

FITCHBURG REVOLVING LOAN FUND

SECTION 1. INTRODUCTION

Introduction

In November 1997, the City of Fitchburg capitalized a revolving loan fund and authorized the Fitchburg Community & Economic Development Authority (CEDA) to administer the program under its local ordinance. Under Wisconsin Law, the Community Development Authority (CDA) is recognized as the statutory name and given the authority and powers. For the purposes of this document, CEDA and CDA are interchangeable throughout this document. These revolving loan funds (RLF) will be available to existing local businesses and prospects planning to locate within the City of Fitchburg. The purpose of this plan is to set forth the criteria for future loans from the RLF.

Purpose of the RLF

The RLF has been established to create employment opportunities, increase local incomes, and enhance Fitchburg's tax base through the retention and expansion of existing businesses, and the development and addition of new businesses in the City. The RLF program includes interest rates and loan maturities that are designed to encourage business development, while providing for the recapitalization and growth of the RLF. The loans are not intended to be a substitute for conventional private financing but rather an additional tool available to fill financing needs and gaps and also to serve as an economic development tool to encourage business expansion, location and investment in Fitchburg. Program objectives include:

- to perpetuate a positive and proactive business climate which encourages the retention and growth of existing businesses by assisting with their expansion and modernization plans,
- to expand and diversify the economic tax base of Fitchburg by assisting companies and small businesses,
- to target clean industries, especially high-tech manufacturers, research and development companies, businesses that export, and those that focuses on green, sustainable oriented practices.
- to utilize the RLF as a recruitment tool to attract new businesses; impact on existing businesses will be a factor taken into consideration,
- to maintain and promote a diverse mix of employment opportunities while encouraging the increase of overall wages and benefits in Fitchburg by assisting firms which pay good wages and offer comprehensive benefit packages, or represent considerable potential for employee enhancement in terms of skill development, in addition to wage

and benefit growth.

SECTION 2. ADMINISTRATION

Administration of the RLF

CEDA and the City of Fitchburg accept full responsibility for the appropriate administration of the RLF program, and have designated the Community & Economic Development Director and the City Treasurer as responsible for day-to-day administration of the program.

Funding decisions relative to RLF loans will be made by CEDA. CEDA and the City of Fitchburg have established a separate account for the fund and reserve its use solely for the RLF program. On an annual basis, the funds utilized for administrative costs of the RLF shall not exceed the interest or program income generated for that year in which those administrative costs are incurred, not to exceed a maximum of 15% of the revolving loan fund annually.

Availability of Funds

On a quarterly basis, CEDA will determine whether a sufficient amount of funds are available in the RLF to accept applications for new business loans. A minimum of \$20,000 must be available in the RLF in order for CEDA to accept new applications. Following a determination on the availability of funds, CEDA will determine the best methods for advertising the availability of the funds to the business community. It is the intent of CEDA to grow the fund in the future from multiple sources, such as TID projects, purchase and sale of property or CDBG funding etc.

Application Procedures

Businesses that are interested in applying for a RLF loan must submit a completed pre-application form to the Community & Economic Development Director, 5520 Lacy Rd., Fitchburg, Wisconsin 53711. A copy of the RLF pre-application and a description of the supporting documentation that is needed for each formal RLF application are included as Attachment B to this plan. Following the submittal of the pre-application, City staff will examine the pre-application for completeness and make a determination within 10 working days on whether the proposed project conforms to the RLF standards and policies as set forth in this plan. The pre-application will then be forwarded to CEDA for recommendation.

If approved by CEDA, the business would be requested to begin preparing the necessary documents to complete a formal application.

Once the necessary documents required for each formal application have been completed, City staff or their designated agent will review the documentation submitted for completeness and, within 10 working days, the applicant will be informed of any deficiencies, and requested to amend the documentation, if necessary. Upon receipt of all required documentation, the loan application will be forwarded to CEDA for consideration at their next meeting. CEDA meets at 7:00 a.m. on the fourth Thursday of each month at the Fitchburg City Hall, 5520 Lacy Rd. In order for a loan application to be considered at a CEDA meeting, the loan application materials must be received by the first of the month in

which the applicant wishes it to appear for consideration on the meeting agenda. CEDA reserves the right to reject any application even if the subject application otherwise conforms to the RLF standards and policy. Funds available for loans are limited and CEDA must use its discretion in approving those applications which in the judgment of CEDA are most likely to fulfill the purpose and goals of the RLF. The applicant is required to attend this meeting to conduct a presentation and answer questions on their project.

SECTION 3. ELIGIBILITY CONSIDERATIONS

Eligible Area

The Revolving Loan Fund shall operate throughout the City of Fitchburg.

Eligible Applicants

1) Applications may be submitted by the sole proprietor, Chief Executive Officer or duly authorized representative of any business wishing to expand an existing operation or establish a new operation in the City of Fitchburg.

2) No member of the governing body, loan review board, or any other official, employee, or agent of the City of Fitchburg who exercises decision-making functions or responsibilities in connection with the implementation of this program is eligible for financial assistance under this program.

3) Applicants shall not be disqualified based on age, race, religion, color, handicap, sex, and physical condition, development disability as defined in s. 51.01(5), sexual orientation or national origin.

Ineligible Applicants

Program loans shall not be available for the following businesses:

- 1) Speculative investment companies
- 2) Real estate investment companies
- 3) Restaurants and taverns
- 4) Lending institutions
- 5) Gambling operations
- 6) Non-public recreation facilities

Other Applicants

Loans for these types of businesses may be considered under certain conditions but are not identified as a fund priority:

- 1) Retail

Eligible Activities

Activities eligible for funding through this program include:

- a) land acquisition;
- b) building acquisition;
- c) building construction, including site preparation and demolition;
- d) building rehabilitation or renovation;
- e) machinery and equipment;
- f) working capital; (CEDA may consider a working capital loan up to \$10,000 with a term of 6 months at 0% interest rate if there is a tangible community benefit and appropriate collateral)
- g) an eligible debt finance mechanism will be the use of loan guarantees as a means to reduce the risk of a private lender, thereby leveraging financing that the lender would otherwise not provide. Prior to using loan guarantees, information will be submitted to CEDA for its written approval which details the maximum guarantee percentage allowable, maximum percentage of the RLF portfolio to be used for such purposes, reserve requirements, detailed terms to be incorporated in agreements, responsibilities of the various parties and interest income, if any, to accrue to the RLF.
- h) high tech business is eligible if approved by Venture Debt Program underwriting or other public funding programs.
- i) energy efficiency upgrades or other sustainable projects.

Ineligible Activities

Program loans shall not be available for the following activities:

- a) Refinancing or consolidating of existing debt from other sources.
- b) Reimbursement for expenditures or binding financial obligations prior to loan approval.
- c) Specialized equipment that is not essential to the business operation
- d) Residential building construction or reconstruction (unless such reconstruction is intended to convert the building to a business or industrial operation)
- e) Routine maintenance
- f) Professional services such as feasibility and marketing studies, accounting, management services, and other similar services. Legal services incurred in the closing of a RLF loan are eligible.
- g) Speculative activities, such as land banking or construction of spec buildings
- h) RLF funds cannot be used to provide the minimum equity contribution required of any federal or state loan program.

RLF Requirements and Policies:

The following program requirements will apply to all projects that are approved for funding:

1. Loan Application: The applicant must submit a loan application that includes a description and history of the business, organizational structure including ownership,

marketing strategy, methods of production and such other information requested by CEDA.

2. Financial Feasibility and Business Viability: The applicant must demonstrate to the reasonable satisfaction of CEDA that the proposed project is viable and the business will have the economic ability to repay the loan.
3. Compliance with Applicable Laws: Applicants shall comply with all applicable local, state, and federal laws and codes.
4. Project Completion: Projects shall commence within one year from the date of the loan approval. Applicants shall provide CEDA with a project implementation schedule not exceeding 18 months for project completion and job creation/retention. In addition, the applicant must maintain the positions for at least 18 months from the completion of the project. In the event the positions are not maintained, CEDA may accelerate the repayment of the loan.
5. Loan Agreement: RLF loan recipients will be required to enter into a loan agreement with CEDA.
6. Labor Standards: All activities subject to federal labor standards must comply with requirements regarding prevailing wage rates, payroll records, permissible payroll deductions, and overtime pay.
7. Records: Loan recipients will maintain those records that are necessary for the CEDA to determine if the performance of the business complies with the terms of the loan agreement. The records may include, but are not limited to, purchase orders, invoices, records of payments, canceled checks, and payroll records for new or retained employees that are a part of the project. The applicant must agree to provide CEDA with access to all records pertinent to the project for the purposes of examination and transcription.
8. Nondiscrimination: Recipient businesses may not discriminate against any employee or applicant for employment on the basis of race, color, religion, sex, national origin, age, or handicap.
9. Environmental Review: Recipient businesses will comply with all state and federal environmental regulations regarding the use of RLF loan funds, and the CEDA will, when necessary, conduct an environmental review of the proposed project to determine compliance with these regulations.
10. Progress Reports: Loan recipients will be required to submit semi-annual progress reports to CEDA during the outstanding term of the loan that includes: 1) a description of current and projected employment; 2) an updated business plan; 3) financial statements for the preceding six months, and 4) most recent annual income tax

return. A CEDA representative will also make annual on-site inspections.

11. RLF Plan Amendments: This RLF plan may be amended to meet the changing conditions or the future needs of the City of Fitchburg upon approval by quorum of the members of CEDA.
12. Failure to Follow RLF Requirements/Policies & Terms/Covenants/Conditions: If an applicant does not follow the RLF requirements and policies or adhere to the terms, covenants and conditions of the loan agreement, it may result in an application being denied or loan having to be repaid in full immediately.
13. Disbursement of Funds: Loan funds will not be disbursed until proof of purchase and/or project completion is documented, to the satisfaction of CEDA. Payment will be issued to the loan recipient and vendor, unless another payment method is approved by CEDA.

SECTION 4. TERMS AND CONDITIONS

- 1) Loan Amount: The minimum loan size shall be \$10,000. The maximum loan amount will be dependent upon an individual borrower's request and collateral, and, subject to the availability of program funds. The CEDA reserves the right to determine the maximum loan amount based on sufficient collateral and risk analysis of the project. However, no guarantees are made that a loan will occur if requested by the applicant.
- 2) Interest Rate: The minimum rate of interest will be 5% per annum. The interest rate may range from a minimum of 5% to market rates plus points depending on the project, risk involved collateral and economic development benefits associated with the project. The "market" rate shall be determined by CEDA from time to time. CEDA may consider a period of deferred but capitalized interest. The interest rate will be fixed for the entire term of the loan at the time a loan agreement is signed with CEDA.
- 3) Loan Terms: Standard terms for RLF loans will be as follows:
 - a) machinery, equipment, and fixtures up to 10 years, tied to the life of the asset financed;
 - b) buildings and land up to 10 years, with possible consideration of a longer term.
 - c) working capital up to 2 years, (CEDA may consider a working capital loan up to \$10,000 with a term of 6 months at 0% interest rate if there is a tangible community benefit and sufficient collateral and appropriate capital.)
 - d) in any case, the term of the loan shall not have a term longer than the terms of the other private financing in the project.

The specific term for an individual borrower will be based on the useful life of the asset as well as the terms offered by the private sector financial institution participating in the project. However, CEDA retains the right to adjust individual loan terms in order to facilitate a successful RLF project.

- 4) **Equity Requirements:** The minimum equity requirement to satisfy the RLF will normally be 20 percent of the total cost of the project, but may be in contributed assets other than cash, especially for working capital loans. CEDA may require an equity injection for each RLF loan, when it deems it appropriate. Consideration will be given for individuals that have made substantial equity commitments to the applicant's business, as well as to individuals who do not have sufficient financial resources to contribute to the RLF project.
- 5) **Deferral of Payment:** CEDA has the option of deferring principal and interest payments at any time during the term of the loan upon demonstration of need by the recipient business or as a business incentive. Interest will accrue during the deferral period and may be paid in one lump sum at the end of the deferral period or added to the principal of the loan and amortized over the remaining term of the loan.
- 6) **Repayment: The terms and repayment schedule shall be in accordance with the loan agreement.**
- 7) **Prepayment:** There shall be no prepayment penalties.
- 8) **Collateral Requirements:** The collateral requirements will be determined on an individual basis by CEDA and may include: mortgages on land and buildings, liens on machinery and equipment, and liens on accounts receivable and inventory.
 - Collateral must be sufficient to cover the amount of the loan CEDA must have first position to cover the loan, however, may accept a lesser position with personal guarantees satisfactory to CEDA.
 - Providing collateral and personal guarantees from the principals of the business or letters of credit will strengthen your application. In addition, key-person life insurance coverage with an adequate balance to cover the loan amount, naming CEDA as a beneficiary, with a declining balance equal to the outstanding loan balance, and junior liens on all corporate assets may be used where appropriate.
 - Finally, businesses receiving loans for fixed assets will be required to obtain property and casualty insurance for the appraised value of the property being financed, and have CEDA listed as an additional insured on the insurance policy. For fixed asset loans, the weighted average of the useful life of the assets being financed should equal the term of the loan.
- 9) **General Policies for Restructuring RLF Loans:** RLF loans may be restructured when restructuring will improve the borrower's ability to repay the RLF loan, as long as the

business is financially viable as evidenced through a business credit analysis. CEDA will work with the owner(s) of the business to determine the need for restructuring, and, if appropriate, may restructure the RLF loan to improve cash flow within the business. Restructuring can include deferring principal and interest payments, adjusting the rate of interest, or providing additional working capital.

- 10) **Coordination with SBA 504 Program:** When a loan package includes both U. S. Small Business' Administration (SBA) 504 and RLF participation, the funds that will be provided by these two programs, will not exceed 50 percent of the total project costs.
- 11) **Loan Application Fee:** CEDA will require a loan application fee up to 1 percent of the loan amount, but not less than \$500, paid at the time of loan closing. The loan application fees will be identified as RLF program income and deposited in the RLF account. These funds will then be used to pay for administrative costs associated with the RLF program.
- 12) **Loan Origination Fees:** CEDA will require a loan origination fee equal to 1 percent of the loan amount plus payment of the City's attorney fees (currently a flat rate of \$750) for the RLF loan documents and closing. The fees may be added to the principal amount of the loan and paid with RLF funds. All loan origination fees, including attorney's fees, will be identified as RLF program income and deposited in the RLF account. These funds will then be used to pay for administrative costs associated with the RLF program.
- 13) **Availability of Funds:** In those instances where the number of requests for RLF funds exceeds available funding, RLF applications will be prioritized based upon the date of receipt of all requested application materials, collateral, risk analysis, economic development benefits, and the amount of private sector leverage that is included in the project. When feasible, the amount of RLF funds contributed to each project may be reduced in order to facilitate as many RLF loan requests as possible.

Please include the following supporting documentation along with each economic development loan fund application. All information must be signed and dated.

- 1) A current business plan that includes a detailed description of the proposed expansion project (see Note 1 for business plan requirements).
- 2) Financial statements for the past three years (audited, reviewed or compiled, if available) and a current internal financial statement, including balance sheets, profit and loss statements and cash flow statements, in accordance with generally accepted accounting principles (GAAP). (see Note 2 for business credit guidelines to be used in evaluating loan fund projects).
- 3) Financial projections for the first three years of the project, including balance sheets, profit and loss statements and cash flow statements that are prepared either internally or by an independent accountant in accordance with GAAP and include a discussion of all significant assumptions (officers compensation and direct labor costs should be listed separately). In addition, start-up businesses should provide quarterly financial projections for the first two years (see Note 2 for business credit guidelines to be used in evaluating loan fund projects).
- 4) 3 years of business income tax returns.
- 5) Personal financial statements and 3 years of personal income tax returns from the person(s) making the application on behalf of the business in the event personal guarantee is required.
- 6) A statement of the anticipated benefits to be derived from the proposed loan fund project and the reasons why the project will not take place without funding from the loan fund program.
- 7) A letter of commitment from the financial institution or other source of debt financing for the amount of debt financing that is a part of the project.
- 8) Documentation of the availability of funds for the private equity injection that is a part of the loan fund project.
- 9) A letter from the Chief Executive Officer or authorized representative committing the business to the proposed project.
- 10) Cost estimates for all machinery and equipment purchases, land and building acquisition, and building construction or renovation that is a part of the loan fund project.

- 11) A lease or pre-lease agreement for rental property or an offer to purchase for fixed assets that are a part of the project.
 - 12) A schedule of the jobs to be created and/or retained with job titles and a description of the qualifications required for the new jobs.
 - 13) A memorandum of agreement between the City, the recipient business, and the local Private Industry Council or the Wisconsin Job Service documenting the commitment to recruit low and moderate-income (LMI) persons for the jobs to be created.
 - 14) Documentation that the project is in compliance with local and state building codes and zoning regulations and other applicable local and state ordinances.
 - 15) A map showing the exact location of the project.
 - 16) Other documentation that may be required by the Finance Committee that is deemed important relative to a determination regarding the loan fund project.
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Note 1: The business plan should present a detailed description of the business that includes the following level of detail:

1. A description of the firm, including a 4-digit SIC Code.
2. A description of the ownership--corporate officers, shareholders with number of shares owned, articles of incorporation, partnership agreements, agreements with other businesses, etc.
3. A discussion of the management team and its experience.
4. A discussion of the marketing strategy, composition of the customer base, identification of major competitors, and a list of all in-state competitors.
5. A discussion of projected sales growth and the financing and capital requirements necessary to achieve the projected growth.
6. A discussion of accounting methods applied to inventory and the aging of inventory.
7. A discussion of terms offered to customers and the aging of accounts receivables.
8. A discussion of agreements with suppliers and other trade accounts and the aging of accounts payable.
9. A description of the debt structure, the status of outstanding debts, a listing of all assets currently pledged as security and a debt service schedule for all debt during the three-year projection period.
10. A discussion of working capital needs and how working capital is generated.

Note 2: Historical financial statements and financial projections will be examined to determine whether the applicants business conforms to industry standards as set forth in the most recent edition of Robert Morris Associates, Annual Statement Studies or generally recognized source of industry financial information. In addition, the proposed project will be

examined to determine whether or not there is sufficient cash flow to cover debt service and the additional expenses that will be generated as a result of the project.

The following business credit guidelines may be used by CEDA to evaluate the financial statements and financial projections of the applicant business:

Balance Sheet Analysis

1. Does the business adequately collect on its account receivables?
 - days accounts receivable vs. terms offered to customers
 - trends in days accounts receivable over time
2. Does the business pay its vendors in a timely fashion?
 - days accounts payable vs. terms offered to vendors
 - trends in days accounts payable over time
3. Does the business control inventory?
 - days inventory vs. inventory cycle
 - trends in days inventory over time
4. Are the officers committed to the business?
 - owners' equity in the business
 - profit after taxes vs. retained earnings
 - notes payable to officers
 - notes receivable to officers
5. Does the business have a positive operating history?
 - growth in retained earnings
 - debt to equity ratio

Profit and Loss Statement Analysis

1. Is the business growing?
 - historical sales growth
2. Does the business control profitability?
 - cost of goods sold as a percentage of sales
 - gross profit margin
3. Does the business control expenses?
 - selling, general & administrative expenses as a percentage of sales
 - use of selling, general & administrative expenses
4. Is the business truly profitable?
 - before tax less other income
 - earnings before tax as a percentage of sales, earnings
 - cost of goods sold as a percentage of inventory
5. Does the business have hidden cash flow?
 - excess officer compensation
 - depreciation expense
 - interest expense
 - rent expense