



**Economic Development
Business Microloan Fund
Guidelines, Policy & Application**

Amended:

May 2011
November 2013
July 2014
November 2014
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August 2017
May 2020
May 2022

City of Elk River
Economic Development Division
13065 Orono Parkway
Elk River, MN 55330
763.635.1040

ELK RIVER ECONOMIC DEVELOPMENT BUSINESS MICROLOAN FUND GUIDELINES, POLICY & APPLICATION

I. POLICY 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 microloan 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. ELIGIBLE BUSINESSES

Any project located or proposed to be located within the city limits of Elk River as defined by this microloan program, may be eligible for a 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).
- Religious, political, and pornographic enterprises are not eligible.

3. MICROLOAN FUND TERMS & CONDITIONS

Loan Structure

All Economic Development Microloans shall be structured as direct loans unless otherwise approved by the EDA Finance Committee. If a participation loan is requested, an 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 EDA microloan 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 will be enforced following a grace period of 10 calendar days.

4. 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.

5. 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 equal to the amount of the loan.

Applicant must demonstrate the financial means to repay the loans, as determined by the EDA.

Whenever possible, personal, corporate, and/or entity 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.

6. TIMING OF PROJECT EXPENSES

No project should commence until the EDA has approved the loan application. Any costs incurred prior to the approval of the loan application are 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 \$500 processing fee, which is paid at the time of application. In addition to the processing fee, all legal and filing fees shall be paid by the borrower at loan closing.

Closing of the Microloan should be simultaneous with the borrower's primary funding. The EDA should be given two weeks' notice before closing.

7. 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 (if applicable).
2. The applicant 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 \$500 processing fee. The fee is used to cover processing expenses and any remaining funds will be returned to the applicant. The applicant must provide evidence of their ability to meet the 10% 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 microloan 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. 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 Loan applications will also be reviewed by a Housing & Redevelopment Authority Commissioner in conjunction with the EDA Finance Committee. Energy Efficiency Improvement Loan 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, timelines and a capacity to implement the project.
- 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.
 - 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 staff.
- d. Project compliance with all city codes and policies.
- e. Microloan 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.
7. 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. The application for an extension beyond the original term should include a letter of denial from a conventional lender.
8. 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 recommendation of approval, denial to the City Council for final action.

8. MICROLOAN 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.

9. RIGHT OF REFUSAL

The EDA may deny any application if it is found not consistent 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.



10. 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") if applicable.

11. Agreement to Pay Costs of Review

It is the policy of the city of Elk River to require applicants to pay costs incurred by the city in reviewing and acting upon applications, so that these costs are not borne by the taxpayers of the city. These costs include all of the city's out-of-pocket costs for expenses, including the city's costs for review of the application by the city's Financial Consultant and City Attorney, or other consultants, recording fees, and necessary publication costs.

The application processing fees cover anticipated costs; costs incurred above the application fee will be invoiced as they are incurred, and payment will be due within thirty (30) days. Any unused portion of the application fee will be returned to the applicant. If payment is not received as required by this agreement, the city may suspend the application review process and may deny the application for failure to comply with the requirements for processing the application. Payment for costs will be required whether the application is granted or denied.

12. Microloan Programs

In order to meet the economic and community development objectives of the EDA, five distinct microloan programs exist within the Business Microloan Fund.

Industrial Incentive Loan

Purpose: The purpose of the Industrial Incentive Loan is to encourage industrial and high technology business development that supports the tax base and brings quality jobs to the city.

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

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

Rate: Fixed at 3%

Term: Loans must mature within 5 years, but must be amortized over a longer period of time. The balloon payment must not be longer than the balloon payment of the participating bank if applicable. 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 pay off the loan or refinance the Microloan at the end of five years, the loan may be extended up to two additional years at 3% interest.

Criteria: Borrower must be an industrial or high technology business 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 \$15.00 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.

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. Public infrastructure needed for economic development expansions
- g. Investment real estate with a minimum of 50% of the space pre-leased

Ineligible Fund Uses:

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

Downtown Revitalization Financing Loan

Purpose: The Downtown Revitalization Financing Loan 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 in Exhibit A.



- Amount: Up to \$74,999 of secondary financing not to exceed 20% of the total project cost.
- Remaining Principle: Must have private-sector commitments for 50% of the project cost. Borrower must provide 10% or more of project cost.
- Rate: Fixed at 3%.
- 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 pay off the loan or refinance the Microloan at the end of five years, the loan may be extended up to two additional years at 3% interest.
- Criteria: At a minimum, 20% of Microloan dollars must be used for the improvement of the building façade, 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.

Permitted Fund Uses:

- a. Building construction
- b. Renovation and modernization of buildings
- c. Furniture, fixtures, and equipment (FF&E)
- d. Exterior renovation of retail or commercial buildings
- e. Financing of leasehold improvements including façade improvements will be considered at a limit of \$25,000
- f. Expenditures for the construction and/or renovation of residential units

Ineligible Fund Uses:

- a. Inventory
- b. Refinancing of existing debt
- c. Working capital

Energy Efficiency Improvement Loan

Purpose: The Energy Efficiency Improvements Loan is available to property owners of commercial or industrial buildings in Elk River to provide low interest loans to businesses to invest in energy efficiency and improve their profitability through reduced energy costs. In addition, the microloan 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

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

Rate: Fixed at 3%

Term: The maximum maturity date of the loan will be determined by the useful life of the improvement and the energy payback achieved as determined by ERMU.

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: Microloan funds shall be spent on energy efficiency improvements outlined below or related building improvement costs

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.

The loans will be secured by personal and corporate guarantees, and if applicable a lien on equipment financed and subordinate mortgage on the property.

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.



Permitted Fund Uses:

- a. Energy efficiency measures installed in or on a building include:
- b. Facility systems optimization (commissioning/re-commissioning)
- c. Facility systems control improvements
- d. Process efficiency improvements (CenterPoint Energy)
- e. Lighting efficiency improvements
- f. Heating, ventilation and air conditioning system modifications
- g. Exterior envelope improvements
- h. Motor and pump efficiency improvements
- i. Ground-source heat pump systems used to heat or cool a facility
- j. 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.

Ineligible Fund Uses:

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

Micro-Brewery Loan

Purpose: The Micro-Brewery microloan is available to business and property owners located within the city of Elk River.

Amount: Up to \$74,999 of secondary financing not to exceed 20% of the Total 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 3%.

Term: Financing with a balloon payment in up to 5-years. Loans may be amortized up to the following limits:
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, 50% of Microloan dollars must be used for the purchase of equipment.

Loans must be supported by sufficient collateral, which will include personal guarantees.



Permitted Fund Uses:

- e. Renovation and modernization of buildings
- f. Furniture, fixtures, and equipment (FF&E)
- g. Exterior renovation of retail or commercial buildings
- h. Financing of leasehold improvements including façade improvements will be considered at a limit of \$25,000

Ineligible Fund Uses:

- a. Inventory
- b. Refinancing of existing debt
- c. Working capital





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

Federal ID # _____ State ID # _____

2. NATURE OF LOAN REQUEST

Which Microloan Program are you applying for?

- _____ Industrial Incentive Loan
- _____ Downtown Revitalization Financing Loan
- _____ Energy Efficiency Improvement Loan
- _____ Micro-Brewery Loan
- _____ COVID-19 Small Business Loan

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	_____	_____	\$ _____
Total Financing			\$ _____

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.

Microloan 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 Three Years and Year to Date
 - 1. Profit & Loss Statements
 - 2. Balance Sheets

- _____C) Financial Projections for up to Three Years

- _____D) A Project Proforma to include:
 - 1. Projected revenues,
 - 2. Operating expenses,
 - 3. Net Operating Income, and
 - 4. Annual Debt Service and Loan Payments.

- _____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) Processing Fee of \$2,000 (Waived for COVI-19 Small Business Loan)

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.

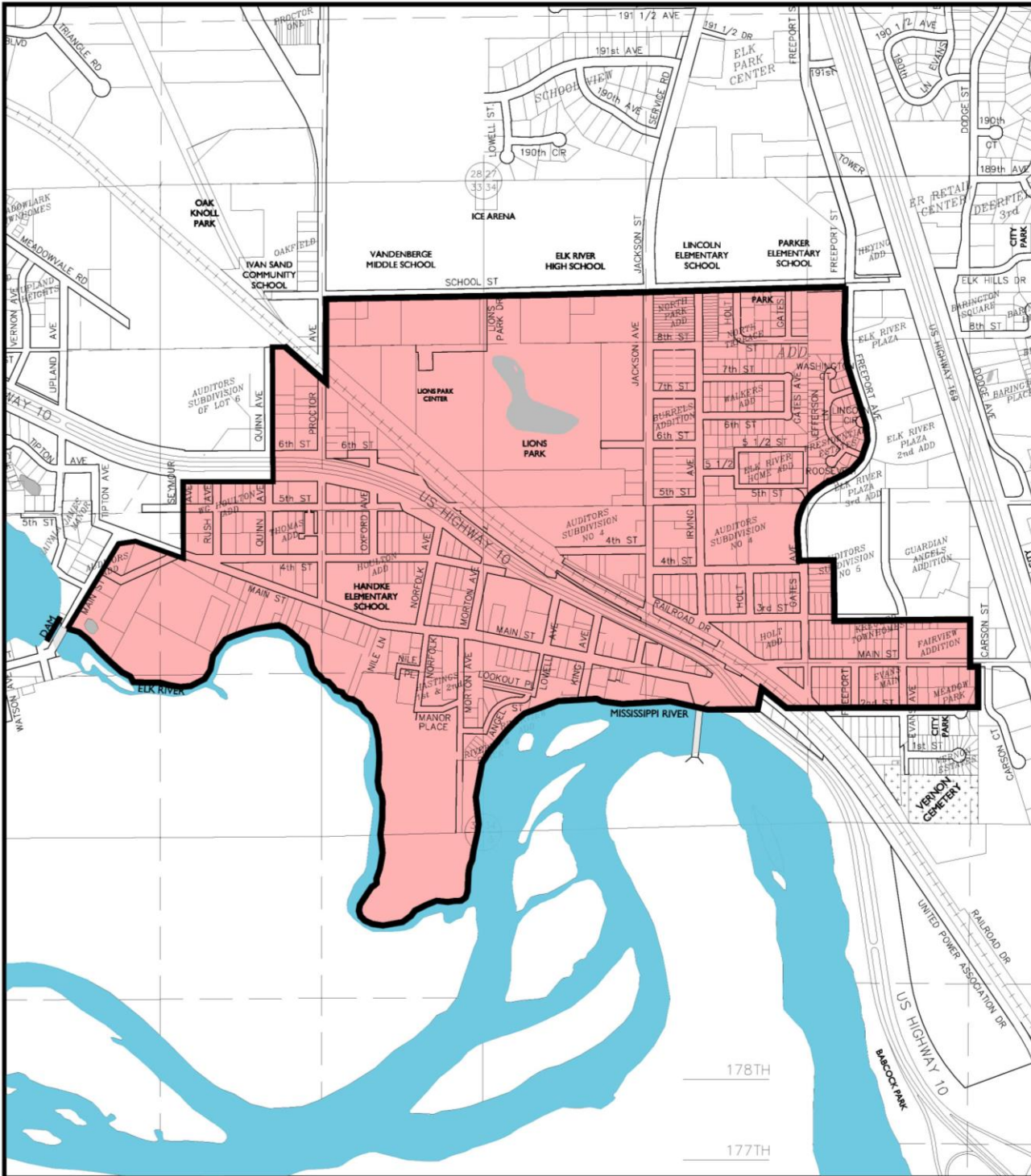
The undersigned has received the city's policy regarding the payment of costs of review, understands that reimbursement to the city of costs incurred in reviewing the application will be required, agrees to reimburse the city as required in the policy and make payment when billed by the city, and agrees that the application may be denied for failure to reimburse the city for costs as provided in the policy.

APPLICANT SIGNATURE _____

BY _____

DATE _____

Exhibit A: Downtown Area



Downtown Area

November 19, 2013



MICROLOAN APPLICATION SCORING WORKSHEET

TO BE COMPLETED BY CITY STAFF

- 1. The project meets the criteria set forth in the appropriate the Microloan policy.**
- _____ a) Meets at least one of the microloan objectives in Section 7; 6(e).
 _____ c) Consistent with all city plans and ordinances.
 _____ d) Meets the wage requirements as defined in the city's business subsidy policy.

2. Ratio of Private to All Public Investment in Project: Points: _____

\$ _____ Private Investment	5:1	5
\$ _____ Public Investment	4:1	4
_____ Ratio Private: Public Financing	3:1	3
	2:1	2
Less than	2:1	1

3. Job Creation in the City of Elk River: Points: _____

_____ Number of new jobs as a result of the project.	25+	5
_____ Number of existing/retained jobs	20+	4
_____ Total	15+	3
	10+	2
Less than	10	1

4. Ratio of Public Investment to Job Creation: Points: _____

\$ _____ Public Investment	\$8,000 or less	5
_____ Number of new jobs created/retained	\$10,000 or less	4
\$ _____ of Public Investment per new job	\$12,000 or less	3
	\$15,000 or less	2
	Over \$15,000	1

5. Wage Level of jobs created/retained or relocated Points: _____

Minimum hourly wage	Over \$21/ hour	5
of jobs created/retained: _____	\$18-21 / hour	4
	\$15 / hour	3

6. Project size: Points: _____

The project will result in the construction	40,000+	5
of square feet _____	30,000+	4
	20,000+	3
	10,000+	2
	10,000 or less	1



7. Market Value/Tax Base Generation:

The project will result in a per square foot estimated market value (land and building) of _____

<u>Industrial</u>	<u>Commercial</u>	
\$80/sf+	\$110/sf+	5
\$70/sf+	\$100/sf+	4
\$60/sf+	\$90/sf+	3
\$50/sf+	\$80/sf+	2
\$40/sf+	\$70/sf+	1

Points: _____

8. Type of Project:

_____ 100% Owner Occupied	5
_____ Mix Owner Occupied & Investment	4
_____ Investment Property	3

Points: _____

9. Use:

_____ Industrial or Business Park Project	5
_____ Commercial/Retail Rehabilitation/Redevelopment	4
_____ Downtown Revitalization or Microbrew	3

Points: _____

10. Likelihood that the project will result in unsubsidized, spin-off development.

_____ High	5
_____ Moderate	3
_____ Low	1

Points: _____

Sub - Total Points: _____ of a possible 45 points.
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11. Point Adjustments

Point Adjustments: _____

_____ The project contributes to the goals of <i>Energy City</i> .	5 points
<ul style="list-style-type: none"> • Product promotes sensible use of energy, OR • Project utilizes significant energy efficient design &/or materials in construction. 	

Total Points: _____		
Overall project desirability:	High	50-35 points
	Moderate	34-29 points
	Low	28-20 points
	Not Eligible	19-0 points

