

Sample Economic Development Revolving Fund Guidelines

(COMMUNITY/ORGANIZATION) REVOLVING FUND

I. Goals and Objectives

A goal of the (Community/Organization) is job creation and retention. The (Community) Revolving Fund represents one effort to achieve this goal.

Objectives of the (Community/Organization) are to (1) approve projects that are sound and capable of repaying their loan, and (2) to maximize earnings through investment. These objectives will help maintain and ensure the growth of the fund for use by future prospective businesses.

Since all or a portion of the funds in this program were made available through the Kentucky Community Development Block Grant, close adherence to requirements of that program and specific grant agreement(s) with the Commonwealth is required. Special attention must be given when funds to be used were received by the (Community/Organization) prior to closeout. Such federal requirements as Davis-Bacon and LMI provisions may apply.

The following policies and procedures are adopted to ensure a consistent and thorough review of all proposals in order to achieve the above objectives.

II. Organization

A. **Establishment of Revolving Fund Board**

The (Community/Organization) will establish a revolving Fund Board composed of (____) members. The RF Board will be selected to include members representative of a cross section of area leaders with experience and expertise in business finance and economic development. Members will be appointed by the (Chairman/CEO) with approval by the Council/Fiscal Court. One member of the Board is to consist of a member of the Council/Fiscal Court.

The RF Board will establish, evaluate and carry out policy, establish conditions and recommend disposition of loans under the RF.

The (Chairman/CEO) shall serve as Fund Manager and will act as liaison between potential borrowers and the RF Board of Directors. The (Chairman/CEO) may delegate his authority or request assistance as is needed.

In addition, three members of the Board will serve as a Review Committee. This Review Committee will, with the assistance of the RF Manager, review all requests and make recommendations to the full Board regarding the various requests.

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B. Processing Fees

A fee of \$250 shall be charged to cover the costs of processing a loan application. This fee shall be levied only on those applicants desiring to submit an application for consideration. No charge shall be made for initial contact or preliminary discussions required for the development of a possible application; nor for non-loan related projects.

C. Technical and Managerial Assistance

Due to their involvement with and knowledge of CDBG procedures, the (Area Development District/Consultant) may provide technical and managerial assistance and secretarial support to the RF Board and potential applicants. Technical assistance shall consist of: working with applicants and other participants to develop a feasible project, seeking additional revenue sources which may be available, and reviewing proposals and advising the RF Board and Manager on merits of the loan.

D. Servicing of Loans

The (Community) Revolving Fund will not directly engage in the servicing of its portfolio. The Board will negotiate with _____, which possess the necessary skills to service the loans.

E. Monitoring of Projects

The RF Manager will conduct a monitoring visit of each project at least twice a year to determine if there are any problems that jeopardize the project. The RF and servicing agency will keep each other informed about problems they encounter. If they so desire, the Board may request periodic financial reports from the company as a condition of project approval.

F. Solicitation of Projects

The (Community) Revolving Fund will recruit potential borrowers through several methods. The RF Manager will actively solicit participation through private lenders, referrals from the Kentucky Development Finance Authority, Community Development Block Grant Program, _____ Development Council, and other sources as appropriate. These development agencies will be in the position of making RF program information available to various enterprises with which they have contact.

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Eligibility Requirements

A. Eligible Applicants

- a. The applicant must be a registered sole proprietorship, partnership, or corporation (profit or non-profit) established for the purpose of doing business in (Community).
- b. The applicant must possess good character and reputation. Character references will be required. References may include creditors, past employers or others who possess knowledge of the applicant.

B. Eligible Projects

- a. Loans/grants for acquisition and assembly of land for industrial or commercial use
- b. Loans/grants for acquisition of properties with redevelopment potential for industrial or commercial use
- c. Loans for the start-up and/or expansion of industries
- d. Loans for the rehabilitation and renovation of usable vacant buildings for specific industrial or commercial use
- e. Microenterprise loan pool and technical assistance
- f. Grants for off-site development to assist industries or commercial businesses
- g. Speculative development including building acquisition and construction
- h. Collateral for other eligible activities
- i. Eligible activities not directly related to job creation

C. Ineligible Projects

- a. Businesses serving alcoholic beverages
- b. Rolling stock, i.e., trucks, forklifts, automobiles
- c. Loans to retire existing debt
- d. Working capital
- e. Business activity located outside the boundaries of (Community)
- f. Any other projects determined not to be in the best interests of the citizens of (Community)

D. Eligible Costs

Loans and grants made under the RF can be used to finance:

- a. Land costs – all costs related to the acquisition and development of land for industrial or commercial use.

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- b. Building costs – all costs associated with acquisition, construction and/or rehabilitation of buildings for industrial or commercial use, including leasehold improvements.
- c. Machinery and equipment costs – all related costs associated with the acquisition and installation of machinery and equipment.
- d. Facility development costs – costs for facility development, necessary for project completion (i.e., water lines, sewer lines, access roads).
- e. Microenterprise

III. Loan Review Factors

The following factors will be considered in the loan review process for all RF loan applications:

- A. Highest priority will be given to projects creating at least one job per every \$_____ of RF monies. Except under exceptional circumstances, the RF will not consider projects where the ratio exceeds \$20,000 per new long-term job created. Jobs used for purposes of this ratio are those existing at the end of two years after start-up. Construction jobs in the building of a facility are not included.
- B. Highest priority will be given to projects in which RF funds do not exceed thirty-three percent (33%) of total project cost. Except under exceptional circumstances, the RF will not consider projects which exceed fifty percent (50%) of total project cost.
- C. No RF loans shall be made if funding is otherwise available from private lenders on terms that would allow for the successful completion of the project.

IV. Terms and Conditions

The RF shall exercise flexibility in negotiating terms with the participating financial institutions. The following conditions, however, are set as minimum guidelines.

- A. All rates and terms for the RF funds will be based upon a financial analysis conducted under the Community Development Block Grant appropriate criteria.
- B. The RF reserves the right to sell their interest in a loan package where the Board deems advisable.
- C. The RF would accept convertible subordinated debt, with or without deferral provisions for either principle and/or interest.

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- D. Liens will be taken covering all assets. A subordinated position will not be accepted where an inordinate amount of risk is evident.
- E. Personal guarantees may be required of owners who control at least 20% of the company.
- F. The RF will impose the following maximum term requirements and restrictions on loans:

Maximum length of terms:

- 1. Real Estate – 20 years.
 - 2. Machinery and equipment – 10 years or the usable life of the equipment.
 - 3. Inventory/Other – 5 years.
- G. Rates will be negotiated by the RF Board, but in no case shall it be less than ____%.
 - H. In negotiating terms for potential borrowers, terms will not be made that cannot feasibly be met. A thorough credit analysis will be undertaken prior to negotiating loan terms.

V. Application Procedures

NOTE: Application not required for Public Infrastructure and Non-Profit Development.

A. **Initial Meeting**

The initial meeting that the RF Manager will conduct with a potential borrower will be to determine eligibility, generally discuss the project, and explain the application process and needed information. At this point, projects which are ineligible or which do not look strong should be referred to proper funding sources or discouraged from applying. The Loan Manager will indicate that the following items will be required from the applicant prior to the next meeting:

- a. A brief description of the request, including total project cost, amount of loan requested, purpose of loan and terms requested.
- b. Three-year historic financial statements, if applicable.
- c. Financial data – five year pro forma projections.
- d. An economic impact statement, including the number and type of jobs to be retained and/or created at the end of two years.

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- e. A market/business plan delineating past performance and assumptions used as the basis for sales projections.
- f. Personal financial statements of principals in a privately held company.
- g. Any other items requested of applicant by the RF Manager of Board.

B. Loan Application Process

The Loan Manager and the potential borrower will structure the loan package. The borrower will be issued full information on the loan selection criteria and full information regarding standard conditions and federally required assistance and conditions.

Upon determination of applicant eligibility, the borrower will complete the Application form. In conjunction with these cited standard forms, the RF Board of Directors shall request the following information, much of which will be included as part of the applicant's business plan. Note: The standard DLG Approval For Use Request, Exhibit _____ (excluding certifications) can be used in this procedure.

- a. Financial information, which shall include:
 - 1. Current financial statement, including balance sheets, income statements with footnotes, and supporting statement for the applicant's three most recent fiscal years, where applicable, and consolidated financial and income statements, with footnotes, of any parent company for the three most recent fiscal years, where applicable.
 - 2. Most recent interim financial statements of the applicant, and, if applicable, of its parent company, certified by officers of the respective companies and maintained current during the loan application process.
 - 3. Project pro forma balance sheets, income statements, cash flow, and supporting statements of the applicant. Such statements and balance sheets should reflect the applicant's ability to repay debt from earnings.
- b. Such non-financial information as the RF Board of Directors deems is necessary to substantiate the pro forma projections. These may include, but not be limited to:
 - 1. Estimates, quotations, receipts, contracts, orders, invoices, leases or equivalent documentation from architects, engineers, contractors, subcontractors, material suppliers, lessor, or others involved in the sale, lease, or construction

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of fixed assets, if any, for applicant's project, including schedules or implementation.

2. Any backup information regarding the applicant's operating costs, including projected employment by job category and applicable wage rate, cost and availability of raw materials and energy.
- c. General information about company management capabilities, including resumes of top management and detailed marketing strategies.
- d. Such additional information as the RF Board of Directors may require regarding collateral, appraisals, valuations of assets and guarantees.
- e. Completed applications.

VI. Selection and Approval of Projects

A. Application Review and Evaluation

Upon completion of the RF full application, the RF Loan Review Committee will carry out a review and submit its recommendation for approval or disapproval and the basis for such recommendation to the full Board. The RF will then consider the recommendation made by the RF Review Committee. The Board may solicit or allow additional comment or advisement if it so desires. The Board shall then make its recommendations to the City Council/Fiscal Court to approve or deny the project. The RF Board of Directors will utilize and fully consider all loan selection criteria to ascertain whether the proposed project is consistent with the economic development strategy for (Community). The RF Board will determine whether all project requirements can be met and shall apply their financial experience and judgement to the project having considered all available information.

B. Fund Board Approval

The RF Loan Review Committee shall submit a copy of the Approval for Use Request to DLG (Including certifications) for all projects in which program income funds are being utilized. DLG will assure project eligibility and national objective criteria and will respond within fifteen (15) days of receipt.

Upon final approval, the RF Board Chairman will forward the entire package to the RF's bank, with a request to draw down funds to the borrower.

VII. Loan Closing Procedure

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The RF will closely coordinate all loan closing activity with the first participation lender to avoid duplication and to hold closing costs to a minimum. The RF, working with the participating lender, will make all necessary preparations for the closing. After scheduling the date of closing, the RF or participating lender will prepare the information and documentation for closing, including:

- a. RF Agreement
- b. Participation Agreement between RF and the first position lender
- c. Promissory, Mortgage Notes of other loan agreement
- d. Security Documents to be executed and recorded
- e. Check from the RF

All closing costs incurred will be paid by the borrower at the time of closing.

VIII. **Other**

A. **RF Loan Application Form**

The RF full Loan Application form is attached as Appendix 1.

B. **Evaluation Mechanism**

Every six months the RF Manager will monitor the projects in the RF portfolio, evaluate the loans made, and determine progress made in obtaining goals and objectives cited in the RF Administration Plan. Factors such as jobs created, types of jobs created, minority and/or women's businesses assisted, and the ratio of RF dollars to jobs retained/created will be considered in this evaluation process. Results of all project evaluations will be presented to the RF Board and the City Council/Fiscal Court in a semiannual report of RF activity.

All assurances as specified in Community Development Block Grant regulations shall be agreed to by the user in order to receive funds. No application shall be approved unless the Statement of Assurances is properly signed.

Investment of idle funds shall be in conformance with Kentucky Revised Statutes as they relate to investment practices of local governments.

- C. Since the funds that help fund this revolving fund come from repayment of loans/leases made from grants received from the Community Development Block Grant Program, each activity funded under the RF program may be required to meet at least one of the three National Objectives identified in Title 1 of the Housing and Community

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Development Act of 1974 as amended in 1983, hereinafter referred to as the Act (Section 104(b)(3)). The three objectives are:

- 1. Benefit to low and moderate income persons
- 2. Prevention of elimination of slums or blight
- 3. Meeting community development needs which have a particular urgency

D. Up to 20% of the repayment may be used for administrative purposes related to administration of the RF. An administrative plan is attached by reference.

This Document being formally adopted this _____ day of _____, 20__.

(Community/Organization)

(Title)

State of Kentucky
County of _____

Subscribed, sworn to and acknowledged before me by _____,
(Title) by and through its resolution, on this _____ day of _____, 20__

My Commission expires:

Notary Public

(Community)

(Mayor/County Judge)

State of Kentucky
County of _____

Subscribed, sworn to and acknowledged before me by _____,
(Title) by and through its resolution, on this _____ day of _____, 20__.

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My Commission Expires:

Notary Public