

**REVOLVING LOAN FUND (RLF)
PROGRAM
(RETAIL)**



ADMINISTRATIVE GUIDELINES

City of Algona, Iowa

June 2001

Revolving Loan Fund (RLF) Program
City of Algona, Iowa

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Revolving Loan Fund (RLF) Program

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**CITY OF ALGONA, IOWA
REVOLVING LOAN FUND (RLF) PROGRAM
(RETAIL)**

Introduction

In 1994, the City of Algona established an Urban Renewal Area (URA). Within the plan for the URA were provisions allowing the City to use tax increment financing (TIF) for economic development purposes. Simultaneous to the creation of the URA the Algona Area Economic Development Corporation (AAEDC) began plans for an industrial park on Oak Street from Putnam to Finn Drive. At the request of AAEDC the City of Algona financed the installation of all infrastructure to the park. Financing for the project was an internal loan from the City's General Fund. Repayment of the loan was from TIF revenues.

As TIF revenues were received the City earmarked these funds for future projects. Doing so allowed the City to finance the infrastructure to the Snap-On Drive Industrial Park in 2000 and 2001. In September, 2000, it was realized that Kossuth County had certified additional TIF revenues for the FY 00/01. This allowed the City to finance all debt for the Snap-On Drive Industrial Park up front. The residual funds have been earmarked for the creation of this revolving loan fund.

Additional capitalization will include funds from the Algona Municipal Utilities (AMU) Revolving Loan Fund. This fund was created by the board of directors for AMU by contributing \$10,000 per year to the fund. The City of Algona approves, with consultation with AMU, all loans from this fund and distributes the proceeds on behalf of AMU. In 1996, the City received funds from AMU and loaned AAEDC \$75,000 to finance the land purchase of the original industrial park. Repayment is \$7,500/year for 10 years. In 2000, AAEDC was loaned \$277,000 from funds the City received from the AMU Revolving Loan Fund to finance the construction of a spec building. Of this amount \$200,000 was AMU's annual contribution for the next 20 years. Repayment will be made when the building is sold or leased.

Original capitalization for the Revolving Loan Fund will be \$680,000. Of this amount \$350,000 will come from the City of Algona's TIF fund and \$330,000 from the outstanding and cash balances of the AMU Revolving Loan Fund. As part of the RLF program 15% of the original capitalization is earmarked for retail projects within the City of Algona.

Goals and Eligible Activities of the Revolving Loan Fund (RLF) Program:

- To enable the City to provide economic assistance to existing and new retail businesses for the purpose of expansion or remodeling.
- To provide financial assistance to encourage new business start-ups, expansion of existing businesses, and relocation of out-of-state businesses to Algona, Iowa. Assistance will be directed towards projects exclusively within the boundaries of the City of Algona, Iowa.
- To provide financial assistance for the acquisition, construction, reconstruction, or installation of commercial or industrial buildings, structures, and other real property; acquisition of equipment and machinery; reuse of vacant or abandoned facilities; modernization of plant equipment or machinery; and product development and marketing.
- To provide financial assistance for activities that are consistent with the Comprehensive Plan prepared by the City of Algona, and which enhance and maintain the efficient use of land, resources, and infrastructure of the City. No significant negative land use or environmental impacts will occur as a result of the project.
- To leverage the greatest level of private funds possible.
- To diversify and increase the property tax base of the City, and to encourage the development of businesses and industries that export products and services beyond the State of Iowa.

Types of Assistance:

Projects will be reviewed and eligible only if financial assistance is necessary and appropriate to accomplish the project. Financial assistance may only be provided to a project that truly needs public assistance, and then, only the minimum amount of financial assistance will be provided to accomplish the project.

- RLF assistance will be limited to loans. Applicants seeking RLF assistance to expand or remodel an existing retail business will be limited to no more than \$10,000. RLF assistance would be awarded to the borrower as a loan to reimburse costs directly related to the identified RLF request stated for the project. RLF assistance would be dispensed based on verification of the documentation or receipts for eligible costs.
- Multi-year funding commitments for a project will not be allowed under the RLF program. It is intended that only one loan of RLF proceeds will be made to a borrower. The City will consider a subsequent loan upon repayment of a RLF loan for a successfully completed project.
- There must be evidence of adequate private equity; evidence that loans proposed for project are consistent with terms generally accepted by conventional financial institutions for the type of property involved; and evidence that the project is feasible and can be a “going concern” in the foreseeable future.

Application—Information Requested to Evaluate the Proposed Project:

All businesses requesting RLF assistance will be required to complete the City's standard RLF loan application. However, if the business is applying for either CEBA or EDSA funds the City will accept these applications in place of the standard RLF application. This exception is made in order eliminate the duplication of applications.

Project Description: The following information should be addressed in either the application prepared by the business for other funding programs, or provided as supplemental information for the RLF program:

- Provide a project description, project schedule, business plan, market study, and demonstrate that the proposed project is feasible.
- Provide a need for financial assistance, sources of funding, project budget, identify financing sources (owner's equity, private loans, other public funds, and RLF, etc.), and provide documentation of commitment that funds (other than the RLF request) are firmly committed or can reasonably be expected. Identify the amount of RLF requested and designated use of the RLF.

- Provide audited profit and loss statements and balance sheets for the past 3 years of operation; if a new business, provide individual federal tax returns of principal owners of 20% or more for the past 3 years; provide 2 projected profit and loss statements and balance sheets for at least 3 years into the future—1 with assistance from the RLF and 1 without assistance from the RLF.

Project Timeline and Reports: The following information should be addressed in either the application prepared by the business for other funding programs, or provided as supplemental information for the RLF program:

- The project may begin upon loan approval and must be completed within twenty-four (24) months or thirty-six (36) months as indicated in the application; or another time frame if approved. The project may begin upon loan approval, not the receipt date of the loan, which is on a reimbursement basis of documented expenses. Identify the projected start and end dates.
- The borrower will file an annual progress report with the City within 15 days after December 31. Intermittent reports may be filed by the business as designated RLF expense is incurred for which the business seeks its RLF reimbursement loan.
- At the close of the project, the applicant will submit a final expenditure report and final project performance report to the City within thirty (30) days after contract expiration.
- The date of the first payment of principal and interest will not exceed one (1) year beyond the initial date of the loan approval; and the term of the loan shall be five (5) years but shall not exceed the life of the fixed asset.
- The borrower will submit an annual performance report to the City by the fifteenth (15th) day of the month following the end of each calendar year until the loan has been repaid.

Application—Review and Approval/Denial:

Appropriate representatives from the City will review the application on a continuous first-come basis to better accommodate new or existing businesses in need of financial assistance. The City reserves the right to use external reviewers to advise on the financial documents, project viability, etc. The City also reserves the right to request applicants to verify that the project principals are current on real property taxes, all mortgage payments, and State and Federal tax obligations; and reserves the right to request a credit reference report on the applicant(s) if other financial documents do not adequately reveal the credit worthiness of the applicant.

The City Administrator will prepare a recommendation for any project forwarded to the City Council for RLF assistance. The City Council will consider the recommendation at a public hearing, to be presented in the form of a Resolution, and either approve or deny RLF assistance. The City Administrator will also prepare the Loan Agreement, Personal Guaranty, and Promissory Note to the successful applicant(s) for required signatures. These documents shall set forth the complete terms and conditions of the loan and the security to be provided.

While all loans will be approved, processed, and administered by the City of Algona the funds shall be accounted for by both the City and AMU. It shall be the responsibility of each entity to account for and include in all balance sheets the residuals of all funds attributed to the original capitalization. Loans shall be made from either source or both depending on the need of the applicant and available funds.

Security of the Loan:

- The City prefers to assume a first position to the banks and other lending financial institutions involved in the proposed project. In the event the City is not able to assume a first position, the City will negotiate for other loan aspects.
- The applicant will be required to submit letters of equity and letters of commitment from the financing lenders with the application, indicating source, amount of loan, rate, term, end annual payment of supplemental financing.
- The applicant will provide a minimum of ten percent (10%) personal equity or business equity towards the total project cost. This amount should exclude the RLF request and bank financing and other financing secured for the proposed project. The equity should also exclude "sweat equity" and projected future cash flow return.
- Revolving Loan Fund loans will be secured by mortgages or security agreements against fixed assets, equipment, land, buildings, assets of the business, or assets of the business owners or corporate officers. Where valuation of fixed assets is not adequate or current, collateral value will be established by an appraisal to be paid for by the applicant.
- Each applicant receiving a Revolving Loan Fund loan will be required to sign a Loan Agreement, a Promissory Note, and other documents as required by the City which may include but not limited to a Personal Guaranty, Real Estate Mortgage, Security Agreement, and Financial Statement. Failure of a RLF recipient to abide by the provisions of the Loan Agreement or Promissory Note may result in legal action.
- The City reserves the right to file a Financial Statement with the Secretary of State if the applicant secures the loan with personal property, and to file a mortgage against the real estate. If appropriate, the City reserves the right to record documents with Kossuth County, as may be appropriate.

Repayment of the Loan:

- The loan repayment terms, interest rate, and any other conditions will be determined on a case by case basis. In general, the following shall serve as general guidelines:
 - 1) the date of the first payment of principal and interest will not exceed one (1) year beyond the initial date of the loan approval;
 - 2) the term of the loan shall be five (5) years but shall not exceed the life of the fixed asset;
 - 3) the interest rate on the loan shall be 0-5% and will be set according to need, project size, jobs created, and relationship to other financing;
 - 4) no penalty shall be assessed for prepayment or early retirement of the debt; and
 - 5) loans may be renegotiated, however, re-negotiation is not an inherent right of the borrower.

- In general, principal and interest will be repaid in equal installments for the term of the loan. Principal and interest will be due and payable quarterly, and will be returned to the RLF program.

- If the project fails to comply with the terms of the contract, or fails to use the loan for only those purposes set forth, the City may terminate the contract in whole, in part, or accelerate payment of all principal and accrued interest and penalties, and may immediately declare same due and payable at any time before the date of completion.

Collection Policy and Procedures:

Prompt payment of loan installments when due shall be required based on the terms stated in the individual contracts and documents. No deviation from the terms of the loan agreement will be allowed. Requests for relief and review of existing contracts should be directed towards the City Administrator.

The City of Algona reserves the right to review any project that requests relief or review, or any project that exhibits faltering performance or management which may lead to liquidation or penalty proceedings. The areas of review or assistance include but are not limited to the financial review of business statements, review of management procedures, etc.

Upon completion of the review, the City Administrator will prepare a recommendation to the City Council. The liquidation of assets securing the loan will not be resorted to if the City believes there is any reasonable probability that the loan may be repaid by the borrower or a guarantor within a reasonable period. If liquidation proceedings are enacted, all property acquired by the City of Algona through liquidation will be disposed of as provided by law or at public auction and the proceeds returned to the RLF program.

Liquidation Policy and Procedures:

Should the existence of any one of the following conditions be made known to the City Administrator, the City Administrator will notify the City Council for further review and recommendations:

- The borrower is in default in the payment of one or more installments or defaulted in the performance of conditions contained in the loan agreement.
- Foreclosure or other procedure has been instituted which may jeopardize the interests of the RLF program.
- The borrower has filed a voluntary petition or an involuntary petition has been filed against the borrower pursuant to current bankruptcy acts.
- A receivership or other judicial action has taken place for the purpose of liquidating the borrower's assets.
- The borrower makes an assignment for the benefit of creditors which could result in the liquidation of secured or unsecured assets.
- The borrower is in default or has discontinued or abandoned the business and has not submitted an acceptable plan of remittance on the loan balance.
- The loan application falsified or misrepresented information or failed to disclose pertinent information of any party cited by borrower in the application.
- The borrower relocates the business or a substantial portion of the business out of the corporate limits of the City of Algona, Iowa.

Termination of Contract:

If the project fails to comply with the terms of the contract, or fails to use the RLF loan for only those purposes set forth, the City may terminate the contract in whole, in part, or accelerate payment of all principal and accrued interest and penalties, and may immediately declare same due and payable at any time before the date of completion. The City shall promptly notify the borrower in writing of the termination and the reasons for the termination, together with the effective date. Payments made to the borrower or recoveries by the City under contracts terminated shall be in accord with the legal rights and liabilities of the parties. Payments, penalties and recoveries may include, but are not limited to, payments allowed for costs determined to be in compliance with the terms of the contract up to the date of termination. The borrower shall return to the City all unencumbered funds. Further, any costs previously paid by the RLF which are subsequently determined to be unallowable through an audit and closeout procedures may be recaptured through legal proceedings.

Internal Financial Management:

The City of Algona and AMU will process all the financial components of the RLF program. For the City, the RLF program will be included in the Trust and Agency Fund, and will be reported as part of the total Trust and Agency Fund balance on the monthly "Clerks Trial Balance". The RLF program will have a separate account number to distinguish it from other accounts in the Trust and Agency Fund. In addition, each recipient approved for a RLF loan will have a separate loan number (the RLF account number will be the same).

For AMU, the RLF program will have a separate account number to distinguish it from other accounts. Outstanding loans and cash balances will be listed as assets in all financial statements. AMU will furnish the City with a complete list of revolving loan fund activities as part of AMU's regular financial reports to the City Council.

The City will disperse all loan proceeds to the borrower on a cost reimbursement basis, will record all loan disbursements and repayments to the RLF program, and will record interest earned by the RLF on a quarterly basis. All disbursements attributed to AMU funds will be made by AMU. Repayment of funds attributed to AMU will be received by the City and returned to AMU as received.

Financial records, supporting documents, project performance reports, statistical records and all other pertinent records of the loan program will be retained by the City. All records will be retained for a minimum of five (5) years beyond the loan, or longer if any litigation or an audit is begun, or if a claim is initiated involving the records. In these instances, the records will be retained until the litigation, audit or claim has been resolved.

In the event the City incurs costs for external professional services (i.e., auditing, attorney fees, etc.), payment for those costs would be derived from the interest earned by the RLF in City accounts. If the external costs were to exceed the availability of the interim investment proceeds, funds from the RLF pool would be considered, before funds from the City of Algona would be considered.

The RLF program will be included in the annual City and AMU audits.

RLF Program–Interest Earned:

The RLF proceeds will be invested by the City Clerk and Secretary of the Board of Trustees for AMU following adopted investment policies approved by the City Council and AMU Board of Trustees.

The City and AMU currently invests cash temporarily idle for more than thirty days in time certificates of deposit at the minimum rate prescribed monthly by the State Treasurer, and in financial instruments of the federal government. The investment policy of the City and AMU is to proffer these investments to local banks whenever possible, and to maximize the investment of cash in a secure manner.

The City and AMU will follow this policy with the RLF program, and will include the proceeds from the loan program in the secured investment pool to maximize investment yields. The interest earned from the investments of the City will be credited to the source of the invested moneys. AMU shall credit all interest to their General Operating Fund.

Amendment of the RLF Program:

When the City Administrator or the City Council determines that the RLF program is no longer appropriate for the needs of the City of Algona, the following methods will be used to amend these administrative guidelines.

- Minor Operational Changes: The City Administrator, after conferring with the General Manager of AMU, will review and incorporate changes to administer the RLF program.
- Major Operational Changes: The City Administrator will review the RLF program and local needs, confer with the General Manager of AMU and the AMU Board of Trustees, and propose recommendations to the City Council to approve or deny the changes.

**CITY OF ALGONA-ALGONA MUNICIPAL UTILITIES
REVOLVING LOAN FUND APPLICATION
(RETAIL)**

1. BUSINESS NAME _____

ADDRESS _____ ZIP CODE _____

CONTACT PERSON _____ PHONE NO. _____

SIGNATURE OF COMPANY OFFICER _____

I hereby give permission to the City of Algona or Algona Municipal Utilities to research the company's history, make credit checks, contact the company's financial institution, and perform other related activities necessary for the reasonable evaluation of this proposal. To the best of my knowledge, all information in this application is true and accurate. I understand that all information submitted to the City of Algona or Algona Municipal Utilities relating to this application is public information and that its confidentiality is not guaranteed.

2. DESCRIPTION AND HISTORY OF BUSINESS:

3. DESCRIBE IN DETAIL THE PROPOSED "PROJECT" BEING UNDERTAKEN. (e.g. expansion, remodeling, relocation, new business.)

4. FLOOD PLAIN INFORMATION

Check one:

____ No project activities will be conducted in a 100 year flood plain.

____ Project activities will be conducted within a 100 year flood plain.

Specify activities _____

5. WHAT DATE WILL THE PROJECT BEGIN? _____ BE COMPLETED? _____

6. HAS ANY PART OF THE PROJECT BEEN STARTED YET? ___ YES ___ NO
If yes, please describe:

7. HOW MANY FULL-TIME EMPLOYEES ARE CURRENTLY EMPLOYED BY THE COMPANY?

8. HOW MANY NEW, FULL-TIME EMPLOYEES WILL YOU ADD TO THE PAYROLL WITHIN
12 MONTHS, IF THE PROJECT IS ACCOMPLISHED? _____
WITHIN 24 MONTHS? _____

9. WHAT IS THE ESTIMATED ANNUAL PAYROLL FOR THE NEW EMPLOYEES RESULTING
FROM THIS PROJECT? _____

10. WHAT IS THE AVERAGE WAGE RATE PROJECTED TO BE FOR THE NEW EMPLOYEES?

11. WILL ANY OF THE CURRENT EMPLOYEES LOSE THEIR JOBS IF THE PROJECT DOES
NOT PROCEED? ___ YES ___ NO
IF YES, HOW MANY? _____ EXPLAIN WHY:

12. EXPLAIN THE BUSINESS CONTRIBUTION TO THE PROJECT (i.e. loan, equity, etc.):

13. IDENTIFY INSTITUTIONS INVOLVED IN THE PROJECT, AND WHAT THEIR
INVOLVEMENT IS:

19.

SUMMARY OF PROJECT COSTS AND PROPOSED FINANCING SOURCES

<u>USES</u>		<u>SOURCES</u>	
ACTIVITY	\$ AMOUNT	\$ AMOUNT	PROVIDED BY
A. Land Acquisition	_____	_____ _____ _____	_____ _____ _____
B. Site Preparation	_____	_____ _____ _____	_____ _____ _____
C. Building Acquisition	_____	_____ _____ _____	_____ _____ _____
*D. Building Construction	_____	_____ _____ _____	_____ _____ _____
*E. Building Remodeling	_____	_____ _____ _____	_____ _____ _____
F. Machinery & Equipment	_____	_____ _____ _____	_____ _____ _____
G. Furniture & Fixtures	_____	_____ _____ _____	_____ _____ _____
H. Other	_____	_____	_____
I. Administration	_____	_____	_____
TOTAL	\$ _____	\$ _____	(2 columns must be equal)

*Federal Labor Standards may apply which might affect the project costs.

20.

TERMS OF PROPOSED FINANCING

	<u>AMOUNT</u>	<u>TYPE</u> (Grant/Loan/Etc.)	<u>RATE</u>	<u>TERM</u>
Revolving Loan Fund	_____	_____	_____	_____
Conventional Financing	_____	_____	_____	_____
Other	_____	_____	_____	_____
Other	_____	_____	_____	_____

REQUIRED ATTACHMENTS
CHECK OFF EACH ONE SUBMITTED

- Original and one copy of the completed application form;
- Business plan/market study (new business only);
- Profit and loss statements and balance sheets for the past three years of operation (existing business only);
- Provide two projected profit and loss statements and balance sheets for at least three years into the future. (One projection with City assistance and a second without; New business only)
- Documentation of commitment of all project funds (from banks, applicant, business, etc.) (i.e., contingent loan agreement);
- Map showing the location of the project; and
- Attach copies of bids, quotes, estimates or other cost documentation for project activities.
- Other _____

Explanation/Comments: