



## **Economic Development Microloan Fund Policy & Guidelines And Application**

**Amended: May 2011  
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July 2014  
November 17, 2014**

City of Elk River  
Economic Development Division  
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# ELK RIVER ECONOMIC DEVELOPMENT MICROLOAN FUND POLICY & GUIDELINES

## I. PURPOSE

The Economic Development Authority for the city of Elk River (EDA) recognizes the need to stimulate private sector investment into manufacturing and certain commercial facilities and equipment in order to create new jobs, boost productivity and retain existing jobs for local residents. Additionally, the need exists to encourage investment in the expansion and/or rehabilitation of commercial and retail buildings in order to maintain the economic viability of the City and in the Downtown District. Subsequently, the purpose of this program is to provide low interest, long-term (i.e. greater than one year) loans as incentives for new industrial and commercial development within the city of Elk River and to encourage commercial and retail business owners in the Downtown District to rehabilitate their existing buildings.

## 2. LOAN PROGRAMS

In order to meet the economic and community development objectives of the EDA, four distinct loan programs exist within the Microloan Fund to promote business growth in Elk River.

### **Industrial Incentive Program**

- Purpose: The purpose of the Industrial Incentive Program is to encourage industrial and high technology business development that supports the tax base and brings quality jobs to the city.
- Amount: Up to \$100,000 of secondary financing not to exceed 20% of the project cost.
- Equity: Must have private-sector commitments for 50% of the project cost. Borrower must provide 10% or more of project financing.
- Rate: Fixed; 2 points below the lowest prime rate published in the Wall Street Journal the day the loan is closed, or 3%, whichever is greater.
- Term: Financing with a balloon payment in 5-years. The balloon payment must not be longer than the balloon payment of the participating bank. Loans may be amortized up to the following limits:  
20 years on real estate uses;  
10 years on equipment uses.
- Extension: In the event that the Borrower is unable to obtain conventional financing to replace the Microloan at the end of five years, the loan

may be extended up to two additional years at a market rate of interest.

Criteria: Borrower must be an industrial or high technology firm and create or retain one new full-time job for each \$20,000 loaned within 2 years. Said jobs must pay a minimum wage of \$10.00 per hour excluding benefits required by law. Loans of \$75,000 or more shall meet the city of Elk River Business Subsidy Policy for the creation of new jobs at a minimum wage of \$15.00 per hour excluding benefits required by law, as well as a 5-year location requirement.

In the case where multiple sources of public financing are requested (e.g. Microloan and Tax Increment Financing) job creation goals shall not be double-counted.

Borrower must comply with the provisions of the city's Industrial and Business Park zoning ordinances as applicable.

### **Downtown Revitalization Financing Program**

Purpose: The Downtown Revitalization Financing Program is available to business and property owners in the Downtown Area primarily for the rehabilitation and restoration of older buildings, as well as new business development. Non-profit organizations may be considered. The Downtown Area shall be described as that area in the attached Exhibit A.

Amount: Up to \$74,999 of secondary financing not to exceed 40% of the project cost.

Equity: Must have private-sector commitments for 50% of the project cost. Borrower must provide 10% or more of project financing.

Rate: Fixed at 2%.

Term: Financing with a balloon payment in up to 5-years. Loans may be amortized up to the following limits:  
20 years on real estate uses;  
10 years on equipment uses.

Extension: In the event that the Borrower is unable to obtain conventional financing to replace the Microloan at the end of five years, the loan may be extended up to two additional years at a market rate of interest.

Criteria: At a minimum, 20% of Microloan dollars must be used for the improvement of the building façades, with exceptions to be

considered when it appears the façade improvements are not necessary. Financing of leasehold improvements will be considered at a limit of \$25,000.

Borrower must be located in the Downtown Area.

Loans must be supported by sufficient collateral, which may include personal assets and guarantees.

### **Energy Efficiency Improvement Program**

**Purpose:** The Energy Efficiency Improvements Program is available to property owners of commercial or industrial buildings in Elk River to provide capital to businesses to invest in energy efficiency and improve their profitability through reduced energy costs and enhance their ability to retain and create jobs. In addition, the program helps the city of Elk River use energy conservation as an economic development tool. Non-profit organizations may be considered.

**Amount:** Applicants may apply for the cost of improvements up to \$74,999

**Eligible Uses:** Energy efficiency measures installed in or on a building include:

- Facility systems optimization (commissioning/re-commissioning)
- Facility systems control improvements
- Process efficiency improvements (CenterPoint Energy)
- Lighting efficiency improvements
- Heating, ventilation and air conditioning system modifications
- Exterior envelope improvements
- Motor and pump efficiency improvements
- Ground-source heat pump systems used to heat or cool a facility
- Installation of equipment or devices that use renewable energy sources to generate electricity or heat or cool a building including solar electricity (photovoltaic), wind turbine or solar thermal.

**Equity:** Must have a minimum of 10% equity provided by the borrower.

**Rate:** Fixed; 2 points below the lowest prime rate published in the Wall Street Journal the day the loan is closed, or 3%, whichever is greater.

**Term:** The maximum maturity date will be determined by the useful life of the improvement and the energy payback achieved. For projects that have a shorter length of payback (2-5) years as calculated according to energy savings, the loans will have an initial maturity of up to 5 years from the date of closing. Longer life improvements (6-15 years) may apply for a longer maturity of up to 10 years.



Criteria: At least 50% of microloan funds should be spent on energy efficiency improvements.  
Applicant must agree to energy audits conducted under the utility company's Conservation Improvement Program (CIP). If warranted, engineering studies then are performed on facilities with conservation opportunities under the utility company's CIP Program.

Energy efficiency is defined as improvements that are rebatable by the Elk River Municipal Utilities (ERMU) or the utility provider for the property if not ERMU. Proposed energy efficiency improvements that do not qualify for the utility's prescriptive rebate program will be reviewed and approved by the utility company servicing the upgrade measures (e.g. Elk River Municipal Utilities, Connexus, CenterPoint) along with a letter indicating eligible utility rebates.

Utility rebates as applicable will be assigned to the Elk River EDA and applied toward principal repayment of the loan.

An Elk River Energy City Commission member will be asked to participate in the EDA Finance Committee review and recommendation of the application.

The loans will be secured by personal and corporate guarantees, and if applicable a lien on equipment financed and subordinate mortgage on the property. Loans are not transferrable.

Installation must be certified through a licensed contractor and electrician. New construction is eligible when participating with a utility company rebate program. Eligible costs shall include only incremental costs over industry design standards.

### **Jobs Incentive Program**

Purpose: To assist existing businesses with expansion and attract new businesses to the City whose local operations will help expand the City's economy through job retention and creation and maintain/grow the City's tax base. The purpose of the Jobs Incentive Program is to encourage the creation of high paying and quality jobs to the city.

Amount: Up to \$200,000 of secondary financing not to exceed 20% of the project cost.

Equity: Must have private-sector commitments for 50% of the project cost. Borrower must provide 10% or more of project financing.

Rate: Fixed at 2%.



- Term: Financing with a balloon payment in up to 5-years. Loans may be amortized up to the following limits:  
20 years on real estate uses;  
5 years on equipment uses.
- Extension: The loan term of 5 years may be extended by up to two additional years with approval from the EDA and City Council.
- Criteria: Borrower must create one new full-time job for each \$20,000 loaned, retain one new full-time job for each \$10,000 loaned, or combination of retainage and creation to meet the requirements. All new jobs must be created within 2 years and retained for the period of the loan. Said jobs must pay greater of \$15.00 per hour or 150% of state or federal minimum wage, whichever is greater, exclusive of benefits required by law. Any loans shall meet the city of Elk River Business Subsidy Policy for the creation of new jobs, as well as a 5-year location requirement.

In the case where multiple sources of public financing are requested (e.g. Microloan and Tax Increment Financing) job creation goals shall not be double-counted.

Eligible Costs: Funds may be used by the borrower for costs related to job creation and retention as a result of the project as defined in the City's Microloan Fund Policy. Eligible costs may include relocation costs that equal the lesser of \$25,000 or 20% of total loan amount. Costs may also include actual incurred City fees associated with construction and/or development costs of the project and outstanding or pending assessments on properties where a business is to be located. In no circumstance may Jobs Incentive funds be used for restaurants, retail businesses, casinos, or sports facilities.

### **3. USES**

#### **1. Permitted Fund Uses:**

- a. Building construction
- b. Land acquisition
- c. Machinery
- d. Furniture, fixtures, and equipment (FF&E)
- e. Renovation and modernization of buildings
- f. Exterior renovation of retail, commercial and industrial buildings
- g. Public infrastructure needed for economic development expansions
- h. Investment real estate with a minimum of 50% of the space pre-leased

#### **2. Ineligible Fund Uses:**

- a. Expenditures for the construction and/or renovation of residential units
- b. Working capital
- c. Refinancing of existing debt
- d. Inventory

#### 4. **BUSINESSES ELIGIBILITY**

Any project meeting the above criteria, and located or proposed to be located within the city limits of Elk River as defined by this program, may be eligible for an Economic Development Microloan as further defined herein:

- Unless otherwise stated, business must be a for-profit corporation, partnership, or sole proprietorship.
- Business must be a *small business* as defined by the Small Business Administration (SBA).
- Business must have a positive net worth.
- Religious, political, and pornographic enterprises are not eligible to use the Economic Development Microloan Fund.

#### 5. **MICROLOAN FUND TERMS & CONDITIONS**

##### **Loan Structure**

All Economic Development Microloans shall be structured as *participation loans* and serviced by the project's primary lending institution, rather than as a direct loan, unless otherwise approved by the EDA Finance Committee. Such an arrangement allows for the central distribution and collection of funds and simplifies the financing process for all parties involved. A participation agreement will be signed by the borrower, primary lender and the EDA.

The EDA may require additional agreements to be signed by the borrower (i.e. security agreement, personal guarantees, business subsidy agreement).

##### **Simultaneous Microloans**

The simultaneous use of different Microloan Fund Programs by any one borrower or for any one project is prohibited.

##### **Loan Repayment**

Jobs Incentive funds, including principal and interest received may not be used to support restaurant, retail, casinos, or sports facilities.

##### **Call of Loan**

A loan shall become due and payable in full if a business relocates outside of the city of Elk River prior to the maturity date of the loan.

##### **Late Payment Charge**

A late payment charge of 8% of the installment amount may be enforced.

#### 6. **REGULATION FOR NEW CONSTRUCTION AND IMPROVEMENTS**

All buildings which public funds will be used for construction or renovation are to be brought into conformance with city ordinances and state building codes. Repairs may include the following systems and portions of real property:

- a. Mechanical heating, plumbing, and electrical

- b. Structural; including the facade of the structure and energy related improvements.
- c. Hook-up to city services (i.e. water, sewer)
- d. ADA (Americans with Disabilities Act) improvements

## **7. LOAN SECURITY AND GUARANTEES**

Applicant must be able to secure the loan by providing the EDA with a minimum of a subordinate mortgage upon the building and/or assets or other approved collateral.

Applicant must demonstrate the financial means to repay the loans, as determined by the Economic Development Authority.

Whenever possible, personal guarantees will be made part of any loan agreement.

Key person life insurance may be required as determined by the EDA Finance Committee based on loan amount and company ownership partners.

## **8. TIMING OF PROJECT EXPENSES**

No project should commence until the Elk River Economic Development Authority has approved the loan application. Any costs incurred prior to the approval of the loan application are generally not eligible expenditures.

No building construction should commence until the required city permits are secured.

The applicant will be responsible for all legal, recording, and other fees required for protection of a security interest in the loan, payable by a non-refundable 1% processing fee, which is paid at the time of application. In addition to the non-refundable 1% processing fee, all legal and filing fees shall be paid by the borrower at loan closing.

## **9. PROCEDURAL GUIDELINES FOR APPLICATION AND APPROVAL**

1. All applicants shall first contact a primary lending institution to determine if additional equity is needed, and if so, how much.
2. The applicant and the primary lender shall then meet with city staff to obtain information about the Microloan program, discuss the project, and obtain application forms.
3. The applicant shall complete and submit an application form to the city, along with a processing fee of 1% of the loan request. (The fee is used to cover processing expenses and will be returned only if application is denied.) The applicant must provide evidence of their ability to meet the equity requirements or provide a letter of commitment for conventional financing from the primary lending institution.

4. The EDA is a governmental entity and as such must provide public access to public data it receives. Data deemed by Applicant to be nonpublic data under State law should be so designated or marked by Applicant. See Minn. Stat. Sections 13.59, Subd. 1, respectively.
5. The application will be reviewed by the city staff to determine if it conforms to all city policies and ordinances and to consider the following:
  - a. The availability and applicability of other governmental grants and/or loan programs.
  - b. Whether the proposed project will result in conformance with building and zoning codes.
  - c. Whether it is desirable and in the best interests of the public to provide funding for the project.
6. With written permission granted by the applicant, the application will be submitted by city Staff to the Small Business Development Center (SBDC) as advisory consult for staff and EDA Finance Committee. Applicant will be asked to execute a Release of Information form with SBDC. To make an appointment with the SBDC, call 320.308.4842.
7. The EDA Finance Committee and EDA Commissioners will review each application in terms of its consistency with the goals of the city's Comprehensive Plan and Economic Development Strategic Plan and in relation to the project's overall impact on the community's economy. Downtown Revitalization Program applications will also be reviewed by a Housing & Redevelopment Authority Commissioner in conjunction with the EDA Finance Committee. Energy Efficiency Improvement Program applications will also be reviewed by an Energy City Commissioner in conjunction with the EDA Finance Committee.

The EDA Finance Committee will evaluate the project application in terms of the following:

- a. Project Design - Evaluation of project design will include review of proposed activities, time lines and a capacity to implement.
- b. Financial Feasibility - Availability of funds, private involvement, financial packaging and cost effectiveness.
  - Appropriate ratio of private funds to Microloan funds.
  - Sufficient cash flow to cover proposed debt service as demonstrated by financial statements and projections.
  - Ability to demonstrate a positive net worth.
  - Letter of Commitment from applicant pledging to complete the project during proposed project duration, if the loan application is approved.
  - Letter of Commitment from other financing sources stating terms and conditions of their participation in the project if applicable.

- Sufficient collateral.
- c. All other information as required in the application and/or additional information as may be requested by the Economic Development Authority.
  - d. Project compliance with all city codes and policies.
  - e. Program Objectives - In addition to quality job and wage creation/retention requirements, the applicant must meet all Microloan Fund criteria and demonstrate how the proposed activities will meet at least one of the following objectives:
    - The project contributes to the fulfillment of the city’s approved and adopted economic development and/or redevelopment plans.
    - The project prevents or eliminates slums and blight.
    - The project increases the local tax base.
    - The project brings a structure into compliance with an existing building code violation.
8. A written request for an extension shall be accompanied by a copy of current financial statements and a \$500 upfront processing fee. The processing fee is used to cover processing expenses and will be returned if request is denied. The application for an extension beyond the original term should include a letter of denial from a conventional lender.
  9. The EDA Finance Committee will recommend the approval, denial, or request a resubmission. A recommendation from the Finance Committee will be forwarded to the EDA for final action.

**10. LOAN POLICY REVIEW**

The above criteria will be reviewed on an annual basis to ensure that the policies reflected in this document are consistent with the economic development goals set forth by the city.

**11. RIGHT OF REFUSAL**

The Elk River Economic Development Authority may deny any project which it deems inappropriate according to the guidelines established in this document.

**12. COMPLIANCE WITH MN BUSINESS SUBSIDY LAW**

All developers/businesses receiving financial assistance from the City of Elk River shall be subject to the provisions and requirements set forth by the City’s Business Subsidy Policy as amended and Minnesota Statutes Sections 116J.993 to 116J.995 (the “Minnesota Business Subsidy Law”)



# ELK RIVER ECONOMIC DEVELOPMENT MICROLOAN FUND APPLICATION

## I. CONTACT INFORMATION

Legal Name of Business: \_\_\_\_\_

Project Site Address: \_\_\_\_\_

City / State / Zip \_\_\_\_\_

Contact Person(s) \_\_\_\_\_

Business Phone \_\_\_\_\_ Fax \_\_\_\_\_

Home Phone \_\_\_\_\_ Email \_\_\_\_\_

Check One: \_\_\_\_\_ Proprietor \_\_\_\_\_ Corporation \_\_\_\_\_ Partnership

Social Security No. \_\_\_\_\_

Federal ID # \_\_\_\_\_ State ID # \_\_\_\_\_

## 2. NATURE OF LOAN REQUEST

Which Micro-Loan Program are you applying for?

- \_\_\_\_\_ Industrial Incentive Program
- \_\_\_\_\_ Downtown Revitalization Financing Program
- \_\_\_\_\_ Energy Efficiency Improvement Program
- \_\_\_\_\_ Jobs Incentive Program

Amount Requested: \$ \_\_\_\_\_ Total Project Cost: \$ \_\_\_\_\_

Type of project:

- \_\_\_\_\_ New construction for a start-up business
- \_\_\_\_\_ New construction for an existing business
- \_\_\_\_\_ On site expansion
- \_\_\_\_\_ Equipment purchase
- \_\_\_\_\_ Remodeling: *(circle one)* Commercial / Retail / Industrial
- \_\_\_\_\_ Other \_\_\_\_\_

Please give a brief summary of your business and its products or service:

Please give a brief summary of the project:

Please describe how this loan will impact your project:

### 3. FINANCING

#### Project Costs

Land \$ \_\_\_\_\_

Site improvements \$ \_\_\_\_\_

Buildings (attach plans & costs) \$ \_\_\_\_\_

Equipment/Machinery/Fixtures  
(attach list and estimated costs) \$ \_\_\_\_\_

Remodeling \$ \_\_\_\_\_

Industrial Inventory/Working Capital \$ \_\_\_\_\_

Other (attach description) \$ \_\_\_\_\_

**Total Costs** \$ \_\_\_\_\_

Comments:

**Proposed Sources of Financing**

<u>SOURCE</u>	<u>NAME</u>	<u>TERMS</u>	<u>AMOUNT</u>
Bank Loan	_____	_____	\$ _____
Bank Loan	_____	_____	\$ _____
Other Private Funds	_____	_____	\$ _____
Applicant Contribution	_____	_____	\$ _____
Other	_____	_____	\$ _____
Fed Grant/Loan	_____	_____	\$ _____
State Grant/Loan	_____	_____	\$ _____
EDA Microloan	_____	_____	\$ _____
Tax Increment Financing	_____	_____	\$ _____
Tax Abatement	_____	_____	\$ _____
<b>Total Financing</b>			<b>\$ _____</b>

**Collateral Assignments**

	<u>Description of Collateral</u>	<u>Lien Position</u>
To Bank 1	_____	_____
To Bank 2	_____	_____
To Private Sources	_____	_____
To Other Sources	_____	_____
To Federal Govt	_____	_____
To State	_____	_____
To EDA Microloan	_____	_____

**Value of Collateral**

	<u>Book Value</u>	<u>Cost</u>	<u>Existing Liens</u>
Land	\$ _____	\$ _____	\$ _____
Buildings	\$ _____	\$ _____	\$ _____
Machinery & Equip.	\$ _____	\$ _____	\$ _____
Other _____	\$ _____	\$ _____	\$ _____
Other _____	\$ _____	\$ _____	\$ _____

**4. JOB & WAGE GOALS**

Present # of Employees \_\_\_\_\_ Total Payroll \_\_\_\_\_

**Jobs To Be Created\***

Please provide the following information on jobs you expect to create within 2-years.

Job Title	Number of Jobs	Average Hourly Wage	Annual Salary	Are the Jobs Permanent or Temporary?	Expected Hiring Date

\*If loan is for job retention only, please explain in Business Plan.

**Program Objectives**

(Check all that apply)

- \_\_\_\_\_ The project contributes to the fulfillment of the city’s approved and adopted economic development and/or redevelopment plans.
- \_\_\_\_\_ The project prevents or eliminates slums and blight.
- \_\_\_\_\_ The project increases the local tax base.
- \_\_\_\_\_ The project brings a structure into compliance with an existing building code violation.



## 5. PROJECT CONTACTS

### Attorney

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

### Accountant

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

### Financing Sources (lenders, partners, etc...)

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

### Parent Company

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

### Others

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_

## 6. ATTACHMENTS CHECK LIST

Please attach the following:

- \_\_\_\_\_A) Written Business Plan:
  - 1. Description of Business
  - 2. Ownership
  - 3. Management
  - 4. Date Established
  - 5. Products/Services
  - 6. Future Plans
  
- \_\_\_\_\_B) Financial Statements for Past Two Years
  
- \_\_\_\_\_C) Financial Projections for Two Years
  
- \_\_\_\_\_D) Resume of Owner/Management
  
- \_\_\_\_\_E) Personal Financial Statements of Proprietor, Partners, Guarantors
  
- \_\_\_\_\_F) Letter of Commitment from Applicant Pledging to Complete During the Proposed Project Duration
  
- \_\_\_\_\_G) Letter of Commitment from the Other Sources of Financing, Stating Terms and Conditions of their Participation in Project
  
- \_\_\_\_\_H) Fee of 1% of amount of loan request

## 7. AGREEMENT

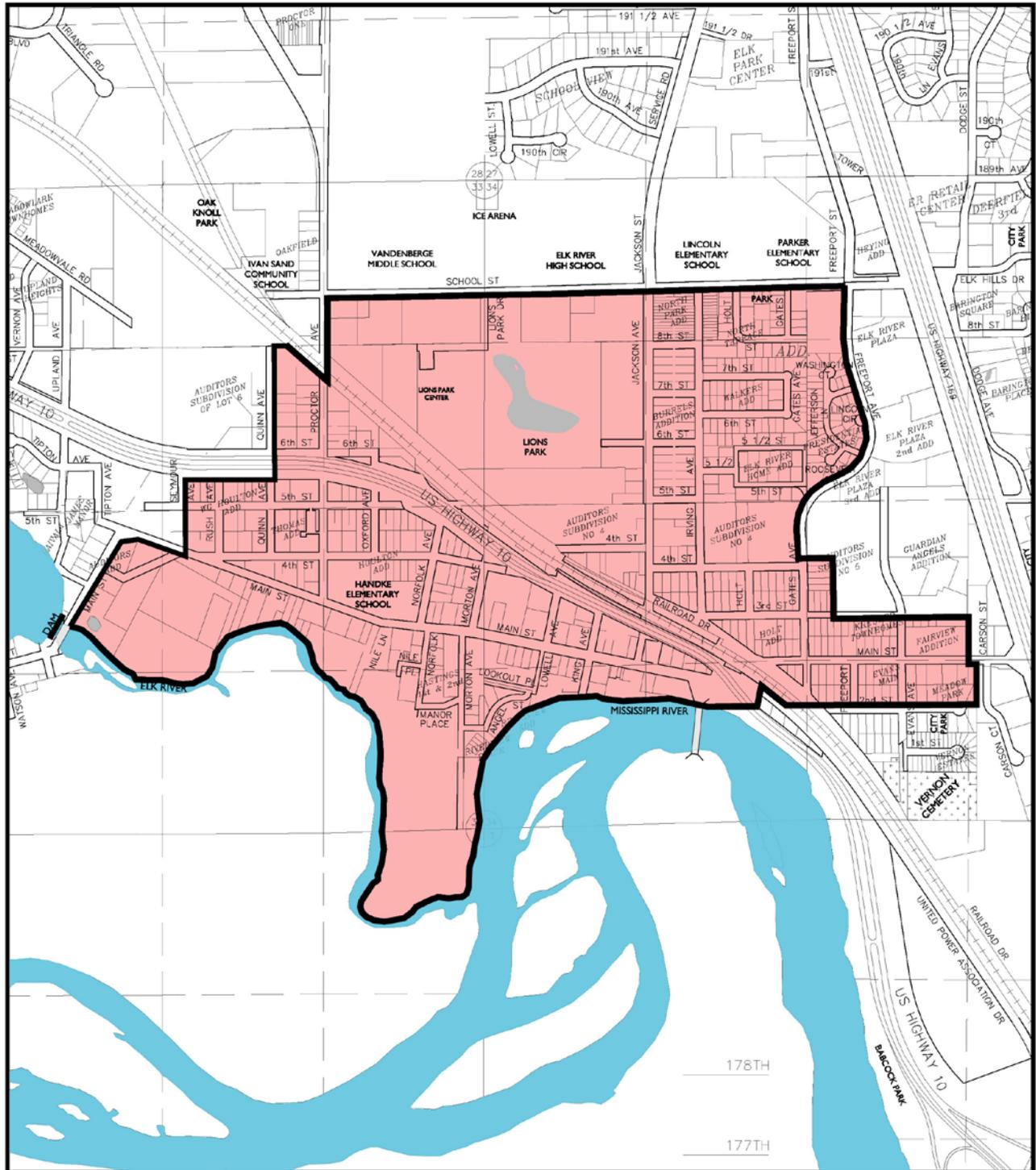
I / We certify that all information provided in this application is true and correct to the best of my/our knowledge. I / We authorize the city of Elk River and the Finance Committee to check credit references and verify financial and other information. I / We agree to provide any additional information as may be requested by the city and the Finance Committee.

APPLICANT SIGNATURE \_\_\_\_\_

BY \_\_\_\_\_

DATE \_\_\_\_\_

Exhibit A: Downtown Area



# Downtown Area

November 19, 2013

