

**COLD SPRING
REVOLVING LOAN FUND**
“Partners in Prosperity”

APPLICANT PACKAGE



I. INTRODUCTION

HISTORY

The Cold Spring Revolving Loan Fund (RLF) was established in 2002 for the purpose of promoting economic development within the corporate limits of Cold Spring. The original endowment of \$500,000 was received as a grant through the State of Minnesota Department of Economic Development's (DTEd) Minnesota Investment Fund. Per the requirements of that grant, the City was required to issue the full amount of the grant to Gold'n Plump Poultry for the purpose of expanding its facilities. The grant and loan agreements required that the Company repay the principal and interest to the City where it is to remain for the purpose of establishing this revolving loan fund.

Such revolving loan funds typically enjoy great success, despite some obvious inherent challenges that they face. Consider the fact that these loan programs are often intended to assist those parties that may not necessarily have the financial resources to fund a successful project, then consider the fact that these loans are generally subordinate to other borrowing; then that many of these loans fund start-up projects rather than enterprises that have proven success. For these reasons and others it is remarkable that despite some business failures along the way defaults on revolving loan funds are virtually unheard of. This surprising fact can probably be credited to one critically important characteristic of the revolving loan funds, *loyalty*.

With every monthly repayment made back to the program one more entrepreneur is given an opportunity to realize their dream. It is essential that each applicant receiving the benefit possess the same character that will ensure the vitality of the RLF. Together your venture and this essential loan program will prosper together.

PROCEDURE

The process for procuring a loan through the RLF begins with a consultation with the City Administrator. In addition to providing an explanation of the application materials and procedures the Administrator will provide guidance on how the applicant can maximize the chances of receiving approval. The program is designed to rely to a large degree on the expertise of the lender and make the process as efficient as possible by utilizing the work and analysis done by the lender rather than duplicating that effort for this application process.

Not until the applicant has received a commitment letter from the lender does the RLF process truly begin. Once a completed application has been submitted, it will be scheduled for consideration at the next meeting of the RLF Committee. This Committee is made up of one representative from First National Bank of Cold Spring, State Bank of Cold Spring, two members of the Cold Spring Economic Development Authority and the City Administrator. Applications require a majority vote in order to receive approval; the City Administrator votes only in the event of a tie.

For its decision-making process the Committee will rely primarily on the Scoring Sheet, which is attached as Appendix A to this application. **Do not** complete the Scoring Sheet! It is important that you carefully review the document in order to have a clear understanding of what will be required in order to receive favorable consideration.

All decisions by the Committee are forwarded to the City Council as a recommendation, for final action. The recommendation will be presented at the City Council immediately proceeding a decision by the Committee. A majority vote of the City Council is required for approval.

It is important to keep in mind that **all applications will be considered in the order that they are received**. Loans will be issued based upon the balance of the fund. In certain instances the Committee may approve requests based upon anticipated RLF revenues. In such instances funds will likely be provided to the applicant only as they are received.

The lender will schedule the closing; participation by the City is typically not required, however the lender is expected to make arrangements with the Finance Director to ensure that funds are made available.

PURPOSE OF FUND

The primary purpose of the RLF program is to provide financial assistance to existing businesses and new businesses through joint private and public action for the purpose of enhancing tax base, expanding job opportunities, redeveloping blighted properties, providing enhancement of Cold Spring's downtown, increasing commerce for local lenders, furthering the mission of the EDA.

The program is designed to provide the opportunity for this public assistance to the greatest number of projects. The priority for RLF money shall be: 1) Building expansion building improvements for businesses located within the city limits; 2) Creation of new industries or businesses; 3) Equipment or infrastructure acquisition.

PARTICIPATION AND FINANCING

The Cold Spring Revolving Loan Fund (RLF) program is established and will operate as a public/public sector partnership of the City of Cold Spring and lenders.

The RLF will provide one-half of each loan up to a maximum of \$20,000 (minimum loan amount of \$5,000) at an interest of 2% to 10%.

Matching funds of at least equal to the amount provided by the RLF will be provided at current interest rate by lenders. The interest rate applied to a specific loan will be determined by the prime interest rate at the time that the loan is approved and by the results of the Scoring Sheet for the application.

The portion of the borrower's equity to be injected into the project will be determined by the lender.

Administration will be shared by the City and the participating lenders. The City will coordinate the program with business and community development organizations. Lenders will execute Participation Agreements with the City to carry out their participation in accordance with these guidelines.

II. TERMS AND CONDITIONS

A. RLF / Lender Participation

The RLF and a participating lender will share in a loan on a participating basis. The RLF portion cannot exceed 50% of the combined total of the loan. Preference will be given to applicants utilizing lenders located within the City, as indicated in the Scoring Sheet.

B. Maximum Loan

The amount of the RLF loan shall not exceed a maximum of \$20,000 and shall not be less than the minimum loan amount of \$5,000. A lender may increase its portion over \$20,000. The lower the amount of the request the greater it will score on the scoring sheet.

C. Interest Rates

The RLF loans are made at a varying rate of 2% to 10%. These funds are subordinate to funds provided by the lender. The interest shall be determined by the relative score assigned to the application. It will generally be the case that the higher an application scores the more favorable interest rate the project will receive. As stated above, the interest rate applied to a specific loan will be determined by the prime interest rate at the time that the loan is approved and by the results of the Scoring Sheet for the application.

The effective annual rate to the borrower will be a blended rate based upon the loan from private financial institutions and the RLF. An example is shown below:

EXAMPLE				
	<u>Amount</u>	<u>Rate</u>	<u>Year Term</u>	<u>Monthly Payment</u>
RLF Loan	\$25,000	2%	10	\$230
Lender Loan	<u>\$25,000</u>	11%	10	<u>344</u>
	\$50,000	6.7% (blended)	10	\$574

D. Length of Loan

The following criteria apply to the term of an RLF loan.

- The term of the loan shall not exceed a ten-year period, and the City may approve loans with a shorter term as it deems appropriate.
- Loans for equipment and expenditures of that sort will *generally* awarded for terms not exceeding seven years.
- Loans shall be amortized on a monthly basis for the duration of the term; the Committee shall have the authority to require balloon payments, so long as these terms are in conformance with this policy.
- An amortization schedule must be prepared by the lender and presented to both the borrower and the City.
- The loan **must** be repaid in full in the event that it is relocated outside of the city limits or the operations for which the loan was granted are discontinued. It is the recipient’s responsibility to notify the City prior to such changes.
- The City shall require that the loan be repaid in full in the event that there is a transfer of ownership. It is the recipient’s responsibility to notify the City prior to such transfer.

E. Security Required

The RLF Committee will determine the security required for any approved loans. In considering such requirements the form entitled Security Checklist attached as Appendix C will contain a listing of the forms of security required. The following criteria shall apply to the loan security.

- The lender shall have the responsibility of determining the applicant's credit risk, subject to RLF final approval.
- The lender shall recommend the type of amount of collateral the borrower will provide and shall have senior lien on the collateral.
- The lender shall file all liens required on collateral.
- The RLF interests will typically be subordinated to the lender.
- Proper loan documents will be prepared at borrower's expense.

F. Loan Disbursements

Loan disbursements shall be limited to three (3) in total; two partial payments plus one final payment (minimum of 10% of total loan) when all work is completed and inspected by the lender. All disbursements are to be made by the Lender.

G. Lien Waivers

The lender must collect lien waivers and/or other documentation as deemed necessary by the lender, and additionally by the City. Secondary liens must be acknowledged by the owner of the contract for deed.

H. Origination Fee

The applicant is required to pay an Origination Fee at the time of closing for the use of funds and to cover costs of processing the loan and to cover the cost of the health and safety inspection in the rare circumstances in which they may be required. The Origination fee will be in the amount of \$150.00 when one of the two local lenders are utilized, or \$225.00 when they are not. It shall be the responsibility of the local bank to collect this fee at closing and to remit it to the City.

I. Automatic Withdrawal

The applicant is required at the time of closing to arrange to have the monthly payments automatically withdrawn and deposited into the City's account. Any applicable fees will be paid by borrower.

J. Late Payment

A penalty of 5% of the payment amount, with a minimum of \$15.00, shall be added to the outstanding balance of the loan in the event that the payment is received after the due date.

K. Recording Fees

The applicant is responsible for all legal, recording and other fees incidental in establishing the City's security for the loan.

L. Prepayment

Applicants may make advance payments at any time on the loan, credit for prepayments will be applied to the outstanding balance of the loan with the final payment adjusted accordingly.

M. Job Reports

The applicant is required to prepare a job creation estimate, projecting expected employment levels for the business, for each of the first five (5) years of operation. The City may require annual job creation reports, stating employment levels for the business, during each of the first five (5) years of operation.

N. Records and Reports

The applicant is required to provide in a timely fashion records and reports as may be reasonably requested by the City that communicate the status of the project and the security of its loan. Such information shall become property of the City and shall be held confidential to the extent permitted by law.

III. ELIGIBILITY CRITERIA

ELIGIBLE APPLICANTS AND PROJECTS

Applicants and the proposed project must meet **all** of the following eligibility requirements in order to submit an application.

- A. The project must be located within the corporate limits of the City of Cold Spring.
- B. In order to make application for assistance the applicant may be: individual owners, partnerships, corporations, tenant operators or contract for deed purchases.
- C. An applicant must have the ability to repay the loan and be an acceptable credit risk as determined by a lender, subject to RLF final approval.
- D. Applicant must have obtained a commitment letter from a participating private lender in order to secure the City's commitment for its portion of the loan.
- E. An applicant's property status must be as a conforming use or a legal non-conforming use under the City's Zoning Ordinance.
- F. Applicants must upgrade their property regarding health and safety problems as defined by the City.
- G. The property, parcel or project must not have an outstanding RLF loan, or have had a RLF loan in the previous two years under the same owner.
- H. No one applicant may have more than two outstanding RLF loans at any one time.
- I. If two RLF loans are in place they must be for separate projects and the *combined total* for these two RLF loans cannot exceed 1½ times the maximum loan amount.
- J. Upon completion of the improvements, the applicant's property must pass all required health and safety inspections.
- K. The RLF shall not be utilized for any project, whose primary purpose is residential.

ELIGIBLE USE OF FUNDS

A. Exterior Improvement Loan

The following are eligible expenditures:

- All work on the front and sides of business building facing public streets.
- Cleaning, painting and staining of exterior surfaces.
- Masonry repairs.
- Repairing or replacing the cornices, entrances, doors, windows, decorative details and awnings.
- Sign removal, repairing or replacement.
- Architectural design services for plans and specifications.
- Parking lots; including lighting, surfacing and landscaping.

- Building identification.
- Other items that are viewed necessary to complement the exterior of the building.
- Building permits.
- Energy audits.
- Roofing.
- Energy conservation.
- Handicap access.
- Streetscape costs not financed by special assessments.

B. Exterior-Interior Improvement Loan

Upon upgrading the exterior appearance and the correction of all health and safety code deficiencies (as recorded by the City's Building Inspector) an applicant may include other fixed interior improvements among their work. In addition to the eligible expenditures listed previously under the Exterior Improvement Loan, the following additional expenditures are eligible:

- Almost all fixed improvements including the repair and/or decoration of walls, ceilings, floors, lighting, windows, doors, entrances, electrical, plumbing, mechanical, air conditioning, architectural change, energy improvements, and the like.
- Professional fees in conjunction with the completion of a project may be paid for reasonable engineering, architectural and other related service fees necessary to plan, estimate costs, and the like.

C. New Industrial Construction

Eligible expenditures include professional fees for reasonable engineering, architectural and other services needed to plan, estimate and undertake construction, site preparation, construction of the building, and purchase and installation of fixed building assets. Fixed building assets are those which normally pass to the new owner when a building is sold, in the sole discretion of the Committee.

D. Production Equipment Loan

Loan funds may be borrowed for the purchase of production equipment. Production equipment or machinery will increase the productivity of the business. The purchase of equipment should also contribute to new job opportunities or business investment.

E. Existing Structures

Loan funds may only be used for the purchase of an existing structure with the intent to remodel that structure, or the remodeling of a structure which the applicant already owns. Loan funds may not be used for the demolition of existing structures, without the Committee's approval.

INELIGIBLE COSTS

The following costs are ineligible:

- Refinancing of existing debts.
- Non-fixed improvements or non-fixed building assets.
- Working capital.
- Inventory.

- Sweat equity (payment for the applicant’s own labor and performance for construction or improvements).

IMPROVEMENTS COMPLETED PRIOR TO CLOSING

Certain improvement costs are eligible if the following steps have been taken:

- A. Applicant must have already filed a RLF loan application with the City prior to the work proceeding.
- B. Applicant must have a commitment letter from their lender and the City confirming their financing and approval of the project.
- C. Applicant must agree to include all health and safety items in work to be done.
- D. Final bids will be required to assess the total City portion of the loan. Closing will not be scheduled until final bids have been received.

If the above conditions have been met, the applicant may proceed using their own funds or interim financing from the lender. However, this is done at the applicant’s and/or lender’s own risk until the total scope of work has been approved by the City and the loan has been closed.

IV. CONTRACTING AND CONSTRUCTION

All applicants shall provide the City with information on the “Loan Application” detailing applicant’s interest regarding rehabilitation of the building, giving permission for health and safety inspection and any other requested supplements necessary to achieve the approval of the project.

The document entitled Application Data and included in this application as Appendix B must be submitted to the City and the lender detailing the work to be performed, estimated cost, specifically detailing how the health and safety work is to be satisfied and any other documentation necessary to achieve City approval of the project.

Contractors and all sub-contractors providing work under this program are to be licensed and must meet the insurance and bonding requirements of the bank. The contractor and/ or sub-contractor is to be knowledgeable of and/ or responsible for quality and workmanship, conducting proper business practices and be financially capable.

The quality and progress of the work is to be monitored throughout the term of the contract by the loan recipient, general contractor and the lender.

All work must be inspected by the City, or Lender, to ensure conformance with code and compliance with specifications prior to final payment.

APPENDIX A

SCORING SHEET

APPLICANT: _____

PROJECT: _____

NOTE TO APPLICANT – Do not complete, this form is for RLF Committee!

The following criteria will be utilized in evaluating applications for assistance through the Cold Spring RLF. This Scoring Sheet is developed with the intent to establish criteria that are as objective as possible while utilizing the subjective judgment of the members of the Committee. Each of these ten criteria have been assigned a maximum score based upon their relative importance. Each Committee member shall complete this form for each application based upon their personal perspective, a composite shall then be developed and serve as the support for the decision made by the Committee as a whole.

• **Application For Other Public Assistance (Up to 15 Points)** **Score** _____

It is the objective of the Committee to encourage all projects with the involvement of a minimal amount of public assistance. Applications requiring no public assistance other than this RLF will receive 10 to 15 points depending on the size of this request (less is better); 5 to 10 points if minimal public assistance is required from other governmental entities; and 0 to 5 points if extensive public assistance is required and a other City assistance is required.

• **Loan to Equity (Up to 10 Points)** **Score** _____

Although the program is intended to lend support to those projects the *require* this form of public assistance and would likely not have proceeded as planned but for a loan through the RLF there must be a demonstration that the applicant has the ability to repay the loan. Projects that involve a relatively large investment by the applicant and for which the share of RLF assistance in the total project cost is relatively low will score very highly in this category.

• **Financial Viability and Cash Flow Forecasts (Up to 10 Points)** **Score** _____

In determining the ability of the applicant to repay the loan the RLF Committee will carefully analyze the cash flow projections for the project as well as the overall financial viability of the applicant and the project.

• **Tax Base Increase (Up to 10 Points)** **Score** _____

One of the goals of the RLF is to increase tax base. Accordingly, the extent to which the overall project increases tax base will enhance the fundability of the project. Applicants are encouraged to provide information on the estimated valuation assigned to the project for property tax purposes.

• **Job Creation or Retention (Up to 10 Points)** **Score** _____

The City recognizes the importance of employment opportunities in the community; accordingly, applicants will score better the more that they are able to demonstrate job creation or retention estimates. The standard that will be employed for this criteria is one job for every \$5,000 in loan amount. In other words applicants will score relatively low if the ratio is lower than that standard and relatively high the further that they surpass that standard.

- **Blighted Property (Up to 10 Points)** **Score** _____
 Projects that redeveloped property that is considered by the Committee to be blighted will score relatively high, compared to the development of bare land for instance. This criteria is intended to include not only blighted structures, but, for instance, properties with contaminated soil conditions.
- **Conformance with Comprehensive Plan & City Objectives (Up to 10 Points)** **Score** _____
 It is of absolute importance that any project receiving RLF assistance is consistent with the objectives of the community especially as defined in the Comprehensive Plan, as well as Floodplain Management Ordinance, Zoning Ordinance, Mission Statement of the EDA and the like. The Committee will recognize projects that add to the diversity of the community’s commerce or job base.
- **Involvement of Cold Spring Lenders (Up to 5 Points)** **Score** _____
 There is a long history of contributions being made to Cold Spring by its local lenders. The Committee shall give extra consideration to those applicants that have utilized Cold Spring lending institutions to fund the project.
- **Code Compliance Issues (Up to 5 Points)** **Score** _____
 The Committee appreciates the extent to which extraordinary code compliance requirements can impact a project. Projects that encounter such obstacles shall be given extra consideration, especially when the code requirements involved relate strictly to safety issues of employees and others, for instance the need for fire sprinkling.
- **Trade Impact (Up to 5 Points)** **Score** _____
 Consideration will be given to projects for which it is proposed to utilize the local commerce to procure goods and services and/or which will sell goods or services outside the community.
- **Residency (Up to 5 Points)** **Score** _____
 It is recognized that applicants that reside within the city limits of Cold Spring have already contributed to the City’s ability to make such a loan program available to all applicants through their contributions to the City’s tax revenues. Thus extra consideration will be given to those applicants.
- **Existing Business (Up to 10 Points)** **Score** _____
 Priority points are given to businesses or industries that are currently located within city limits and who are seeking to expand their enterprise.
- **New Business or Industry (Up to 5 Points)** **Score** _____
 Up to five priority points are given to applicants that are intending to locate a new business or industry within city limits.

Total Score of Application (Possible Total of 110 Points)	Score _____
	DATE RATE TERM
Committee Approved Rate and Term	_____
Council Approved Rate and Term	_____

APPENDIX B

APPLICATION DATA

APPLICANT: _____ PROJECT: _____

Instructions: Complete all sections of the form; if information does not apply to your application be sure to write N/A on that particular. An application that contains blanks will **not** be accepted.

I. Personal Information

Applicant's Name: _____
Permanent Home Address: _____
Home Phone Number: _____
Cell Phone Number: _____
Are you a permanent resident of the city of Cold Spring? Yes: ____ No: ____

II. Business Information

Name of Business: _____
Business Address: _____
Business Phone Number: _____
Application is being made as: Corporation: ____ Partnership: ____
Sole Proprietor: ____ Other (please specify) _____

Brief Description on Type of Business: _____

Age of Business: _____
Previous Location of Business: _____
Number of Years at Previous Location: _____
What Percentage of Building Does Business Occupy: _____ Sq. Ft. _____ %
What Occupies Balance of Building: _____

Federal I.D. No. (if available): _____
Social Security No.: _____

III. Property Information

Property Owner: _____
Is the building leased? Yes: ____ No: ____ Term of lease: _____
Address of Owner: _____
Phone Number: _____
Present Zoning: _____ Necessary Zoning: _____
Building's Total Square Footage: _____

IV. Description of Improvements & Project (use additional sheets if necessary)

Exterior Improvements: _____

Interior Improvements: _____

Production Equipment: _____

New Construction: _____

Site Improvements: _____

Describe what other public assistance is being contributed to the project, City and other governmental. _____

Provide an explanation of the anticipated increase in taxable market value to the property as a result of undertaking the project. _____

If there are any projects costs that relate strictly bringing the property up to code describe them here, this would not include code requirements that are incidental to construction. _____

BUDGETARY SUMMARY	
Total Cost of Project	\$ _____
Total Lender Contribution	\$ _____
Total Equity Contribution	\$ _____
Total Amount of RLF Requested	\$ _____

V. Job Retention/Creation

Please provide anticipated job creation projections for each of the first five years. Provide the information in terms of full-time equivalents (FTE); one full-time and one part-time employee would be 1.5 FTEs for instance. The applicant must also estimate the anticipated average hourly wage for the positions so created in today's dollars.

APPENDIX C

SECURITY CHECKLIST

APPLICANT: _____

PROJECT: _____

NOTE TO APPLICANT – Do not complete, this form is for RLF Committee!

The following is a checklist of possible loan securities that the RLF Committee will consider when the loan application is approved.

X	N/A	#	Item	Comments (if any)
<input type="checkbox"/>	<input type="checkbox"/>	1.	Master Loan Agreement.	
<input type="checkbox"/>	<input type="checkbox"/>	2.	Security agreement.	
<input type="checkbox"/>	<input type="checkbox"/>	3.	Personal guarantee.	
<input type="checkbox"/>	<input type="checkbox"/>	4.	UCC-1 Financing Statement.	
<input type="checkbox"/>	<input type="checkbox"/>	5.	UCC-2 Fixture Filing Statement.	
<input type="checkbox"/>	<input type="checkbox"/>	6.	Mortgage.	
<input type="checkbox"/>	<input type="checkbox"/>	7.	Insurance policy.	
<input type="checkbox"/>	<input type="checkbox"/>	8.	Life insurance policy.	
<input type="checkbox"/>	<input type="checkbox"/>	9.	Landlord waiver agreement.	

APPENDIX D

SUBMITTAL CHECKLIST

APPLICANT: _____ PROJECT: _____

The following is a checklist that should be before submitting RLF application documents to the City Administrator. For each line one of the two boxes must be checked. Where necessary a brief explanation should be noted to the right of that item.

X	N/A	#	Item	Comments (if any)
<input type="checkbox"/>	<input type="checkbox"/>	1.	Application has been filled out completely.	
<input type="checkbox"/>	<input type="checkbox"/>	2.	Lender commitment letter(s) are attached.	
<input type="checkbox"/>	<input type="checkbox"/>	3.	Financial statements and/or tax returns (three years).	
<input type="checkbox"/>	<input type="checkbox"/>	4.	Personal financial statement.	
<input type="checkbox"/>	<input type="checkbox"/>	5.	Business plan.	
<input type="checkbox"/>	<input type="checkbox"/>	6.	Funds usage summary report.	
<input type="checkbox"/>	<input type="checkbox"/>	7.	Income projections (two years).	
<input type="checkbox"/>	<input type="checkbox"/>	8.	Cash flow projections.	
<input type="checkbox"/>	<input type="checkbox"/>	9.	Collateral valuation report.	
<input type="checkbox"/>	<input type="checkbox"/>	10.	Equipment purchase invoices.	
<input type="checkbox"/>	<input type="checkbox"/>	11.	Appraisal is included, if required or available.	
<input type="checkbox"/>	<input type="checkbox"/>	12.	Insurance company name.	
<input type="checkbox"/>	<input type="checkbox"/>	13.	Copy of corporate certificate.	
<input type="checkbox"/>	<input type="checkbox"/>	14.	Copy of partnership agreement.	
<input type="checkbox"/>	<input type="checkbox"/>	15.	Corporate resolution.	

APPENDIX E

APPLICANT’S CERTIFICATION

APPLICANT: _____

PROJECT: _____

I, the undersigned, have read and understood the documents entitled “Cold Spring Revolving Loan Fund Applicant Package”, and accept the terms and conditions therein.

I further understand that any inspection made by the City of Cold Spring under this program is for purposes of determining the applicant’s eligibility under this program and it is not intended to represent or warrant the condition of the premises.

I further understand that making application in no way ensures approval of my loan or guarantees funding.

I understand that “approval” means specific written approval from both the City and my Bank.

I understand that any work performed prior to this approval of this application and/or specific written approval from both the Bank and the City will be considered ineligible unless otherwise waived in writing by the City and the Bank, as written in these guidelines.

Payments on the amount of the Cold Spring Revolving Loan Fund portion that are advanced by the Bank to the applicant start 30 days thereafter or as otherwise arranged by the City and the Bank.

In performance of work financed by this loan, I will: require the Construction Contractor(s) who construct the improvements to conform to all the applicable local, state and federal laws; and, in the conduct of my business, conform to all of the applicable local, state and federal laws; and, in governing Equal Opportunity Employment.

Signature of Applicant

Date