

CITY OF PRESTON

ECONOMIC

DEVELOPMENT

AUTHORITY

REVOLVING LOAN FUND

GUIDELINES

CITY OF PRESTON

ECONOMIC DEVELOPMENT REVOLVING LOAN FUNDS

Approved by the City of Preston City Council 12/19/2011, updated 2013, 2-2014

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# **ECONOMIC DEVELOPMENT REVOLVING LOAN FUNDS**

## **INTRODUCTION**

The purpose of these documents is to provide written guidelines for the award and processing of loans under the City of Preston Economic Development Authority (EDA), subject to final approval by the Preston City Council. These guidelines are intended to be used as the procedure for the EDA to follow in the granting and administration of the revolving loan funds. Guidelines are subject to change at the discretion of the EDA with City Council approval.

### **COMMERCIAL INCENTIVE/IMPROVEMENT REVOLVING LOAN FUND**

The City of Preston has had an Economic Development Incentive/Improvement Loan Program that was established by Ordinance #187 in August 1988 and amended in 1992 and 1994. In 2011 the Preston City Council approved that the Revolving loan fund would become a city policy administered by the Economic Development Authority and overseen by the City Council.

The purpose of the Preston Commercial Incentive/Improvement Revolving Loan Fund is to provide low interest improvement loans as an incentive for tenants and owners to upgrade the appearance and energy efficiency of commercial and industrial properties and the commercial area as a whole, to provide for relocation, encourage the creation of jobs and expansion of businesses, and provide generally, for the improvement of Preston's economic health.

### **BUSINESS EXPANSION/JOB CREATION REVOLVING LOAN FUND**

An Economic Development Grant, received in 1994 through the Minnesota Department of Trade and Economic Development, from the United States Department of Housing and Urban Development under the Community Development Block Grant Program will provide additional revolving loan funds. The grant funds were initially received for a loan to Evergreen Products, Inc. of Preston, and upon repayment, will be used for the Preston Business Expansion/Job Creation Revolving Loan Fund.

The purpose of the Preston Business Expansion/Job Creation Fund is to facilitate small business expansion, relocation or startups, thereby creating jobs for low and moderate income persons, preventing job loss, further diversifying the economic base of Preston under slum and blight guidelines, and providing for increased community growth.

The Commercial Incentive/Improvement Revolving Loan Fund and Business Expansion/Job Creation Revolving Loan Fund loans and repayments shall be handled in separate accounts. The Incentive/Improvement RLF will continue to be used for renovation and improvement of existing buildings. The Business Expansion/Job Creation RLF will be used for business expansion/ projects or startups which shall include the creation of low and moderate income jobs.

The Preston Economic Development Revolving Loan Funds shall be administered by the Preston Economic Development Authority which shall act as the Loan Review Committee (LRC). Annually in December the EDA will review the loan amounts, service fees, terms and interest rate.

**PRESTON ECONOMIC DEVELOPMENT REVOLVING LOAN FUNDS  
GENERAL POLICIES**

**ELIGIBLE BORROWERS:** 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 within the City of Preston or within 2,000 feet of the City limits of the City of Preston. An applicant cannot be a lending institution, a not-for-profit institution or real estate developer. Loans shall be limited to one per year for any borrower or related activity. As a general rule, gap financing for building purchases is reserved for building owners that intend on using the building for their own business and not for speculation or to sub lease the building.

**PARTICIPATION:** At least 60% of the total project cost shall be funded privately or through a private lender and not less than 10% of the project shall be provided by the business owner/applicant in cash or owner equity. The remaining 40% (financing gap) may be provided by the Preston revolving loan funds. The Commercial Incentive/Improvement RLF loan amount shall not exceed \$25,000; the Business Expansion/ Job Creation RLF shall not exceed \$50,000; and neither RLF loan shall exceed 40% of the project.

**INTEREST RATE:** The interest rate shall be determined by the Preston Loan Review Committee according to the specific loan fund guidelines. A service fee of 1% shall be charged on the City RLF portion, which shall be paid at loan closing by the applicant. 2013 lending rate = 2.5%

**TERM:** The Loan Review Committee shall determine length of term based on useful life of assets and limited by the following schedule.

- |                            |                         |
|----------------------------|-------------------------|
| 1. Acquisition of Land     | 15 year financing terms |
| 2. Acquisition of Building | 15 year financing terms |
| 3. New Construction        | 15 year financing terms |
| 4. Machinery and Equipment | 5 year financing terms  |
| 5. Building Renovation     | 7 year financing terms  |
| 6. Working Capital         | 5 year financing terms  |
| 7. Inventory               | 1 year financing terms  |

**COLLATERAL & PERSONAL GUARANTEES:** Each loan shall be secured by collateral adequate to safeguard the lender(s). If the MT is the sole lender, it will take a first security interest in the assets financed. If the RLF is in partnership with another lending source, the RLF will take a subordinate interest in the assets being financed. Personal guarantees will be required in all projects. Personal guarantees may be collateralized with personal assets where appropriate.

While the EDA will endeavor to secure each loan with adequate collateral lack of hard collateral, by itself, will not be a reason to decline a loan.

**OTHER:** Following funding of a project, periodic financial reporting and participation in a record-keeping program or technical management assistance will be required. Failure to abide by the City guidelines, laws and approved plans shall result in calling of the loan at the City's request.

## SPECIFIC LOAN FUND GUIDELINES

### PRESTON COMMERCIAL INCENTIVE/IMPROVEMENT REVOLVING LOAN FUND •

Funds shall be used for renovation and improvement of existing buildings or business relocation.

**INTEREST RATE:** The interest rate shall be set annually at the EDA December for the upcoming year and approved by the City Council.

**PRIORITY CONSIDERATION** shall be given to renovation, improvement or relocation in the designated revitalization districts within the City of Preston, which are:

1. Central Business District.
2. Commercial Corridor adjacent to U.S. Highway 52.
3. Industrially zoned property.

**ELIGIBLE IMPROVEMENTS** shall include all interior and exterior work on commercial buildings, such as:

Exterior:

1. Cleaning, painting, staining and/or siding of exterior surfaces.
2. Masonry repair or replacement and/or roofing.
3. Repair or replacement of building facades, cornices, entrances, doors, windows, decorative details and awnings.
4. Building identification, sign removal, repair or replacement.
5. Parking lots, including lighting, surfacing and landscaping.
6. Other items that are viewed necessary to compliment exterior.

Interior:

7. Fixed interior improvements including the repair and/or decoration of walls, ceiling, floors, lighting, windows, doors entrances, electrical, plumbing, mechanical, air conditioning, architectural change, and energy improvements.
8. Soft Costs: Reasonable engineering, legal, architectural design and other related service fees necessary to the plan, including the cost of building permits and energy audits.

**INELIGIBLE COSTS:**

1. Refinancing existing debts.
2. Exterior work not in compliance with the design standards.
3. Work on the building for uses not in compliance with recommended uses.

**IMPROVEMENTS COMPLETED PRIOR TO LOAN APPROVAL OR CLOSING** are not eligible unless the applicant's structure requires immediate attention (hazardous code deficiencies, etc.), and the following steps are undertaken:

1. Applicant must fill out the revolving loan fund application with the EDA.
2. Applicant must submit a written request to the EDA describing the immediate need.
3. Applicant must submit written permission from both the City and a participating bank.
4. If the above conditions have been met, the applicant may proceed using his own funds or interim financing from a bank. However, the applicant shall proceed at the applicant's and/or banks own risk until the total scope of work has been approved by the EDA and City Council and the loan has been closed.

\*Guidelines are subject to change at the discretion of EDA. review - project by project.

## PRESTON ECONOMIC DEVELOPMENT REVOLVING LOAN FUNDS APPLICATION PROCESS

### **Pre-Application & Application Process**

An applicant's property must conform to use under the City of Preston's Zoning Ordinance and the use must be permitted under an approved district plan if applicable. The City Council/Planning Commission shall approve the exterior design and all improvements. Where applicable, the project shall be in compliance with its respective area's approved design guidelines.

A pre-application shall be required for review to determine preliminary eligibility, financing needed, and to explore all available financing options. Upon tentative acceptance of the pre-application, a full application shall be requested. Pre-applications and full applications may be completed with support from the EDA staff.

Completed applications received by the 15th of the month will be reviewed by the Preston EDA at their next regularly scheduled meeting. Applications determined to be incomplete by the EDA will be held over until their next regularly scheduled meeting.

**Application Package: Information and Materials Needed:** Follow the application check list and submit the required documentation materials with the final application. Appendices A

### **Full Loan Application Procedure Checklist**

- Completion of all loan application information requested
- Review financing package with lender and obtain a tentative commitment to participate
- Prepare balance sheet, profit and loss, ratio analysis (staff)
- Loan. Committee Review and recommend action to City Council
- Obtain financial commitment from the lender, when applicable
- Council authorization of loan
- Preparation and signing of loan agreement, promissory notes, mortgages and other required documents
- Loan closing
- Disbursement of funds based upon agreed upon schedule and documentation of expenditure of other funds -
- Loan repayment to City's "Revolving Loan Fund" by auto payment arrangements made to the city of Preston Depository.

### **Loan Review and Implementation Process**

The Preston EDA must first make a finding, after due consideration, that the loan would be likely to yield an economic benefit to the City of Preston and its residents. The EDA shall then make a recommendation to the City Council, whether or not to fund the applicant, based on the applicant's approved credit and ability to repay the loan, as determined by the participating private lender. The Preston City Council shall make the final determination on loan applications. The applicant shall be notified in writing of the Council's decision. No loan shall be made prior to Council Authorization.

Following Council approval, the responsible parties shall proceed with signing of a loan agreement, promissory notes, mortgages, and/or other documents required for the loan closing. Failure of the applicant to progress toward closing of the loan as determined by the EDA and City Council shall result in cancelling the loan for the project. Upon completion of improvements, the applicant's property shall comply with all applicable code, permit and license requirements, and shall have a current certificate of occupancy. Loan repayment to the respective RLF shall be according to the amortization schedule included in the loan documents.

## **LOAN REVIEW CRITERIA: Business Expansion/Job Creation** Revolving Loan Fund

The Loan Review Committee shall review all information which will provide decision making assistance as to the viability of business applicants. The following checklist shall be used in reviewing loan applications to determine that the proposed loan is deemed necessary or appropriate pursuant to HUD guidelines.

Eligibility with RLF guidelines:

- Job creation/retention
- Economic benefits of the proposed project/tax base increase
- Innovative technology or product
- Proposed marketing plan
  
- Equity commitment
- Leveraging of other financing
- Management cap ability/skill
- Balance sheet, profit and loss, ratio analysis
- Repayment ability
  
- Collateral and lien position
- Credit risk of applicant
- Need for special requirements, e.g., insurance
- Environmental review
- Civil rights review

### Additional Requirements for Business Expansion/Job Creation Revolving Loan Fund

1. **Civil Rights:** No applicant may be denied a loan on the basis of race, color, national origin, religion, age, handicap or sex. All advertisement and promotion of this program will emphasize this civil rights provision.

Borrowers from the RLF will be required to complete the "Assurance of Compliance for this in ED540 and ED512. RLF will promote this provision on an ongoing basis.

2. **Certificate of Non-Relocation:** Each applicant will be required to complete an Employers Certificate of Non-Relocation" stating that the project for which funds are being sought will not relocate jobs from one labor market to another.

3. **Historic Preservation:** All loans for re-construction must be submitted to the State of Minnesota Historic Preservation Office for review and consent.

4. **Davis-Bacon:** All loans for construction must meet the requirements of the Davis-Bacon Act as amended (40 U.S.C. 276s-276s.5) This also applies to equipment installation costs of 52000 or more.

5. **Access for the Handicapped:** If the RLF finances a construction project to which the public will have access, provisions for access to the handicapped must be included.

6. **Flood Plains and Wetlands:** The Loan Review Committee shall not approve loans made for construction in, or alteration of a wetland or 100 year floodplain as determined by soils mapping, USGA studies or other accepted means if adverse effect would be caused by that construction.

The Loan Review Committee shall not approve projects which would result in construction of other than underground utilities in the 100 year floodplain as defined by FEMA unless all capacity removed from the floodplain is restored by excavation or other appropriate means.

No project shall be approved which results in the alteration of any wetland, or in any adverse impact on a wetland, without prior consultation with, and consent of the U.S. Department of the Interior, Fish and Wildlife Service.

When applicable, applicants will be required to purchase flood hazard insurance.

**7. Air and Water Quality:** Applicants will be required to comply with all federal, state, and local laws and regulations concerning air and water quality. All required reviews will be completed and permits issued prior to funding.

**8. Environmental Review Procedure:** The staff of the RLF will review each application for conformance with sections E.1 through 7 above. To conduct its review, the staff will contact local (city and county) planning and zoning authorities. Site specific maps and the regulations of FEMA, USGS, SCS, SHPO and other applicable agencies will also be consulted. All local, state and federal regulations must be complied with prior to granting a loan.

For each loan application, the staff must make a finding of compliance or no adverse impact. If there is a finding of non-compliance, a plan for mitigation acceptable to the regulatory agency must be filed with the RLF Committee. RLF staff will monitor compliance with the mitigation plan.

Continue on to appendices A – H



**CITY OF PRESTON ECONOMIC DEVELOPMENT REVOLVING LOAN FUND**

*Pre-Application Form to be filled out when the applicant and EDA Director meet*

Business name: \_\_\_\_\_

Owner(s): \_\_\_\_\_

Phone: home and cell: \_\_\_\_\_

Address: \_\_\_\_\_

Project Description: \_\_\_\_\_  
 \_\_\_\_\_

Total Project Amount: \$ \_\_\_\_\_ . Requested RLF Loan Amount: \$ \_\_\_\_\_

RLF Payment & Schedule: \$ \_\_\_\_\_ Monthly \_\_\_\_\_ Annually \_\_\_\_\_ Other \_\_\_\_\_

Purpose and source of funds for Total Project Cost

Use of Funds	Bank(s)	Other (Specify)	Equity	Preston RLF	Subtotals
Acquisition of Land					
Acquisition of Building					
New Construction					
Machinery/Equipment					
Bldg Rehab/Renovation					
Working Capital					
Inventory					
Other					
<b>Totals</b>					

Will additional jobs be created through this project? \_\_\_\_\_

Explain job type(s) \_\_\_\_\_

Will this project benefit low to moderate income people in this area? \_\_\_\_\_ If Yes, explain how \_\_\_\_\_

. In connection with this application, the EDA is authorized to check my/our credit history and employment history or any other information deemed necessary.

Signatures: \_\_\_\_\_ Date: \_\_\_\_\_

Signatures: \_\_\_\_\_ Date: \_\_\_\_\_

**EDA Review & Recommendation**

**Final Review by Preston City Council**

Loan Fund: \_\_\_\_\_ Amount: \$ \_\_\_\_\_  
 Approve \_\_\_\_\_ Deny \_\_\_\_\_

Amount: \$ \_\_\_\_\_  
 Approve \_\_\_\_\_ Deny \_\_\_\_\_

President: \_\_\_\_\_

Mayor: \_\_\_\_\_

Date \_\_\_\_\_

Date: \_\_\_\_\_

## APPENDIX B

### EXPLANATION OF FULL APPLICATION INFORMATION AND MATERIALS REQUIRED

- I. The RLF Pre-Application Form is provided as Appendix A and is used by the Loan Review Committee as a general overview of your project.
  
2. A business plan is a description of your business, including your product, market, employees and/or customer base, your financial situation and projections. You should consider that a well-prepared business plan plays several important roles. First, it is a useful management tool that can help you plot a course for your company. Second, it is a vital sales tool that will impress financial backers and stockholders with your planning ability and general competence as a manager. All things being equal, a well-prepared business plan will increase your chances of identifying market opportunities and of obtaining the financial commitments necessary for future success. This business plan will help us better understand your intention for the future of your business. We have included a list of items that you may wish to include in your plan. (See Appendix C)
  - a. Brief history of the company, plus resumes of company management and name of business (as incorporated) and location, number of years in business. In describing your business, include such information as products and/or services provided, general market area served, and any other appropriate information. State how many employees you currently have and how many employees you anticipate with this expansion. Give the name of your bank of account.
  - b. Identify markets and marketing strategies such as pricing policies, method of selling, distributing and servicing of products you would like to pursue along with how much of the market you anticipate to share and anticipated expansion and growth. Describe major and minor competitors and their strengths and weaknesses, sources of suppliers, manufacturing process, materials and production method.
  - c. Provide detail on the intended use of capital required. List all machinery, equipment, land and buildings purchased and the basis for the estimate. List recent equipment and/or real property appraisals where appropriate, estimated construction costs, if appropriate, and appraised value of new construction.
  
3. Included at the end of your business plan shall be a three year financial history of your business which was prepared by an accountant. Please fill in the numbers in the profit and loss statement and balance sheet labeled "Previous 3 Years", and include your statements from the accountant. (See Appendix D)
  
4. A current analysis of your business must be made in order to see how you are doing right now. This current statement shall not be over 90 days old and aging of accounts receivable and payable shall not be over 90 days old. These numbers shall go into the "current period" of the profit and loss statement and the balance sheet.
  
5. Projections of the effect of what you plan to do with the monies provided through the RLF and how they will affect your income and balance sheet shall be made. 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 two years should also be made.
  
7. Provide a current schedule of all your debts which provides the following information: original loan amount, original date of loan, maturity dates, what you pay monthly, rate of interest, present balance and loan security.
  
8. The Preston Loan Review Committee needs to know what you are able to put up as collateral for this loan.

## BUSINESS PLAN OUTLINE - APPENDIX C

### **I. Executive Summary**

- A. Name and location of business
- B. Brief discussion of product, market, and competition
- C. Expertise of management team
- D. Summary of financial projections
- E. Amount of financial assistance requested and proposed purpose
- F. Business goals and reasons for undertaking the project

### **II. Description of the Company**

- A. Date and state of incorporation or formation
- B. History of the company
- C. Background of the principals and their roles

### **III. Market Analysis**

- A. Description of current industry and industry trends
- B. Description of the total market and its participants
- C. Discussion of the target market and the competition

### **IV. Description of the Product or Service**

- A. List of patents, copyrights, licenses or proprietary interests
- B. Discussion of technical and legal considerations
- C. Comparisons to competitors' products or services
- D. Description of current and future research and development

### **V. Marketing Strategy**

- A. Overall strategy
- B. Pricing policy and sale terms
- C. Method of selling, distributing and servicing
- D. Current and estimated sales and market share
- E. Advertising, public relations, and promotion

### **VI. Management Plan**

- A. Form of business organization
- B. Composition of board of directors
- C. Officers organization chart and responsibilities
- D. Resumes of key personnel and listing of key advisors

### **VII. Operating Plan**

- A. Schedule of upcoming work and key completion dates for next two years
- B. Planned facilities or capital improvements for next three years
- C. Staffing plan

### **VIII. Financial Data**

- A. Funding request indicating the desired financing, capitalization, use of funds, and future financing
- B. Past three years, year-end financial statements (balance sheet, income and cash flow statements)
- C. Current interim financial statements
- D. Pro forma cash flow projections, including the proposed financing, for two years
- E. Projected balance sheets, income statement, and statement of changes in financial position, including the proposed financing, for two years
- F. Description of all assumptions behind the financial projections

COMPLIANCE REQUIREMENTS - APPENDIX D  
for Business Expansion/Job Creation Revolving Loan Fund

1. **Civil Rights:** No applicant may be denied a loan on the basis of race, color, national origin, religion, age, handicap or sex. All advertisement and promotion of this program will emphasize this civil rights provision.

Borrowers from the RLF will be required to complete the "Assurance of Compliance for this in ED540 and ED512. RLF will promote this provision on an ongoing basis.

2. **Certificate of Non-Relocation:** Each applicant will be required to complete an Employers Certificate of Non-Relocation" stating that the project for which funds are being sought will not relocate jobs from one labor market to another.

3. **Historic Preservation:** All loans for re-construction must be submitted to the State of Minnesota Historic Preservation Office for review and consent.

4. **Davis-Bacon:** All loans for construction must meet the requirements of the Davis-Bacon Act as amended (40 U.S.C. 276s-276s.5)

5. **Access for the Handicapped:** If the RLF finances a construction project to which the public will have access, provisions for access to the handicapped must be included.

6. **Flood Plains and Wetlands:** The Loan Review Committee shall not approve loans made for construction in, or alteration of, a wetland or 100 year floodplain as determined by soils mapping, USGA studies or other accepted means if adverse effect would be caused by that construction.

The Loan Review Committee shall not approve projects which would result in construction of other than underground utilities in the 100 year floodplain as defined by FEMA unless all capacity removed from the floodplain is restored by excavation or other appropriate means.

No project shall be approved which results in the alteration of any wetland, or in any adverse impact on a wetland, without prior consultation with, and consent of the U.S. Department of the Interior, Fish and Wildlife Service.

When applicable, applicants will be required to purchase flood hazard insurance.

7. **Air and Water Quality:** Applicants will be required to comply with all federal, state, and local laws and regulations concerning air and water quality. All required reviews will be completed and permits issued prior to funding.

8. **Environmental Review Procedure:** The staff of the RLF will review each application for conformance with required standards. To conduct its review, the staff will contact local (city and county) planning and zoning authorities. Site specific maps and the regulations of FEMA, USGS, SCS, SHPO and other applicable agencies will also be consulted. All local, state and federal regulations must be complied with prior to granting a loan.

For each loan application, the staff must make a finding of compliance or no adverse impact. If there is a finding of non-compliance, a plan for mitigation acceptable to the regulatory agency must be filed with the RLF Committee. RLF staff will monitor compliance with the mitigation plan.

**Preston Revolving Loan Fund Documentation Check List** Page 1 of 2

- \_\_\_\_\_ Summary and overview of Project -Business Plan or Expansion Plan Idea  
Include: Brief History, Market research, intended use of capital
- \_\_\_\_\_ Existing businesses are to provide the past 3 years Business Financial Statement
- \_\_\_\_\_ Current Financial Statement (within 90 days)
- \_\_\_\_\_ 2 Years Projections including Cash Flow
- \_\_\_\_\_ Debt Schedules
- \_\_\_\_\_ Collateral listed to secure the loan
- \_\_\_\_\_ Credit review summary (spreadsheet)
- \_\_\_\_\_ Personal Financial Statement
- \_\_\_\_\_ Compensation of agreement for services
- \_\_\_\_\_ Existing businesses- 2 years of Federal Taxes (Personal and Corporate/Partnership)
- \_\_\_\_\_ Lender commitment letter  
  
(If the applicant is working with a lender, the above check list items may be satisfied thru a lender commitment letter. The lender's letter is required to indicate that all of the above items have been reviewed. The lender commitment letter may then satisfy the EDA requirements. The applicant is still required to submit their business plan with the letter and the items listed below.
- \_\_\_\_\_ Copy of Lease or Purchase Agreement
- \_\_\_\_\_ Copy of Real Estate Appraisal
- \_\_\_\_\_ Rental Agreements or sub-leases
- \_\_\_\_\_ Plans/Blueprints
- \_\_\_\_\_ Personal and Business references (if a new start up)
- \_\_\_\_\_ Other

All applicable items above should be completed and submitted to the EDA prior to an EDA loan being approved.