

**City of Bemidji**

**Policy Manual**

**Policy Statement**

**TITLE**

**CODE**

**Revolving Loan Fund**

**402**

**EFFECTIVE DATE**

Date of adoption

The Revolving Loan Fund (RLF) is administered by the City of Bemidji and consists of a several pools of economic development funds originating from past State or Federal assistance. The Funds that are subject to Minnesota State Statute Sections 1161.993 through Section 1161.995 must meet requirements in the Small City Revolving Loan Fund Guidelines. Any procedural requirements in the Small City Revolving Loan Fund Guidelines shall take precedence over the procedures mentioned below if the funds are subject to Minnesota State Statute Sections 1161.993 through Section 1161.995.

This RLF along with other incentives and business subsidies comprise a package of tools at the disposal of the Bemidji City Council and Bemidji Economic Development Authority (BEDA) to advance the economic growth of the community.

**Purpose**

The purpose of these guidelines is to establish policies and procedures for the regulation and coordination of the City's economic developments funds. These policies shall be used as a guide for evaluating loan applications and the administration of the portfolio. The policies are designed to allow the City to assume reasonable risk for the economic good of the community, as a whole.

**Objectives**

The objectives of the Revolving Loan Fund are:

1. To create or retain permanent livable-wage jobs in the City by expanding the existing business base and attracting new businesses to the community.
2. To leverage private and other public investment to promote economic growth.
3. To encourage successful redevelopment in the City's priority development sites.
4. To increase the local tax base through building a diverse industry mix.
5. To enhance the quality of life within the community.

**Guiding Principals**

Through its economic development policy the City of Bemidji is committed to the following principals:

- Retaining, expanding and attracting businesses that provide well-paying jobs, sustain investment and bring new wealth to the community.

- Maintaining a top-tier workforce through coordination among community institutions including: development organizations, employment agencies, colleges and universities, and the business community.
- Ensuring growth area continues to receive infrastructure improvements necessary to attract major new business investment.
- Strengthening the ability of older commercial and industrial areas to support additional business activity.
- Nurturing small and start-up businesses.
- Promoting the development of technology-based products and services.
- Promoting high quality and environmentally-friendly design in expansion and renovation of facilities.
- Fostering the successful redevelopment of vacant and underutilized commercial and industrial properties.
- Addressing identifies housing needs of the community.

### **Lending Area**

Generally, the applicants must be located in the City limits of Bemidji. Consideration may be given to businesses in the greater Bemidji area given the economic impact is deemed significant.

### **Eligible Businesses or Projects**

All businesses or individuals are eligible to apply for RLF funds; however, special preferences will be given, but not limited to, businesses and projects that:

1. are manufacturing or technology oriented;
2. are non-competitive with an existing business in relation to market demand;
3. have high growth potential;
4. are an existing business expansion;
5. fulfill an essential need in the community that is currently underserved; or
6. will enhance Bemidji's quality of place and its competitive advantage. In addition, non-profit organizations and some public entities may be eligible.

*Note: The City has identified two priority areas for RLF investment – the South Shore Redevelopment and the Soo Railroad Corridor. Specific loan criteria for applicants pursuing projects in these zones are detailed in Appendix A.*

### **Undesirable Loans**

The RLF is generally not established to accommodate the following:

1. Loans with inadequate equity investment.
2. Loans considered bankable by traditional lending institutions at reasonable terms.
3. Applicants seeking solely a lower interest rate.
4. Refinance of existing debt from other lenders.
5. Loans to retail businesses.
6. Loans to facilitate a purchase of an existing business without a positive economic impact to the community.

## **Use of Loan Funds**

Acceptable uses of RLF funds include, but are not limited to:

- Purchase of equipment and other fixed asset.
- Purchase of real estate for business expansion
- New construction or renovations of business facility
- Start-up expenses for new ventures
- Working capital needs
- Interim/bridge financing

## **Loan Amounts**

The City intends to make loans in the range of \$20,000 to \$150,000. The RLF may not exceed the maximum of \$200,000 in outstanding principal to any one borrower. Also governing the size of the loan is the City's desire to contribute no more than 1/4 of the total project costs, on average. It is the intention of this RLF to leverage all other private and public financing sources to the maximum extent possible.

## **Terms**

Typical loan terms will be based on the life of the assets being financed and borrowers' cash flow needs. Generally, loans that are amortized greater than five years will balloon, allowing for possibly refinance by traditional lenders, restructure, and interest rate adjustments.

## **Interest Rate**

Interest rates will be determined by market conditions and desirability of application and will generally be below traditional lender rates.

## **Collateral**

The loan shall be secured by adequate and appropriate collateral sufficient to protect the assets of the RLF. The RLF will make no unsecured loans; however, it will accept unconventional forms of security, including personal guarantees and may include liens on personal assets. Loans will typically be in a junior collateral position to the major source of project financing.

## **Equity Contribution**

To assure some level of borrower commitment, new businesses will typically be required to provide a minimum of 10% equity investment into the total project costs. The amount of equity required of established businesses will be determined individually dependent upon perceived risk and management ability of the owner. Some in-kind equity may be allowed.

## **Job Creation**

Generally, the City will not consider a loan which requires more than \$25,000 per job created, or does not pay at least 110% of the Federal Department of Health and Human Services poverty guideline for a family of four. Job retention may be used if job loss is imminent and demonstrable. Number of jobs and the timeline for creating them may be specified in the loan agreement.

## Other Terms

- Applicants must provide either a commitment letter from a participating lender stating loan terms and identifying the financing gap or a bank denial letter listing the requested loan terms.
- Personal guarantees will be required and assignments of life insurance may be requested.
- Loans used for construction or remodeling projects may require compliance with Davis
- Bacon wage rates.
- Generally, loan applicants are required to pay all related closing costs and fees at the time of closing including, but not limited to, a 1% origination fee, which may be financed as needed.
- No project may commence until the City has approved the loan. Any costs incurred before the loan application has been approved are not eligible expenditures.
- Borrower must abide by the terms of the Business Subsidy Agreement and/or Loan Agreement, Security Agreement, Promissory Note, and any other instrument signed at the time of closing and any amendments thereto.

## Other Funding Options

To simplify the financing structure of a project the City may choose to fund through a loan participation with other lenders. If more than one gap lender is involved in the financing one lender will become the lead lender to facilitate the administration of the loan with the borrower. Participations loans shall adhere to the same general terms as stated above.

## Portfolio Targets

The portfolio targets detailed below are designed to provide an assessment tool for the City to determine a desired allocation of RLF dollars among several identified investment areas.

	<u>Percentage of RLF asset</u> <u>base</u>
Priority development zones (South Shore and Railroad Corridor) Livable Wage Jobs- outside the priority zones	50% or higher
Community development- outside the priority zones	50% or less
Loans outside City limits	25% or less
	10% or less

Ideally, the City shall aim to have 75% of the total economic development dollars loaned out at any given time resulting in a target cash available to lend percentage of 25%. This measurement speaks to the City's desire to have the economic development dollars invested in businesses and projects in community versus sitting idle in the bank.

The City shall review the portfolio targets periodically to determine whether the targets continue to meet the priorities identified by the City Council. Adjustments to the targets shall be done as needed to align with the City's economic development priorities.

## **RLF Procedures & Administration**

The procedures outlined below are considered interim and shall be re-evaluated in six months to determine the most efficient and effective application process and administration of the RLF.

### **Application Process**

Parties interested in applying for a City RLF loan shall contact the City Manager or Finance Director at City Hall for a pre-application Eligibility Form. This form will determine project eligibility under the City's RLF Policy and provide a brief summary of the financing need and scope of the project. If deemed eligible, the applicant will be asked to submit a full loan application with supporting documentation.

The City will contract with Headwaters Regional Development Commission for the review of applications and due diligence work. HRDC staff will meet with applicants and gather pertinent information to prepare a thorough review and recommendation to the loan committee. The investment committee of the Joint Economic Development Commission will act as the loan committee to review the applications. The committee will forward its recommendation for approval to City Council, as well as, recommending the specific loan terms. HRDC staff will then present to Council a summary of the project and the recommended action for their formal vote. The JEDC investment committee will maintain authority to deny applications without Council action to provide more confidentiality to applicants.

Decisions on application will be communicated via a phone call and formal letter to the applicant following the meeting. If approved, a commitment letter will be prepared detailing the loan terms and identifying any contingencies. The applicant will be asked to return a signed copy to the City to confirm agreement with the terms as presented. Upon receipt of the signed commitment letter the Finance Director shall reserve the approved loan amount as committed funds, pending loan closing.

For applications related to community development projects such as infrastructure improvements or housing, requests will typically go before the City Council for direct consideration and not be reviewed by HRDC staff and the JEDC investment committee unless otherwise requested.

### **Loan Closing**

HRDC staff will assure required documentation has been received and contingencies are met prior to scheduling a loan closing. The City shall enlist the services of a business law attorney for preparation of loan documents. The closing will whenever possible be coordinated with other lenders on the project. The borrower will be responsible for paying the origination fee and out-of-pocket expenses, such as filing fees and attorney fees at loan closing. Financing such fees may be made on an exception basis.

The City's authorized signors for loan documents are the Mayor and City Manager.

**Portfolio Maintenance**

The City will maintain a loan file for each borrower. Original loan documents shall be kept in a fire safe cabinet. A tracking system for loan payments will be maintained by City staff. Payments shall be set up on ACH, when possible. To insure borrower compliance with loan covenants, a loan monitoring system shall be implemented to track submission/receipt of insurance, UCC filing statements, financial statements, jobs reports, etc. As deemed necessary, the City may contract with HRDC to perform annual reviews of borrowers in the portfolio.

Generally, requests for loan modifications shall be reviewed by HRDC staff and the JEDC investment committee for recommendation to City Council.

Upon pay off of a loan, City staff is responsible for closing out the loan file by ensuring that all documentation is properly prepared for the release of collateral.

**Collection Efforts**

City staff will monitor payment status of borrowers. A letter of past due status should be sent after 15 days of the payment due date since it is typical for a 15 day grace period to be granted. City staff should follow this with a phone call to the borrower. If further collection action and/or legal remedies are required City staff shall pursue such matters as advised by the JEDC investment committee or legal counsel, keeping the City Council informed on such matters.

**APPROVED BY:** City Council  
**DATE:** July 12, 2010

## **APPENDIX A**

### **South Shore and Railroad Corridor Redevelopment RLF Loan Criteria**

#### **Purpose**

The City has identified the South Shore area of Lake Bemidji, including the old MnDOT site, and the Soo Railroad Corridor adjacent to the downtown district as vital development projects for the community. The vision is for a mixed-use zone with market-rate (possibly up-scale) multi-family housing, commercial and retail businesses.

To attract development to these targeted areas the City has several incentives at its disposal. One such tool is the RLF. The guidelines outlined in the RLF Policy will govern loan requests within these defined development zones, with exception to the guidelines set forth below:

#### **Loan Amount**

The City will consider loan requests up to \$250,000 per project and allow for up to \$300,000 to be lent per borrower within these priority zones. This takes into consideration the City wants to maintain at a minimum a 1:3 leverage ratio contributing no more than 25% of project costs.

#### **Interest Rate**

To attract development to this area, the City will offer below-market interest rates, including short term rates as low as 0% to be determined based on the project's economic, as well as, quality of life impact to community.

#### **Deferred Payments**

To accommodate cash flow needs of a business or project, the City will consider payment deferrals up to 24 months in the initial term of the loan. Typically, interest would be collected at least quarterly, in such instances.

#### **Eligible Businesses or Projects**

In addition to the eligible businesses addresses in the General RLF Policy, traditional retail businesses may apply for loans if locating within these priority zones. Generally, the non-compete restriction will also be lifted. Financing requests for infrastructure improvements will also be considered in these zones.

#### **Waived or Reduced Closing Costs**

The typical 1% origination fee will be waived for those locating in the priority zones. Other out- of- pocket closing costs such as attorney fees, filings fees, and mortgage registration tax may be waived, reduced, and/or financed to be determined on a case-by-case basis.

**Job Creation**

Within the priority zones no requirements for job creation or wage levels will be set in the borrower's loan agreement.

**Other Incentives**

The City may include the following incentives, as deemed appropriate, to encourage development in the priority zones:

- Tax Increment Financing
- Tax Abatement
- Utilities –deferred assessment/fees waived
- Land lease
- Equity investment
- New Market Tax Credits and other gap programs