

City of Mora
Revolving Economic Development Loan Program

Revolving Economic Development (RED) Loan Program Guidelines

Contact: Beth Thorp | 320-225-4807 | beth.thorp@cityofmora.com

(A) Purpose and Goals. The purpose of the RED Loan Program is to provide financial and technical assistance for the creation and retention of new employment. These objectives may be accomplished through the following means:

1. Create / retain permanent private sector jobs to fuel above-average economic growth consistent with environmental protection;
2. Invest in technology and equipment that increase productivity and provide for higher wages;
3. Leverage of private investment to ensure economic renewal and competitiveness;
4. Increase the local tax base to guarantee a diversified industry mix;
5. Improve the quality of existing jobs, based on increases in wages or improvements in the job duties, training, or education associated with those jobs;
6. Improve employment and economic opportunities and create a reasonable standard of living; and
7. Enhance productivity growth through improved manufacturing or new technologies.

(B) Eligible Expenditures. RED Loan funds may be used in a variety of ways, including:

1. Fund loans or grants for infrastructure, loans, loan guarantees, interest buy-downs, and other forms of participation with private sources of financing, provided that a loan to a private enterprise must be for a principal amount not to exceed one-half of the cost of the project for which financing is sought;
2. Fund strategic investments in renewable energy market development, such as low interest loans for renewable energy equipment manufacturing, training grants to support renewable energy workforce, development of a renewable energy supply chain that represents and strengthens the industry throughout the state, and external marketing to garner more national and international investment into Minnesota's renewable sector. Expenditures in external marketing for renewable

energy market development are not subject to the limitations in clause (1);
and

3. Provide private entrepreneurs with training, other technical assistance, and financial assistance, as provided in the small cities development block grant program.

(C) Eligible Projects. Assistance must be evaluated on the existence of the following conditions:

1. Creation of new jobs, retention of existing jobs, or improvements in the quality of existing jobs as measured by the wages, skills, or education associated with those jobs;
2. Increase in the tax base;
3. The project can demonstrate that investment of public dollars induces private funds;
4. The project can demonstrate an excessive public infrastructure or improvement cost beyond the means of the affected community and private participants in the project;
5. The project provides higher wage levels to the community or will add value to current workforce skills;
6. The project supports the development of microenterprises, as defined by federal statutes, through financial assistance, technical assistance, advice, or business services;
7. Whether assistance is necessary to retain existing business;
8. Whether assistance is necessary to attract out-of-state business; and
9. The project promotes or advances the green economy as defined in Minnesota Statute 116J.437.

A grant or loan cannot be made based solely on a finding that the conditions in clause (7) or (8) exist. A finding must be made that a condition in clause (1), (2), (3), (4), (5), or (6) also exists.

(D) Eligible Activities. RED Loan funds may be used to fund a variety of business activities, including:

1. Land acquisition;
2. Construction or rehabilitation of facilities;
3. Renovation and modernization of interior and / or exterior of facilities;
4. Site improvements;
5. Utilities or infrastructure;
6. Machinery, equipment and fixtures;
7. Inventory;
8. Training; and

9. Working capital.

(E) Ineligible Activities. RED Loan funds may not be used for the following activities:

1. Residential real estate;
2. Construction and / or renovation of residential units;
3. Retail / service business activities;
4. Taxes;
5. Professional fees;
6. Refinancing debt unless debt is a current RED Loan;
7. Operation, construction, or expansion of a casino; and
8. A sports facility that has a professional sports team as a principal tenant or any firm engaged in retailing merchandise.

(F) Other Eligible Uses. Loans or grants to a regional development commission, other regional entities, or certain statewide community capital funds to provide the local match required for capitalization of a regional or statewide revolving loan fund. MIF funds held by the City never lose their state identity and must follow all applicable laws and regulations. The City must request permission from DEED before it may commit to providing funds to any of these organizations. The City does not have the authority to turn over to another entity, such as the EDA or HRA, revolving loan funds for any purpose. These entities may administer MIF transactions provided the MIF grantee still maintains control over the revolving loan fund.

(G) Wage Goals. Persons or entities receiving grants or loans must pay each employee total compensation, including benefits not mandated by law, that on an annualized basis is equal to at least 110% of the federal poverty level for a family of four (4).

(H) Financing Structure.

1. Loan Amounts.
 - a. The minimum loan amount will be \$2,500 and the maximum loan amount will be \$25,000. Additionally, up to \$7,500 per full-time job created meeting the wage goals described in Section (F) may be loaned above the maximum amount.
 - b. A loan cannot exceed fifty percent (50%) of the estimated project.
 - c. The minimum owner equity requirement for participation in a RED Loan is equal to ten percent (10%) of project costs.

2. Interest Rate. The interest rate for RED Loans will be set based upon the prime interest rate adjusted for local economic conditions and loan term.
3. Terms.
 - a. Financing terms generally will not exceed ten (10) years.
 - b. While the EDA is prepared to consider longer-term loans, attempts will be made to structure debt in such a manner as to encourage prepayment or early recapture of the proceeds. One method to accomplish this is to provide a twenty (20) year amortization period with a balloon payment at the end of three (3) years and work with the borrower to find private sources of capital to replace the loan at the end of the initial term.
 - c. The EDA may provide deferments on principal repayments and subordination of loans to meet the credit needs of borrowers.
 - d. Loans will only be restructured if the restructuring improves the borrower repayment ability.
4. Collateral and Personal Guarantees.
 - a. Each loan will be secured by collateral and / or personal guarantees adequate to safeguard the RED Loan program.
 - b. The EDA will require the business owner, partners, or officers to personally guarantee the loan. In addition, loans may be secured with a first or second mortgage on real estate or a UCC filing on equipment, inventory, and / or receivables.
 - c. The applicant must demonstrate that the assets involved are insured for an amount not less than total outstanding loans. The EDA will be named as a loss payee on said assets.
 - d. The applicant will be responsible for all legal, recording, and other fees required for perfecting a security interest in a loan.
5. Timing of Project Expenses. No project may commence until the City Council has approved the loan application. Any costs incurred before the loan application has been approved are not eligible expenditures.
6. Forgivable Loans. A forgivable loan may be made to a business locating in the industrial park based on employee compensation rates.
 - a. For each new job created in the industrial park a \$2,500 forgivable loan may be made.
 - b. To be eligible for the forgivable loan the total compensation, including benefits not mandated by law, on an annualized basis

must be equal to at least 110% of the federal poverty level for a family of four.

- c. Jobs eligible for the forgivable loan must be retained for a period of two (2) years or the loan shall be required to be repaid with accrued interest.

(I) Job Listing Requirements. Per Minnesota Statute 116L.66, a business that receives grants or loans in an amount greater than \$200,000 must agree to list any vacant or new positions related to the financial assistance on the MinnesotaWorks.net job bank website.

(J) Prevailing Wage. Per Minnesota Statute 116J.871, laborers and mechanics at the project site during construction, installation, remodeling, and repairs must be paid the state prevailing wage if the financial assistance is greater than \$500,000 for a loan. All contracts for publicly owned infrastructure using RED Loan funds must comply with the prevailing wage provisions.

(K) Other Policies.

1. Loan Servicing.

- a. Loan servicing will be handled by EDA staff. A separate accounting system within the City's general ledger will be established. EDA staff will monitor and keep records of all accounts in terms of repayments and special provisions. Monthly reports will be generated for individual loans.
- b. Delinquency will be handled in a firm yet flexible way with provisions 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.
- c. Defaults will be handled on a case by case basis. Specific action will depend on the nature and circumstances, amount and availability of collateral and costs versus benefit of liquidating assets or other collateral. Any action taken will be handled by EDA staff and at the direction of the EDA.

2. Sources of Funding to Cover Administrative Costs. Administrative costs will be financed through application and closing fees charged to the borrower and an annual administration fee per loan paid by the RED Loan Program to the EDA. Said administration fee shall be determined annually by the Administrator based on loan administration costs. Initial administrative costs will be financed through the EDA.

3. Capital Management Strategy. Upon recapture of loan proceeds the RED Loan Program will have additional capital for relending. The EDA may consider selling off loans in order to more quickly replenish capital. In addition to the increase in the capital account due to the return on interest the EDA will attempt to expand the capital base by soliciting additional contributions from various public and private sources.
4. Data Privacy. The provision of any information related to any applications for assistance is guided by Minnesota Statute 13.591.
5. Business Subsidy Law. Administration of the RED Loan Program must comply with Minnesota Statutes 116J.993 and 116J.994. Said statutes pertain to the definition of a business subsidy, public purpose of the subsidy, criteria, subsidy agreements, wage and job goals, timing of the project, public notice and hearing requirements, failure to meet goals, and reporting of information regarding the outcomes of the subsidy.

Adopted: 11/04/14