



Revolving Loan Fund Policies & Procedures

Revised August 2004

“THE ARLINGTON REVOLVING LOAN FUND”

OVERVIEW/SUMMARY

The funds, which comprise the “Arlington Revolving Loan Fund”, are the result of grant awards to the City of Arlington. These funds in turn were borrowed to qualifying companies. The repayment of these loans will enable the City to reinvest in other business expansions within the City. It is fully intended that all funds repaid to the City, by any borrower of the fund, will be reused for business expansion and economic development. All funds repaid to the City shall be retained in a special account, entirely separate from other City accounts, and may not be used for any purpose other than those described in this document.

The “Arlington Revolving Loan Fund” has been designed to respond to the local needs immediately and can be molded to meet the needs of the businesses of Arlington.

PURPOSE

The purpose of this fund is to provide capital for new and existing small business expansion, create new employment or to maintain existing employment and further diversity the economic base of Arlington, Minnesota. This form of economic development provides the City of Arlington with an alternative form of business financing, which if used properly, should produce growth for the community.

USE OF FUNDS

All funds paid to the City of Arlington shall be retained in a special account, entirely separate from all other accounts, and may not be used for any purpose other than working capital, expansion, renovation or start-up financing for the business assisted. Creation or retention of permanent private sector jobs and increased community growth are the goals of the Revolving Loan Fund (RLF). Using these funds to fix roads and renovate parks is neither the purpose nor intent of the RLF. If funds are used for these purposes, there is no longer a “multiplier effect” on the job creation or community growth.

The following types of for-profit business are considered eligible:

- Manufacturing/assembly
- Tourism projects
- Professional offices
- Retail
- Ag processing

The following business are considered ineligible:

- Media
- Agriculture production
- Speculation real estate
- Construction or maintenance of utilities
- Operation or expansion of a casino
- For a project related to a sports facility

The RLF funds are available to qualified borrowers who are able to demonstrate a financing gap

created by lack of total funds provided by the business owners or banker. RLF funds are eligible for various purposes such as:

- | | |
|----------------------------|--------------------------|
| 1. Acquisition of Loan | 20 year financing terms |
| 2. Acquisition of building | 20 year financing terms |
| 3. New Construction | 20 year financing terms |
| 4. Machinery and Equipment | 3-7 year financing terms |
| 5. Building renovation | 15 year financing terms |
| 6. Working Capital | 3-5 year financing terms |
| 7. Inventory | 1 year financing terms |

LOAN CRITERIA

It is policy that RLF funds should be loaned out as quickly as possible to all applicants that meet or exceed RLF guidelines. The amount of a loan (within maximum) for any business or project will be at the discretion of the review board. The review board determines the interest rate and it is their goal that the interest rate should not fall below a 3% annual rate. Each business owner/applicant, bank of account or other financing source shall provide a minimum of 60% of the total financing needed. The "financing gap" for up to 40% of the total project desired, may be provided through the Arlington RLF. It is the desire of the review board that for most applications, the gap financing needed should only be approximately 25% of the total project.

The maximum loan amount shall not exceed \$100,000 or 40% of the project; whichever is less.

Businesses receiving RLF assistance must pay each employee total compensation, including benefits not mandated by law, that on an annualized basis is equal to 110 percent of the federal poverty level for a family of four, which as of 2003 is \$9.73 per hour. The federal poverty level changes annually.

LOAN COMMITTEE

The Arlington Loan Committee, established by Council Resolution, shall consist of the following individuals:

- 1 Council Member
- 1 Banker
- 1 Businessperson from the community

The make-up of this group should provide an unbiased and thorough analysis of credit worthiness of applicants. These persons should be qualified to determine loan terms and to enable the business to have sufficient working capital to succeed yet be able to repay the loan. Final decisions regarding loan applicants must be a matter of public record and loan applicants must be notified in writing about the decision made by the committee. Loan applications may be reviewed on an open, year-round, first come-first serve, basis.

The Loan Committee shall review all information that will provide decision-making assistance as to the viability of business applicants. A business applying for a RLF should be located in the city limits of Arlington, Minnesota or is wishing to locate here upon approval of funds.

Committee members shall review and discuss the strengths and weaknesses of the business, determine their credit worthiness, and insure satisfaction of meeting the goals of the Arlington RLF.

The following criteria shall be used in reviewing loan applications to determine their credit worthiness:

- Management capability
- Innovative technology or product
- Demonstrated repayment ability
- Equity commitment
- Available collateral coverage
- Credit worthiness of applicant
- Proposed marketing plan
- Leveraging of other funding
- Job creation/retention
- Economic impact on area
- Availability of other funds

The Loan Committee shall recommend all loan approvals to the City Council for final authorization. No loan shall be made prior to Council authorization.

MUNICIPAL RIGHTS, POWERS, DUTIES (MS471.87-471.88)

An officer of the city may not have a personal financial interest or personally benefit financially from the business to be assisted.

SURVEY DEPOSITS REQUIRED FOR CONSTRUCTION CONTRACTS (MS 290.9705)

In the situation that the contract exceeds \$100,000 and a non-Minnesota construction contractor has been hired to perform the work, the city must do one of the following:

- a. Deposit with the Department of Revenue, 8 percent of every payment made to the contractor; or
- b. Have in its possession a Waiver of Withholding from the department of Revenue.

GOVERNMENT DATA PRACTICES (MS13)

Information contained in the application for assistance will become a matter of public record with the exception of those items protected under the Minnesota Government Data Practices Act.

CONDITIONS/PROCEDURES

To insure the goals and purposes of the revolving loan are met, conditions and procedures have been established to provide the Loan Committee with guidance.

The business expansion shall provide for the creation or retention of permanent private-sector jobs in the City.

The tax base of property affected shall experience an increase.

Loan funds shall be secured by collateral and shall be recorded. Mortgage security may be in a subordinated position to that of the participating lender and other financing source as deemed appropriate by the Loan Committee.

Procedures:

Completion of an application packet and required information about the business.
Review the financing package with the business lender and obtain a tentative commitment to participate.
Submit all information to the Loan Committee through the EDA Director's Office.
Forward the Loan Committee review and recommend action to City Council.
Obtain written financial commitment from lender.
Receive City Council loan authorization.
Signing of loan agreement, promissory notes, mortgages and other required documents.
Loan closing.
Disbursement of funds based upon agreed to schedule and documentation of expenditure of other funds.
Loan repayment to City's "Revolving Loan Fund".

MATERIALS AND INFORMATION NEEDED FOR THE ARLINGTON REVOLVING LOAN FUND LOAN COMMITTEE

To apply for financial assistance and to aid in the decision making process of the Loan Committee, the following items and information is required:

- A. Completed RLF pre-application form
 - B. Business plan
 - C. Past 3 year historical financial statements (balance sheet and P & L)
 - D. Interim financial statement (not more than 90 days old)
 - E. Two year proforma financial projections
 - F. Two year proforma cash flow projections
 - G. Debt schedule of fixed obligations
 - H. Collateral listing to secure loan
 - I. Completed RLF application at least 2 weeks prior to an EDA meeting
1. The RLF Pre-Application and Application forms are provided at the end of this packet and are used by the RLF Loan Committee as a general overview of your project.
 2. The business plan is a description of the business, including product, market, staffing, and financial situation and projections. It is considered that a well-prepared business plan plays several important roles:
 - a. It is a useful management tool that can help plot a course for the company; it is a vital sales tool that will impress financial backers and stockholders with the company's planning ability and general competence as a management team.
 - b. Other things being equal, a well-prepared business plan will increase the business' chances of identifying market opportunities and of obtaining the necessary financial commitments for future success.

The business plan will help the RLF Loan Committee better understand the business' potential for the future business. The following list of items should be included in the business plan.

- c. Brief history or narrative of the company along with resumes of company management, name of business (as incorporated), location, and number of years in business.
- d. In describing the business, include such information as products and/or services provided, general market area served, and any other appropriate information.
- e. Identify markets and marketing strategies such as pricing policies, method of

- selling, distributing and servicing of products along with how much of the market share does the company occupy and is anticipated through expansion and growth.
- f. Describe major and minor competitors and their strengths and weaknesses.
 - g. Sources of suppliers
 - h. Manufacturing process – materials and production methods
 - i. Provide detail on the intended use of working capital required. List machinery, equipment, land and buildings to be purchased and the basis for the estimate.
 - j. Recent equipment and/or real property appraisals where appropriate.
 - k. Estimated construction costs, if appropriate.
 - l. Appraised value of new construction.
 - m. How many employees does the company currently employ and how many employees does the company anticipate hiring as a result of this expansion.
 - n. Include the company's banking institution, attorney and accountant, their address, phone and fax numbers and contact person.
3. Include at the end of the business plan, a three-year financial history of the business that has been prepared by an accountant. Fill in the numbers in the profit and loss statement and balance sheet labeled "Previous 3 years", and include your statements from the accountants.
 4. A current analysis of the business must be made in order to see how the company is currently performing. The interim financial statement shall not be over 90 days old. These numbers shall represent the "current period" of the profit and loss statement and the balance sheet.
 5. Proforma financial projections detailing what the business plans to do with the monies provided through the RLF and how it will affect your income and balance sheet. 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 2 years should also be made and an accompanying worksheet provided to aid in the understanding of these projections.
 7. A current debt schedule of fixed obligations of all business debts that provides the following information: original loan amount, original date of loan, maturity dates, monthly payment, rate of interest, present balance and loan security and collateral position.
 8. The RLF Loan Committee needs to know what will be used as collateral for the loan.

This information provides the RLF Loan Committee with a better picture of the company and provides the basic tools for analysis of the business. Thank you for the time and effort expended to complete these requirements.