employment and further diversify the economic base of Arlington, Minnesota. The availability of these funds provides businesses with an alternative form of gap business financing, which if used properly, should encourage growth for the community.

USE OF FUNDS

All funds paid to the City of Arlington shall be retained in a special account, entirely separate from all other accounts, and may not be used for any purpose other than working capital, expansion, renovation or start-up financing for the businesses assisted. Creation or retention of permanent jobs and increased community growth are the goals of the Revolving Loan Fund (RLF).

The following types of for-profit business are considered eligible but not limited to:

- Manufacturing/assembly
- Tourism projects
- Professional offices
- Retail
- Ag processing

The following businesses are considered ineligible:

- Agriculture production
- Speculation real estate
- Construction or maintenance of utilities
- Operation or expansion of a casino
- For a project related to a sports facility

The RLF funds are available to qualified borrowers who are able to demonstrate a financing gap created by lack of total funds provided by lending institutions, other lending sources and the business owners. RLF funds are eligible for various proposed purposes such as:

	<u>(Terms are maximums)</u>
1. Acquisition of Loan	20 year financing terms
2. Acquisition of building	20 year financing terms
3. New Construction	20 year financing terms
4. Machinery and Equipment	3-7 year financing terms
5. Building renovation	15 year financing terms
6. Working Capital	3-5 year financing terms
7. Inventory	1 year financing terms

LOAN CRITERIA

It is policy that RLF funds should be loaned out as quickly as possible to all applicants that meet or exceed RLF guidelines. The amount of a loan (within maximum) for any business or project will be at the discretion of the Arlington EDA Loan Committee. The review board determines the interest rate and it is their goal that the interest rate should not fall below a 3% annual rate. Suggested project financing percentages are as follows: 50-60% lending institution (bank, credit union or other), owner equity 10-20%, subordinated financing 20-30% (local, county or regional revolving loan funds).

The maximum loan amount shall not exceed \$100,000 or 40% of the project; whichever is less.

LOAN COMMITTEE

The Arlington EDA Loan Committee, established by Council Resolution, shall consist of three (3) members of the Economic Development Authority.

Final decisions regarding loan applicants must be a matter of public record and loan applicants must be notified in writing about the decision made by the committee. Loan applications may be reviewed on an open, year-round, first come-first serve, basis.

At any time deemed necessary, the EDA Loan Committee may require the loan applicant or loan holder to participate in business/financial consultations with the Small Business Development Center in Mankato or other private financial consultants that have been authorized by the EDA Loan Committee.

The Loan Committee shall review all information that will provide decision-making assistance as to the viability of the business and the loan applicants. A business applying for a RLF should be located in or planning to relocate to the city limits of Arlington, Minnesota.

Committee members shall review and discuss the strengths and weaknesses of the business, determine their credit worthiness, debt service capability and insure satisfaction of meeting the goals of the Arlington RLF.

The following criteria shall be used in reviewing loan applications to determine their credit worthiness:

- Management capability, industry knowledge, and/or experience in similar industry
- Demonstrated repayment ability
- Owner Equity commitment
- Available collateral coverage
- Credit worthiness of applicant(s) (See 'Checklist for Financial Assistance Applications')
- Business Plan detail
- Proposed jobs created/retained
- Economic impact on area
- Availability of other funds

MUNICIPAL RIGHTS, POWERS, DUTIES (MS471.87-471.88)

An officer of the city may not have a personal financial interest or personally benefit financially from the business to be assisted.

SURVEY DEPOSITS REQUIRED FOR CONSTRUCTION CONTRACTS (MS 290.9705)

In the situation that the contract exceeds \$50,000 and a non-Minnesota construction contractor has been hired to perform the work, the city must do one of the following:

- a. Deposit with the Department of Revenue, 8 percent of every payment made to the contractor; or
- b. Have in its possession a Waiver of Withholding from the department of Revenue.

GOVERNMENT DATA PRACTICES (MS13)

Information contained in the application for assistance will become a matter of public record with the exception of those items protected under the Minnesota Government Data Practices Act.

CONDITIONS/PROCEDURES

To insure the goals and purposes of the revolving loan are met, conditions and procedures have been established to provide the Loan Committee with guidance.

- The business expansion shall provide for the creation or retention of permanent private-sector jobs in the City.
- The tax base of property affected shall experience an increase.
- Loan funds shall be secured by collateral and shall be recorded. Mortgage security may be in a subordinated position to that of the participating lender and other financing source as deemed appropriate by the Loan Committee. Due to this subordinate nature of the EDA gap financing, a personal guarantee by the loan applicants may be required.

Procedures:

- 1) Complete and submit a PRE-APPLICATION for administrative review by EDA Director. The EDA Director shall either approve the pre-application, deny the pre-application, or refer the pre-application to the EDA Loan Committee. In the event of denial by the EDA Director, the Applicant may request referral to the EDA Loan Committee.
- 2) Review the financing package with the business lender and obtain a tentative commitment to participate.
- 3) Complete the final loan application packet, completed 'Checklist for Financial Assistance Application' and submit the required information about the business.
- 4) An independent appraisal, paid for by the applicant, may be required for any equipment or real estate which is a subject of the proposed financing, or which is offered as a major source of collateral to secure the loan. Recent appraisals done for other participating funding sources for this project will be considered.
- 5) Loan applicant must obtain all building and construction permits and meet all zoning laws of the City of Arlington. Upon completion of the project, applicant must have work inspected by the City of Arlington or other appropriate personnel when required by city ordinance.
- 6) Submit all information to the Loan Committee through the EDA Director's Office.
- 7) Obtain written financial commitment from the lead lender.
- 8) Upon final approval by the EDA, the EDA will prepare a promissory note and/or mortgage document to be signed and recorded. All fees related to document preparation, legal fees and recording fees shall be the responsibility of the borrower.
- 9) Loan closing.
- 10) Disbursement of funds based upon agreed to schedule and documentation of expenditure of other funds.
- 11) The EDA Loan Committee reserves the right to revisit the loan agreement if activity towards the project has not started within 60 days of loan approval.
- 12) Loan repayment to the EDA's "Revolving Loan Fund".

MATERIALS AND INFORMATION NEEDED FOR THE ARLINGTON REVOLVING LOAN FUND LOAN COMMITTEE

To apply for financial assistance and to aid in the decision making process of the Loan Committee, the following items and information may be required:

- A. Completed RLF pre-application form

- B. Business plan
 - C. Past 3 year historical financial statements (balance sheet and P & L)
 - D. Interim financial statement (not more than 90 days old)
 - E. Two year financial projections
 - F. Two year cash flow projections
 - G. Debt schedule of fixed obligations
 - H. Collateral listing to secure loan
 - I. Completed RLF application at least 2 weeks prior to an EDA Loan Committee meeting
1. The RLF Pre-Application and Application forms are provided at the end of this packet and are used by the RLF Loan Committee as a general overview of your project.
 2. The business plan is a description of the business, including product, market, staffing, and financial situation and projections. It is considered that a well-prepared business plan plays several important roles:
 - a. It is a useful management tool that can help plot a course for the company; it is a vital sales tool that will impress financial backers and stockholders with the company's planning ability and general competence as a management team.
 - b. Other things being equal, a well-prepared business plan will increase the business' chances of identifying market opportunities and of obtaining the necessary financial commitments for future success. The business plan will help the RLF Loan Committee better understand the business' potential. The following list of items should be included in the business plan:
 - Name of the business (as incorporated)
 - Address and location of the business
 - Brief history or narrative of the business
 - Brief resumes of the company management
 - c. In describing the business, include such information as products and/or services provided, general market area served, and any other appropriate information.
 - d. Identify markets and marketing strategies such as pricing policies, method of selling, distributing and servicing of products along with how much of the market share does the company occupy and is anticipated through expansion and growth.
 - e. Describe major and minor competitors and their strengths and weaknesses.
 - f. Sources of suppliers
 - g. Manufacturing process – materials and production methods
 - h. Provide detail on the intended use of working capital required. List machinery, equipment, land and buildings to be purchased and the basis for the estimate.
 - i. Estimated construction costs, if appropriate.
 - j. Appraised value of new construction.
 - l. How many employees does the company currently employ and how many employees does the company anticipate hiring as a result of this expansion.
 - m. Include the company's banking institution, attorney and accountant, their address, phone and fax numbers and contact person.
 3. Include at the end of the business plan, a three-year financial history of the business that has been prepared by an accountant. Fill in the numbers in the profit and loss statement and balance sheet labeled "Previous 3 years", and include your statements from the accountants.

4. When applicable, a current financial ratio analysis of the business must be made in order to see how the company is currently performing. The interim financial statement shall not be over 90 days old. These numbers shall represent the "current period" of the profit and loss statement and the balance sheet.
5. Financial projections detailing what the business plans to do with the monies provided through the RLF and how it will affect your income and balance sheet. Projections of two years shall be made and a narrative section shall be written to explain major assumptions behind these projections.
6. Cash flow projections of 2 years should also be made and an accompanying worksheet provided to aid in the understanding of these projections.
7. A current debt schedule of fixed obligations of all business debts that provides the following information: original loan amount, original date of loan, maturity dates, monthly payment, rate of interest, present balance and loan security and collateral position.
8. The RLF Loan Committee needs to know what will be used as security for the loan.
9. A current credit history report of the individual and business.

This information provides the RLF Loan Committee with a better picture of the company and provides the basic tools for analysis of the business. Thank you for the time and effort expended!