

## **V. ECONOMIC DEVELOPMENT FEDERAL REVOLVING LOAN GUIDELINES**

### **A. PURPOSE.**

The purpose of these guidelines is to establish policies and procedures to regulate, coordinate, and facilitate the workflow for underwriting new financing requests, servicing loans, and ensuring borrower compliance with loan terms and conditions.

### **B. AUTHORIZATION AND FUNDING SOURCES**

Chapter 469 of the Minnesota State Statutes, as amended, authorizes the Port Authority to make loans to private businesses. The revolving loan fund was capitalized in part through federal funds made available by the Minnesota Department of Trade and Economic Development and the U.S. Department of Housing and Urban Development (HUD).

In addition to these guidelines, loan funds are subject to the rules and regulations established by the Department of Housing and Urban Development (HUD) for the State of Minnesota's Community Development Block Grant (CDBG) program.

### **C. MISSION**

The mission of the revolving loan fund is to increase the City's tax base, create and retain permanent private sector jobs, promote redevelopment of blighted areas and improve economic opportunity and living standards for the citizens of North Mankato by promoting local business development and expansion, by attracting out-of-state business expansion, leveraging private sector funds, and assisting the development of new technologies.

### **D. PROGRAM OBJECTIVE**

The objective of the revolving loan fund is to fill the financing gap between project costs and private debt financing and private equity by making direct low-interest loans for certain approved activities to businesses within the North Mankato city limits.

### **E. EQUAL OPPORTUNITY AND AFFIRMATIVE ACTION**

1. Non-discrimination. No one shall be denied assistance based upon race, color, creed, religion, national origin, sex, marital status, age, familial status or disability.
2. All loan recipients, developers, contractors, and subcontractors must agree:
  - a. Not to discriminate in any manner against an employee or applicants because of race, color, creed, religion, sex, marital status, age, familial status, or disability.
  - b. To post and to cause subcontractors to post in conspicuous places available to employees and on applications for employment, notices setting forth the substance of this clause.

### **F. ELIGIBLE ACTIVITIES**

Certain projects, applicants, activities and cost are eligible for revolving loan funds.

1. Eligible applicants. Applicants may be a small business or developer who are organized as proprietorships, partnerships, or a corporation. Moreover, the successful applicant must also demonstrate proof of the following:
  - a. Ownership or lease agreements of the subject property;
  - b. Property insurance;
  - c. Property taxes paid and current;
  - d. Freedom from all judgments, liens, agreements, consent decrees, stipulations for settlements, or other such actions which would prevent the application for participation in any program administered by the City of North Mankato;
  - e. Compliance with all applicable City of North Mankato ordinances and plans;
  - f. Creation of a business plan and/or pro forma.
  
2. Eligible Activities. Loan funds may be used to assist small business primarily by providing financial assistance for the following types of activities: retention, growth and expansion, rehabilitation, redevelopment to prevent or eliminate blight, code compliance, employee recruitment and retention through housing initiatives, and façade enhancement.
  
3. Eligible costs. Eligible costs may include the following:
  - a. Land improvements. Improvements to the land which are a portion of the project cost including but not limited to: grading, new streets or street improvements, parking lots, utilities, and landscaping.
  - b. Purchase of land for development. Purchase and, if necessary, renovation and/or removal of an existing industrial or commercial facility is permitted.
  - c. Purchase machinery or equipment. Purchase of major items of machinery and equipment independent of land and buildings. These items must be defined to have a useful life of at least 5 years and the term of the loan shall not exceed the useful life of the equipment purchased.
  - d. Building construction. Construction of a new building and/or a major addition to an existing building.
  - e. Leasehold improvements. Revolving loan funds may be used for certain leasehold improvements provided the lease is equal to or greater than the term of the loan and the City secures a lien on the land or building, and improvements.
  - f. Affordable housing. Because affordable housing development is tied to business needs, revolving loan funds may be used to:
    - i. Leverage the public and private funds and shall not be used as a primary funding sources; and
    - ii. Purchase residential property for development and redevelopment of affordable housing.
  - g. Micro-enterprise. Micro-enterprise activities are eligible for revolving loan funds.
    - i. Definition. A micro-enterprise is defined as a commercial enterprise that has five (5) or fewer employees, one or more of whom owns the enterprise.
    - ii. Exemption. Micro-enterprise loan applications may be exempt from certain requirements of these guidelines on a case by case basis.

### **G. INELIGIBLE ACTIVITIES**

Certain applicants, projects, activities, and costs are ineligible for revolving loan funds.

1. Ineligible applicants. Any applicants not meeting the eligibility requirements outlined in Section F, subsection 1 shall be ineligible to receive revolving loan funds.
2. Ineligible activities. Funds may not be used for retail business, non-profit institutions, gambling organizations, lending or investment organizations, land speculation, or any activity deemed illegal by federal, state, or local law ordinance.
3. Ineligible costs. Ineligible costs includes but is not limited to: management fees, financing costs, franchise fees, debt repayment or consolidation, moving costs, refinancing, and operating cost or working capital.

### **H. LOAN TERM AND CONDITIONS**

The Port Authority shall make available to eligible applicants direct low-interest loans for the purpose of encouraging economic development, redevelopment, job creation and job retention, housing development to meet business needs, and preservation of business districts in the City.

1. Loan amount. There are maximum and minimum loan amounts for eligible projects.
  - a. Maximum loan amount. The maximum loan available from the revolving loan fund for each eligible project is limited to \$300,000.00 or 40% of total project cost, whichever is less.
  - b. Minimum loan amount. The minimum loan amount available from the revolving loan fund for each eligible project is \$10,000.00.
  - c. Micro-enterprise loan. The maximum amount of a micro-enterprise loan shall be \$5,000.00 and the minimum loan amount shall be \$2,000.00.
2. Interest rate. The interest rate shall be a fixed-rate established at 70% of the prime rate at the date of application but shall not be less than 3.0%.
3. Term. The term of the loan will be tied to the useful life of the assets being financed. The following general terms apply:
  - a. Machinery/equipment. The term of the loan for machinery/equipment shall not exceed 7 years.
  - b. Land/building acquisitions. The term of the loan for land/building shall not exceed 15 years.
  - c. New construction/renovation. The term of the loan for new construction/renovation shall not exceed 15 years.
  - d. Balance due. All balances will be due and payable if and when the loan recipients sell or otherwise transfer any or part of his/her interest in the property or fails to meet any of the guidelines established within this document before the maturity date of the loan or relocates any part of the business outside the City.

4. Job creation. A minimum of 51% of all jobs created or retained must be held by or made available to individuals determined to be of low or moderate income in accordance with the rules and regulations established by the U.S. Department of Housing and Urban Development (HUD) for the Port Authority Block Grant (CDBG) program.
  - a. One permanent full-time job must be created or saved within two years of the loan closing for each \$50,000.00 borrowed from the revolving fund;
  - b. Businesses receiving revolving loan fund must pay each employee total compensation, including benefits not mandated by law, that on an annual basis is equal to at least 115% of the federal poverty level for a family of four; and
  - c. A business that receives revolving loan funds must agree to list any vacant or new position with the job services of the Minnesota Department of Employment and Economic Development.
5. Slum and Blight. Funds may be expended for economic development or redevelopment activities, such as acquisition/demolition and/or commercial rehab, which aid in the elimination of slum or blight in an area designated by the Port Authority. Designated areas must meet the definition of slum or blight under state or local law. If proceeds are used for these purposes, the Port Authority may elect to forgive repayment of the loan.
6. Equity participation. There shall be a minimum of 10% equity investment of total project cost required of all applicants.
7. Collateral requirements. All loan agreements will be secured by one or more of the following: promissory notes, mortgage, or security agreement as required by the Port Authority; and
  - a. The revolving fund may take a subordinate position to the primary lender on the assets financed; and
  - b. Surety deposits shall be required for certain construction contracts as set forth in Minnesota Statutes 290.9705.
8. Letters of commitment. Letters of commitment from all funding sources must be submitted for the application to be deemed complete.
9. Personal guaranty. Personal guaranty of person(s) with ownership interest of 20% or greater are required by the Port Authority but are discretionary.
10. Loan repayments. Repayments of the loan must begin within one month of completion of construction or taking possession of machinery and equipment purchased with loan funds. The Port Authority may make exceptions to this rule on a case by case basis.
11. Loan prepayments. Prepayments are permitted where the Borrower makes the Port Authority whole for any losses or costs associated with the prepayment.

12. Notice of award or denial. Applicants will be notified in writing not more than fourteen (14) days after final action has been taken on their revolving loan fund application by the Port Authority.
13. Loan closing documents. The Port Authority will close the loan within sixty (60) days of final approval of the loan application. At that time, the Port Authority will deliver to the Borrower all closing documents and final debt service schedule. In exchange, the Borrower must execute evidence of its obligation for repayment of the loan.
14. Post closing amendments and modifications. Request for amendments and modifications following award, closing or disbursement of funds to the underwriting of the original request require Port Authority approval and shall be present at the next scheduled meeting of the Port Authority Commission.
15. Loan declination. The Port Authority will not make a loan if it determines that the loan amount would place an undue burden on the financial resources of the Borrower or the Borrower cannot demonstrate adequate financial capacity to repay the loan or the Port Authority otherwise determines that making the loan is not in its best interest.
16. Appeal. There will be complaint appeal procedure for aggrieved applicants:
  - a. Written notes. Applications will receive written notice of the denial of the loan and the reason(s) for the determination within fourteen (14) days of the determination.
  - b. Petition. The aggrieved applicant may petition the Port Authority Commission in writing for reconsideration within fourteen (14) days from the date of the written notice of denial. Any request to appear before the Port Authority Commission must be in writing and must be submitted at least seven (7) days prior to the next scheduled meeting and the Port Authority shall advise the petitioner in writing of its decision within (14) days of that meeting. The Port Authority's decision will be final.
  - c. Re-application. Applicants aggrieved by the Port Authority's final decision may re-apply for revolving loan funds after ninety (90) days if the concerns set out in the denial of the preceding application are adequately and appropriately addressed.

## **I. ADMINISTRATION**

1. Loan review committee. The Port Authority will serve as the loan review committee. The final determination on all revolving loan applications rest with the Port Authority.
2. Conflict of Interest. All City and Port Authority officials and employees shall comply with the applicable state and federal regulations relating to conflicts of interest.
3. Staff responsibility. City/Port Authority staff shall have the general responsibility for coordinating the application process, reviewing loan application pro forma and business plan, preparing applications and recommendations for review by the Port Authority, and coordinating the loan approval and service process.