

MEMORANDUM

**TO: RACINE CITY COUNCIL**

**FROM: CAROLYN ENGEL, BUSINESS FINANCE MANAGER**

**RE: CITY OF RACINE EDA RLF PLAN UPDATE**

**DATE: JUNE 9, 2020**

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**INTRODUCTION**

The purpose of this memorandum is to request the Racine City Council approve of the attached Revolving Loan Fund (RLF) Plan and Addendum for the administration of the U.S. Economic Development Administration (EDA) business loan program. The RCEDC administers the RLF loan program on behalf of the City of Racine. RCEDC's Board of Directors has approved these changes subject to final approval from EDA.

There is not a redlined version of the updated RLF Plan due to the restructure of how it is outlined under current EDA guidance and regulations. Key changes are addressed within this memorandum most importantly addressing *an Addendum to the Plan which will allow for more flexible lending parameters to assist businesses impacted by the COVID 19 pandemic*. See below for a program summary.

**PROGRAM SUMMARY**

*Date Established:* 1999

*Source of Funds:* \$1,134,355.50 Federal Economic Development Administration (EDA)  
\$468,355.50 City of Racine

*Purpose:* Provide gap financing for business recruitment, retention, start-up and growth of Racine County businesses; and Assist with the redevelopment of industrial and commercial buildings.

*Goals:* Job Creation/Retention 1 job/\$35,000 RLF dollars loaned  
Leverage RLF with private investments, specifically bank and borrower's equity

*Targets:*

- Projects that address vacant or threatened to be vacant industrial and commercial buildings
- Small to Medium sized businesses typically less than 200 employees
- Projects that meet job creation/retention requirements and/or other criteria of the County EDP
- Minority and women owned businesses
- 50% manufacturing; 50% commercial service; not more than 20% retail
- 90% retention/expansion; 10% start-ups
- Primarily used for fixed assets

*Borrower Benefits:* Low interest rate – Minimum 75% of Prime  
Lower equity requirement, 10% if appropriate

*Use of Funds:* Typically building and equipment purchases

*Fund Growth:* Monthly principal payments return to fund for future lending

*Administrator:* RCEDC promotes, processes, approves and services these loans

*RLF Snapshot:*

Description	Details
Active Loans in RLF	16
Principal Balances – RLF's	\$1,096,031
Available to Lend	\$339,879
Total RLF Loans Provided	48
Total RLF Dollars Loaned	\$5,627,241
Total Project Investments	\$28,263,174
Total loan write-offs	4
Total loan losses	\$418,527
Total Job Creation/Retention	309.5

*Highlights of RLF and Targets:*

Description	Goal	Actual
Jobs Created/Retained	1/\$35,000	1/\$31,004 Total Portfolio 1/\$19,584 Active Portfolio
Private Dollars Leveraged	1:2	5:1 Total Portfolio
Small to Medium Size	Less than 200 employees	100%
Minority and Women-owned	Target not specific	Active Portfolio: 0 Minorities (a); 21% women
Industry	50% Manufacturing; 50% Commercial; maximum 20% Retail	Active Portfolio: 21% manuf; 72% commercial; 7% retail
Business Stage	90% Retention/Expansion; 10% Start Up	Active Portfolio: 2 start-ups at 12% and 12 expansion at 88%
Use of Funds	Primarily Fixed Assets	100%
Allowable Cash Percentage	34% Max. in cash	25%
RLF Rating	A – Best Rating	A

(a) Applications would be given a priority consideration for qualified candidates but primarily are referred to other programs that are a fit such as SBA 504, WWBIC, County Matching Grant Program.

*RLF Rating Comments:*

EDA started risk rating RLF programs two years ago. Each year, the Racine County EDA RLF received the best rating possible as “A”.

*City of Racine EDA RLF Recent Projects Completed:*

1. Eckman Automotive – Loan approved and closed for this start-up business in purchasing the building (1202 Lathrop Ave.) and equipment where the owner has been working for D’Acquisto Motors. This financing allows the owner to operate as his own business. The RLF funds provided are expected to result in the creation of one (1) new job.
2. Atmosphere Collaborative Space – Loan closed for this start-up business to purchase a building (829 Wisconsin Ave.), furniture, fixtures and equipment. The project will result in collaborative space for entrepreneurs while assisting a woman-owned business in the downtown Racine area.
3. Classic Scooters – Loan approved for the expansion of this business into a third location, the first in the City of Racine. The RLF funds will assist with this business growth projected to create two (2) new jobs.

• **KEY CHANGES TO RLF PLAN – PERMANENT CHANGES**

- Loan maximum dollar amount replaced with \$400,000 or 25% of capital base, whichever is less as allowed by federal regulations

- Loan assumptions allowed, i.e. if business is sold, buyer can assume the RLF loan subject to RCEDC Loan Advisory Committee and Board approval
- Private dollar leverage requirement can be less if RLF portfolio overall meets the requirement as allowed by federal regulations
- Allows for the delegation of loan approvals by the RCEDC Board of Directors to the Loan Advisory or RCEDC Management for applications that meet specific parameters. This is key to meeting the needs of current market conditions in making smaller loans under a more streamlined approval process, including “Small Business Relief Loans” needed as a result of the impact of the pandemic.

#### **TEMPORARY CHANGES – ADDENDUM**

The EDA is allowing addendums to existing Plans be adopted to provide flexibilities in lending to businesses given the impact of the pandemic to the local economy. Flexibilities include: 1) Interest rates as low as 0%; 2) No requirement for private dollar leverage on projects (meaning the RLF can be the sole lender on a project with no bank partner); 3) No requirement that the business demonstrate funds are not available elsewhere; and 4) Deferrals for principal and/or interest payments.

With the flexibilities above, businesses will have easier access to capital with beneficial rates and terms. RCEDC will be implementing an aggressive outreach program to ensure businesses are aware of this option to support them during this time.

## **Addendum to the City of Racine Revolving Loan Fund Plan (“Plan”)**

**June 2, 2020.**

EDA has provided certain flexibilities to recipients of EDA-funded RLF awards in light of the impact of COVID-19 on small businesses, the increasing demand for RLF loans, and the need for RLFs to provide credit quickly and efficiently to their communities.

These flexibilities include waiving for one year, from May 7, 2020 to May 6, 2021, the following regulations that:

- Establish a minimum interest rate for RLF loans (13 CFR 307.15(b)(1))
- Require RLF loans to leverage additional capital (13 CFR 307.15(c))
- Require evidence demonstrating credit is not otherwise available (13 CFR 307.11(a)(1)(ii)(H))

**At the discretion and approval of the Board of Directors of the RCEDC, the RLF Administrator, the following flexibilities may be implemented through May 6, 2021:**

- The minimum interest rate as specified in Section D.6. on page 22 of the Plan may be waived, and the interest rate may be set at the discretion of the RCEDC.
- The requirement to leverage capital as specified in Section E.2. on page 25 of the Plan may be waived or reduced;
- The requirement to demonstrate that credit is not otherwise available as specified in Section D. 13 on page 24 may be waived.

**Additional updates the RLF Plan include:**

**At the discretion and approval of the RCEDC’s Board of Directors the following will be implemented:**

**Addition to Section D.14 on page 24 under General Policies for Restructuring RLF Loans:**

- The RLF Administrator, RCEDC, may grant deferrals of payments for principal and/or interest during the period from June 2, 2020 to June 1, 2021 for RLF loan recipients as result of the impact of COVID 19 on the economy. At no time may principal or interest be forgiven.

**Addition to Part II: A. 2. Page 29 Loan Administration Board:**

- Loan Administration Board: The Loan Administration Board has responsibility for the RLF program but may delegate loan approval authority to the Loan Advisory Committee or RCEDC Management as deemed appropriate under specific conditions.

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**CITY OF RACINE**

**TITLE IX REVOLVING LOAN FUND PLAN**

**City of Racine**

**Title IX Revolving Loan Fund Plan**

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## CITY OF RACINE

### EDA REVOLVING LOAN FUND PLAN

#### **PART I: REVOLVING LOAN FUND STRATEGY**

A U.S. Economic Development Administration Title IX Revolving Loan Fund grant was sought for the purposes of:

1. Assisting with the redevelopment of vacant industrial and commercial buildings that are located in the City of Racine; and
2. Providing general gap financing to assist with the recruitment, retention, start up and growth of businesses in order to support business investments and job creation/retention in the City of Racine.

#### **A. ECONOMIC ADJUSTMENT OVERVIEW**

The City of Racine has witnessed economic distress over the recent decades compared to Wisconsin and nationally as indicated by the data below.

Economic expansion continued across Wisconsin in 2018, though at a slower pace than 2017. The Wisconsin Economic Outlook March 2019 by the Wisconsin Department of Revenue noted continued growth in State personal income (up 3.8%), increased employment (0.8%), lower unemployment rate (3.0%), and increased housing starts (4.4%) as evidence of the 2018 expansion. The City of Racine and Racine County's communities benefitted from these trends while also facing local challenges.

- In 2018, the total estimated population of the City of Racine equaled 77,432, a 1.8% decrease over 2010. At the same time Racine County's population increased 0.6% to 196,584 over the same period. While the City of Racine experienced a population decrease, Wisconsin had a modest increase of population at 2.1 percent and the United States population increased by 5.7 percent according to the U.S. Census Bureau (2010 Census, 2018 American Community Survey 1-Year Estimate).
- While per capita income in the City of Racine increased 21.6% from \$17,705 to \$21,523 between 2010 and 2017, earnings of City residents remained below surrounding municipalities and Racine County (\$29,582). In comparison, Wisconsin's per capita income was \$30,557 and equaled \$31,177 for the United States. (2017 American Community Survey 5-Year Estimates).
- The concentration of poverty remains high in the City of Racine. More than 20 percent of the City of Racine's residents were considered to live in poverty in 2017. In comparison, residents living in poverty measured 10.9 percent in Racine County and 11.3 percent in Wisconsin (2017 American Community Survey 5-Year Estimates).
- Over the last several years, local efforts have increased focus on building an educated workforce by deepening partnerships between businesses and local school districts. Racine Unified School District, which serves eastern Racine County including the City of Racine, continues to build its Academies program which links classroom experiences with workplace learnings to expose students to career pathways. New programs have also been added to increase high school



attainment through GED prep and support services. While it may be too early to see an impact on these programs, educational attainment continues to improve. In 2017, the City of Racine's population with a high school degree or higher increased to 83.2 percent up from 82.1 percent in 2016. In comparison, the percent of residents with a high school degree or higher is 89.6 percent in Racine County, 91.7 percent in Wisconsin, and 87.3 percent for the U.S. (2017 American Community Survey 5-Year Estimates).

- The unemployment rate continues to improve in the City of Racine and Racine County after significant economic losses suffered in the recession of 2008-2009. Unemployment rates in the City of Racine reached its height in February 2010 at 18 percent; compared to 12 percent in Racine County, 10.3 percent for Wisconsin, and 10.4 percent for the U.S. (Department of Workforce Development, Not Seasonally Adjusted).
- The unemployment rate continues to rebound in the City and County. In 2018, the City of Racine's unemployment rate averaged 4.5 percent and Racine County's averaged 3.6 percent. In comparison, Wisconsin's unemployment rate averaged 3.0 percent and the United States was 3.9 percent (Department of Workforce Development: 2018, Not Seasonally Adjusted).
- As the unemployment rate fell and job openings increased, labor force participation became an increasingly important measure of economic health. In 2018, Racine County's labor force fell by 0.3 percent between 2017 and 2018 to 99,570 (Department of Workforce Development: 2018, Not Seasonally Adjusted). Racine County's 2017 labor force participation rate held steady at 64.4 percent of eligible workers (age 16+) participating in the labor force. In comparison, Wisconsin's labor force participation was 66.8 percent and the U.S. labor force participation rate measured 63 percent (2017 American Community Survey 5-Year Estimates).
- Improvements in the economy have resulted in new housing units being built in Racine County, though at a slower pace than Wisconsin and the U.S. Total housing units in Racine County increased to 22,497 in 2017, a 1.1 percent from 2010; of which 69.0 percent are owner occupied. The State of Wisconsin has also experienced an increase in housing units by 2.9 percent; and 4.1 percent in the United States. (U.S. Census Bureau: 2010 Census, 2017 American Community Survey 5-Year Estimates).
- With increased demand for talent in Racine County and an emphasis on attracting workers to live in Racine County, Racine County has worked with developers and local municipalities to attract housing developers, including those specializing in multi-family housing development. The City of Racine, having identified priority sites, advanced redevelopment of key sites for both market rate and workforce housing. Construction of new multi-family apartments are expected in 2019.

#### Nature of the Economy

Industry employment characteristics are not available for the City of Racine. Data for Racine County, however, gives us insight into the Racine economy. In the Racine SMSA there are currently 77,800 total nonfarm employees (Bureau of Labor Statistics, March 2019); 2,980,800 total nonfarm employees in Wisconsin and 150,796,000 nonfarm employees in the United States:

- i. Natural Resources, Mining and Construction:
  - a. 4% of nonfarm employees in Racine, SMSA;
  - b. 4% of nonfarm employees in Wisconsin; and
  - c. 5% of nonfarm employees in the United States.
- ii. Manufacturing:
  - a. 23% of nonfarm employees in Racine;
  - b. 16% of nonfarm employees in Wisconsin; and

- c. 9% of nonfarm employees in the United States.
- iii. Trade, Transportation, and Utilities:
  - a. 19% of nonfarm employees in Racine;
  - b. 18% of nonfarm employees in Wisconsin; and
  - c. 18% of nonfarm employees in the United States.
- iv. Information:
  - a. 1% of nonfarm employees in Racine;
  - b. 2% of nonfarm employees in Wisconsin; and
  - c. 2% of nonfarm employees in the United States.
- v. Financial Activities:
  - a. 3% of nonfarm employees in Racine;
  - b. 5% of nonfarm employees in Wisconsin; and
  - c. 6% of nonfarm employees in the United States.
- vi. Professional and Business Services:
  - a. 9% of nonfarm employees in Racine;
  - b. 11% of nonfarm employees in Wisconsin; and
  - c. 14% of nonfarm employees in the United States.
- vii. Educational and Health Services:
  - a. 15% of nonfarm employees in Racine;
  - b. 15% of nonfarm employees in Wisconsin; and
  - c. 16% of nonfarm employees in the United States.
- viii. Leisure and Hospitality:
  - a. 10% of nonfarm employees in Racine;
  - b. 10% of nonfarm employees in Wisconsin; and
  - c. 11% of nonfarm employees in the United States.
- ix. Other Services:
  - a. 5% of nonfarm employees in Racine;
  - b. 5% of nonfarm employees in Wisconsin; and
  - c. 4% of nonfarm employees in the United States.
- x. Government:
  - a. 12% of nonfarm employees in Racine;
  - b. 14% of nonfarm employees in Wisconsin; and
  - c. 15% of nonfarm employees in the United States.

Manufacturing continues to be a leading industry in Wisconsin and Racine County with 16 percent and 23 percent of jobs in manufacturing respectively (Bureau of Labor Statistics). While manufacturing experienced significant job losses in the 2008-2010 period, the sector has rebounded across Wisconsin and since 2010 Racine County's manufacturing experienced a 9 percent increase in jobs. Healthcare and the trades are also major economic drivers for Racine County's economy. Healthcare, education and social services make up 21% of jobs in Racine County while the trade, transportation, and utilities sector

contribute 19% of Racine County jobs.

Robust activity in manufacturing and distribution and warehousing in Racine County and Southeast Wisconsin is driving an active industrial real estate market. The vacancy rate in the Southeast Wisconsin measured 3.5 percent in Q4 2018 and 4.1% in Racine County (CARW and NAIOP: 2018 Market Update Annual Numbers). The low vacancy rate and increased demand for space is resulting in construction of new speculative industrial buildings which are expected to be completed in 2019.

While much of the greenfield development is occurring outside of the City of Racine, positive economic trends can also be seen in the City of Racine's downtown and in overall property values. Formerly empty store fronts are being filled and property values across the City have increased. In 2018, equalized property values increased by 6 percent over 2017 in the City according to Wisconsin Department of Revenue data.

Changing markets and business conditions resulted in 82 notices by businesses of workforce reductions and business closings in the State. In 2018, there were 8,520 individuals that were affected by the layoff notices in the State, an increase of over 2,000 individuals from 2017. Over half of the 82 notices were a result of locations being closed and a significant number were in the retail industry.

Local economic growth combined with increasing numbers of baby-boomers set to retire has resulted in a significant increase in unfilled jobs in Racine County. According to analysis by Manpower Group, there were 2,100 unfilled job openings in Racine County in 2018. The number of unfilled job openings is expected to grow significantly. To address the talent needs of Racine County employers, Racine County and RCEDC launched the Greater Racine County talent recruitment initiative ([www.greaterracinecounty.com](http://www.greaterracinecounty.com)) in 2018 to increase awareness of Racine County as a place to live and work. In addition, Racine County is working with Manpower Group and local workforce partners, including RCEDC to develop a Workforce Strategic Plan to align local workforces to better match talent with the needs of employers. Given the importance to talent to the area economy, this important work will continue in 2019.

As indicated above, the historical economic dependence on the manufacturing industry in the Racine SMSA is much greater than the comparable areas. In addition to large corporations such as S.C. Johnson & Son, Inc., CNH America LLC, Emerson Electric (InSinkErator), Cree (formerly Ruud Lighting), Nestle and Modine Manufacturing Company, the County has many smaller manufacturing companies. Within Racine County, manufacturing companies total more than 350.

It is noteworthy that an international company, Foxconn Technology Group, has committed to an unprecedented investment in Racine County. Foxconn is creating North America's first state-of-the-art advanced display manufacturing campus in Mount Pleasant in the heart of Racine County. This opportunity represents the return of electronics manufacturing to the U.S. from Asia. Foxconn's investment will change the economic landscape in Racine County and Wisconsin.

#### RCEDC Response to Economic Conditions

In order to address the current business needs in the community, as well as to address to the impact the Foxconn development will have on the community, the RCEDC has identified a need to support businesses by providing access to capital through the RLF and SBA loan programs. The Racine County Economic Development Plan (EDP) 7.0 identifies this need for financing for Racine County, including City of Racine businesses. The efforts of this program are to focus on proactive business recruitment and business retention and expansion (BRE), as well as assist businesses to create and retain jobs and

create additional tax base in Racine County. The EDP 7.0 is further described in the Business Development Strategy section of this Plan.

Over the past five years (2014-2018), the RCEDC has assisted businesses in creating and retaining 16,674 jobs with average wage rates of \$24.79. Providing assistance to over 151 projects, RCEDC has increased the economic wealth with total project costs of nearly \$10.5 billion. These figures include the Foxconn development which has committed to 13,000 jobs to be created and a \$10 billion investment planned in Wisconsin. Construction costs for these projects are over \$5.8 billion adding to the local tax base.

The following is a sample of recent RCEDC projects:

1. Seda North America. This Italian-owned food packaging manufacturer established their first location in the U.S. in 2011 and recently completed its second expansion to add office and manufacturing capacity. This company has been provided assistance through State Tax Credits, County Loans and Municipal assistance. Total investment was \$118 million with 245 jobs created.
2. Grand Appliance. This company operates 20 stores in Illinois, Iowa and Wisconsin. They recently constructed a 137,000 SF building for their headquarters, distribution center and warehouse in Racine County. The total investment was \$8 million with 144 jobs. This project was accomplished with State Tax Credits, County loans and Municipal assistance.
3. Merz North America. This North Carolina based company, consolidated its three Racine County facilities into a single 100,000 SF operation in the Grandview Industrial Park in the Village of Yorkville. The Company retained 165 jobs in the county and plans to add 20 new positions over the next three years. Assistance was provided to this company through a Racine County High Impact loan.
4. R&B Grinding. This long established manufacturing company located in the City of Racine was at risk of closing if it was not able to purchase more automated equipment in order to compete in their industry. Through City high risk loan funds, the company was able to purchase equipment and retain over 20 manufacturing jobs in the City.
5. Nailed It. This service company reached capacity in its previous space and needed a larger building to support its growth. With the assistance of the City RLF loan program, the business invested \$189,000 into a building purchase in downtown Racine within the same customer market as its previous location resulting in the creation of two new employment positions.
6. Atmosphere. This woman-owned start-up business was able to purchase a threatened to be vacant building in downtown Racine and establish co-working space where small business entrepreneurs could collaborate and share co-working space.
7. Building Waters. This growing service company was at threat of losing their recently renovated leased space when the landlord placed the building for sale. The company purchased the building expanding into the second half of the building accommodating their business growth. Total investment was over \$200,000 with three new jobs created.

There is an ongoing demand by local businesses for gap financing to assist with their capital investment needs. This RLF fund continues to meet the needs of City of Racine businesses by providing general gap financing to assist with the recruitment, retention and growth of businesses in order to create and

retain jobs in the City of Racine. RCEDC has been chosen as the focal point for the administration of this RLF because of its leadership within the framework for the overall economic development program in Racine County. Once more, Racine County contracts with the RCEDC to provide economic development services.

RCEDC was organized in 1983, as a private, non-profit development corporation to provide a leadership role in economic development in Racine County. The RCEDC has a board of directors that is comprised of ten members from both the public and private sectors and employs a full-time executive director with a staff of fourteen professionals. The organization is representative of the community as a whole with its board of directors having expertise in the following areas: Internal controls, financial risk management, commercial lending, legal issues relating to commercial lending and corporate governance and at least one member representing economic, community or workforce development fields.

To adjust to changing market forces and meet the diverse needs of small and large businesses in Racine County and the City of Racine or those considering a City of Racine or Racine County location, Racine County Economic Development Corporation (RCEDC) staff works with our partners including our local municipal leaders, Gateway Technical College, and UW-Parkside's Small Business Development Center. On a regional level, we work with the Milwaukee 7. The Milwaukee 7 was launched in September 2005 and was formed to create a regional, cooperative economic development platform for the seven counties of southeastern Wisconsin: Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington and Waukesha. Its mission is to attract, retain and grow diverse businesses and talent. In addition, our staff works closely with the Wisconsin Economic Development Corporation (WEDC) to support the various programs that are offered on the state level most prominently securing tax credits for companies creating jobs.

#### **Strategies Planned to Address Economic Adjustment Problems**

In response to economic conditions, the RCEDC along with a community based Implementation Team prepared a Racine County Economic Development Plan (EDP) which has been adopted by the County Board of Supervisors. The original EDP was established in April 2002 and has been periodically updated with edition 7.0 being the most recent one adopted.

The EDP 7.0 for Racine County is built around five challenges. ***These challenges represent the areas that most directly affect the economic vitality of the county.*** They were arrived at through the active involvement of the EDP Implementation Team and the Challenge Lead Partners. They form the core of the strategic plan. All of the strategies for the county, as well as the specific activities, are informed by these challenges.

The RLF Plan is consistent with the Racine County EDP 7.0. The specific Challenges and Strategies that are supported through the RLF activities have been described below identifying the activities under each strategy where the RLF supports it.

➤ **Challenge One:** To create an entrepreneurial culture in Racine County.

- Strategy A.** The Small Business Development Center (SBDC) and its representative partners will continue to market and communicate entrepreneurship resources and services to Racine County businesses.
- Strategy B.** Human capital will be cultivated and recruited as a strategy for new business creation.
- Strategy C.** Existing programs will be maintained and new financial capital programs and resources will be attracted which address fundamental gaps preventing the start and growth of Racine County entrepreneurs.

**How the RLF supports these activities:**

This strategy specifically addresses the need to continue offering programs such as the RLF to meet the financing needs of businesses being recruited, retained or expanding in the area.

**Strategy C activities identified in the EDP for this Challenge include:**

1. Maintain existing small business financing tools from RCEDC, UW-Extension and Wisconsin Womens Business Initiative Corporation.

The RLF loan program assists both established businesses as well as start-ups that are not always able to obtain conventional financing typically due to equity or collateral shortfalls based upon the requirements of conventional financing. The gap financing provided by the RLF program provides financing needed for new business starts and business expansion needs.

- Strategy D.** Target additional resources and capacity to building high-impact businesses within Racine County.

➤ **Challenge Two:** To implement a proactive business development program that includes business retention and expansion and business recruitment activities that utilize local, State and Federal resources including financial, technical assistance and workforce resources that when successfully implemented result in the creation and retention of jobs and increased tax base in Racine .

- Strategy A.** RCEDC will develop and implement community and economic development programs, with priority on 1<sup>st</sup> (2-9 employees) and 2<sup>nd</sup> (10-99 employees) stage companies, which result in the retention and creation of jobs and increase the tax base in Racine County.

**How the RLF supports these activities:**

**Strategy A activities in the EDP for this Challenge include:**

1. RCEDC will implement a business retention and expansion program that includes industry and business stage specific priorities.
2. RCEDC will implement an industry targeted business recruitment program.
3. RCEDC will implement community development programs that include the development of new business park opportunities, brownfield remediation, infill development and redevelopment activities.

The RLF program specifically targets the small and medium sized companies with their gap

financing needs by providing financing to businesses that typically have equity or collateral shortfalls when seeking conventional financing. The RLF program supports all activities listed above by ensuring businesses have access to capital to support their business growth.

The RLF Program is able to assist in redevelopment projects on industrial and commercial brownfield sites. The RLF provides gap financing to provide attractive financing options for these projects making them possible. The other targeted groups could also be assisted with the program if relocating to the City of Racine if they are relocating from within the same labor market. Businesses relocating from outside the labor market into the City of Racine are ineligible for EDA RLF financing.

- Strategy B.** RCEDC will build and strengthen relationships with internal and external stakeholders.
- Strategy C.** RCEDC will measure the well-being of Racine County by compiling relevant data including demographic, development, workforce, other business related factors and work with Partners to mitigate challenges.
- Strategy D.** RCEDC leadership will manage the efficacy of its activities to ensure that RCEDC is conducting the business of the organization that results in measurable outcomes.

**How the RLF supports these activities:**

**Activities in the EDP for this Strategy Include:**

1. RCEDC leadership will seek to ensure committees, programs and services reflect the diverse needs of the communities served.

The RCEDC maintains a Loan Advisory Committee representative of a variety of skills and diverse representation of the community for making loan recommendations to the RCEDC Board of Directors. This committee currently includes lenders, accountants, developers and an attorney, as well as, women and ethnic minorities.

- **Challenge Three:** To utilize the existing natural and cultural resources, recreational opportunities and business location advantages to promote a positive image of Racine to existing residents and potential visitors.

**Strategy A.** Engage the Community in a Celebratory Conversation about what it means to be Real Racine.

**Strategy B.** Work to enhance the destination's appeal.

- **Challenge Four:** To take advantage of the development opportunities that exist as a result of the Chicago-Milwaukee Corridor and to properly link land use with future business and industrial development county-wide.

- Strategy A.** Support the extension of utilities to make vacant lands more accessible and viable for industrial and commercial development along the I-94 Corridor.
- Strategy B.** Use the adopted Multi-Jurisdictional Comprehensive Plan for Racine County: 2035 to properly guide growth and development in Racine County.
- Strategy C.** Facilitate cooperation between eastern and western Racine County relative to jobs and housing balance and transportation to employment opportunities.

➤ **Challenge Five:** To link education and training in a manner that provides a competitive workforce to meet the present and future needs of local employers and to create opportunities for low-income, disadvantaged and minority individuals to prepare for and obtain employment.

- Strategy A.** Ensure that the educational content provided in the county's Pre/K-12 system is personalized, allowing for rigorous learning by students and engagement based on possible career aspirations.
- Strategy B.** As a foundation for ensuring more reliable, productive employees and with a focus on geographic pockets of concentrated poverty, assist and empower low-income residents to function well in their day-to-day lives and to take responsibility for themselves and their families.
- Strategy C.** Develop diversified approaches to meet the workforce needs of employers within Racine County.
- Strategy D.** In partnership with Higher Expectations, align educational, business, and community partners and resources to foster talent pipeline in high-growth, in-demand occupations and industries.
- Strategy E.** Align and expand existing resources and efforts within Workforce Solutions and across partnering organizations to increase GED attainment in Racine County.

Because one of the goals of the RLF program is to recruit, retain and grow businesses in the City of Racine and Racine County, the RLF program is important to this strategy within the EDP. The City RLF includes targeting businesses seeking to locate in vacant commercial and industrial spaces in the City. It provides financing to promote the development of currently vacant sites which makes it an important tool in attracting and growing businesses in the City which has a high poverty rate and higher unemployment rate than the State of Wisconsin overall. Loan recipients work with the Racine County Workforce Solutions Center to use their services to help fill newly created positions. Workforce Solutions works with both employers who have job openings as well as the unemployed job seekers. The Workforce Development Center works with both employers who have job openings as well as the unemployed job seekers.

#### **CITY OF RACINE ECONOMIC DEVELOPMENT PLAN**

The City of Racine adopted an Economic Development Plan in December 2006 in order to improve the economic conditions in the City. The City adopted its own plan in order to address activities specific to its area and to include appropriate community development activities. The Challenges and Strategies set forth by the City were a subset of the countywide initiatives, as set forth in the Racine County EDP, in order to meet the unique challenges for the City.

Two of the five most pressing economic development issues identified in the City were:



## 1. Redevelopment of Brownfield sites

Over recent years, the City has engaged in an active program to redevelop brownfield, or former environmentally contaminated sites. The former Racine Steel Castings and Jacobsen-Texttron sites are examples of this initiative. When possible, such sites should be used for job creating enterprises or residential opportunities that can impact the lack of “greenfield industrial sites” and loss of population in the City.

## 2. Growth of Existing Companies.

In 2006, the RCEDC undertook a new business development program that includes efforts to grow existing companies; as well as to attract new companies to Racine County. The existing employer aspect of this program will be especially important to the City of Racine due to the concentration of employers in the City.

Specific challenges and strategies within the City EDP that stress the need for the City RLF include the following:

Challenge II – To encourage and support the retention and expansion of existing businesses in the City of Racine and to seek new businesses that best support and sustain employment opportunities commensurate with skill levels and abilities of local residents.

Support:

Promote public and private loan funds that support retention and expansion of existing businesses. In particular, supported the re-capitalization of the City of Racine RLF in 2012 to provide the necessary capital to eliminate and/or re-use vacant industrial and commercial facilities. The City has also recently created two small business loan funds for higher risk projects and microloans to assist disadvantaged groups.

To encourage and support brownfield redevelopment in the City by working with private owners of brownfield sites to improve their properties through assistance such as grant application preparation or appropriate financial programs for redevelopment activities.

## **B. BUSINESS DEVELOPMENT STRATEGY**

The RLF will continue to support the recruitment, retention and expansion of existing businesses and the development of new businesses in the City of Racine.

The RCEDC will utilize the RLF to provide traditional gap financing to businesses to meet the goals within the Racine County EDP.

### Goal to address traditional gap financing needs:

Secondary financing is further needed for business recruitment, growth and retention needs because more restrictive bank regulations make access to capital more difficult for small businesses who cannot meet the banks equity or collateral requirements.

### Other Targets

The RLF Program targets small to mediums sized businesses typically less than 200 employees. The RLF program targets projects that would create jobs in order to address unemployment in the City of Racine. Each loan recipient is connected with the Racine County Workforce Solutions team for posting of job openings in an attempt to make the positions available to the unemployed in Racine. The program's goal is to assist with projects that create jobs that offer higher- skills and higher-wage jobs, more specifically those that pay above minimum wage and particularly those that pay above the County median wage rates, as well as those positions that offer fringe benefits.

The RLF program will also target minority and women-owned businesses, in an attempt to assist unemployed minority workers. Specifically, in a situation of competing applications where funds are limited, minority and women-owned businesses would be given preference.

Finally, the City program also specifically targets projects that would address vacant or threatened to be vacant commercial and industrial buildings in the City of Racine.

There continues to be a need for small loans of less than \$275,000 per borrower. Other public sector financing programs that provide direct loans to businesses, such as the SBA 504 program are designed to handle larger loan sizes. There is a need for the RLF because the fund is responsive to the needs of smaller, local businesses providing subordinated funding for businesses.

The RLF assists Racine County and City of Racine businesses and is important in order to continue to assist in retaining and growing local businesses as well as to attract businesses to the area and assist start-ups. The program targets those businesses that meet the job retention and creation requirements of the program and those that meet other criteria within the County EDP.

### Business Needs

The RCEDC staff conducts one-on-one interviews with businesses. These interview questions are derived to get an understanding of trends the local businesses are experiencing in the City of Racine and Racine County and to identify needs they may have. These businesses are provided a follow up list of resources meant to help them in identifying resources that could assist them with their specific needs. This includes technical assistance, financing options, state incentives, workforce development resources and locational needs when appropriate.

### Other Programs & Activities

The RCEDC has also established CEO roundtables allowing companies to meet approximately ten times a year to become more educated on topics that would assist them and to collaborate with each other on challenges they as small business owners may be facing.

## **C. FINANCING STRATEGY**

### **Financing Needs:**

In today's post-recession conservative lending environment, the existing RLF program has been sought as banks seek ways to mitigate their risk. Reducing bank exposure on a project through gap financing provided by an RLF allows the banks to become more comfortable with the financing request. Projects with an equity or collateral shortfall that could not be done conventionally are done with participation of an RLF loan. Additionally, the lower interest rates and lower equity requirements offered through the RLF program makes business expansion and retention possible for the business owner seeking to grow and add jobs. Access to a RLF is an important resource to support the business retention and

growth initiatives in Racine County and the City of Racine.

Goal to address traditional gap financing needs:

Based upon the existing economic base and current economic conditions in the City of Racine, the RLF objectives include the recruitment, retention and growth of businesses in order to create and retain jobs in Racine. The City of Racine has experienced high unemployment. When City RLF funds are depleted or insufficient for a project, the County RLF is utilized to help with needs of growing business and job creation. There is a need to utilize available economic development tools, such as the RLF, to help improve the City's economy for both the manufacturing sector as well as for other sectors to assist with the diversification of the local economy.

The RLF program is used to supplement existing business financing and to attract other public and private financing sources to assist local businesses, not to provide a substitution for other available funding.

Goal to Address Vacant Industrial and Commercial Building Loans:

Second mortgage financing is needed on redevelopment projects, because, based upon past experience, private lenders will offer financing at 50 to 75 percent of project cost due to: 1) the often high cost of renovation activities; 2) the need for environmental remediation; and 3) concerns with regard to collateral value as related to the potential for declines in future value.

The Loan Fund would continue to provide direct loans to owner-occupants and developers for environmental remediation, building acquisition, or building renovation. In addition, loans would be provided to tenants for building improvements.

The Loan Fund would target manufacturing, warehouse, distribution, transportation, service, and construction businesses that are seeking a location in the City of Racine, and developers that plan on purchasing a commercial or industrial facility and leasing space to other target businesses or selling the facility to a target business following renovation. In the case of developer loans, the developer would borrow the funds and the tenant or end user business would provide the job creation. For all loans, an agreement would be executed between RCEDC and the developer, owner occupant, or tenant that would secure the necessary commitments to meet the standards set forth in the program.

**Assessment of Local Capital Market**

Though the local and state economy is improving and regulations are loosening at a bank level, there is still a significant demand for small business financing in the City of Racine as well as the United States. While total business lending has made more of a recovery, small business lending is still significantly below pre-recession levels.

One reason for this is the decreasing amount of banks due to consolidation, which makes the lending climate more difficult for small businesses. This is especially important given the majority of small business lending occurs at a local level. According to a Harvest Business Journal article (2016), small banks have a higher approval rate for small business loans (76%) versus larger banks (58%). These smaller lenders are able to consider personal relationships in the underwriting process. Therefore, with the consolidation of banks, less small banks means less approvals

Additionally, the small size of the loan that many small businesses are seeking limits the lenders they can work with. The Harvest Business Journal article stated that over 70 percent of small businesses are looking for loans under \$250,000. Larger banks stray away from these amounts and look for larger, less risky loans.

The following additional challenges entrepreneurs face when borrowing were noted by other outlets:

2018 FDIC Small Business Lending Survey:

- Small businesses are still limited with creditworthiness given slow recovery from borrowing during the recession.
- There is more risk associated with small lenders; therefore banks are less apt to lend money to them.
- Young small businesses are more likely to tap into informal sources of credit such as funding from owners or family and friends.

Forbes (2014):

- Most major surveys of small business owners point to credit access being more difficult during the five years since the recession.
- The banking industry is increasingly less focused on small business lending. The share of small business loans of total bank loans was about 50 percent in 1995, but only about 30 percent in 2012.

2018 saw a bustle of activity in Racine County, partly surged by the forthcoming Foxconn development. Many housing developments were created and the revitalization of the downtown Racine area continued. This, along with the new hospital coming to the County, showcases the area's economic growth. Small business funding in Racine County is anticipated to increase as the economy continues to improve. With this, local sources, such as the Revolving Loan Fund, remain crucial to small business growth in Racine County and the City of Racine.

In meeting with local businesses, they have identified a need for capital investments while retaining their cash to support business growth needs. With the lower equity requirements of the RLF program and the lower debt service resulting from lower interest rates, the RLF program supports this local business need.

References used:

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### **RLF's and other similar lending programs (Private and Public) Available in the area**

The RCEDC currently operates or co-sponsors the following loan fund programs in Racine County that are designed to meet a variety of financing needs. The programs that best fit the needs of small businesses in need of gap financing are the local RLF's. Each program is described below:

#### City of Racine EDA Revolving Loan Fund

The City of Racine, with the assistance of the EDA, has established a revolving loan fund that is available to businesses located in the City of Racine. The RLF provides fixed asset financing at below-market interest rates. To date, RCEDC has made 46 loans from this fund. The total amount lent since the inception of the program is nearly \$5.5 million. There continues to be City of Racine businesses interested in this fund.

#### The City of Racine Small Business Loan Fund

The City of Racine established a high risk loan fund for those businesses not able to secure financing from other sources. RCEDC is one of two organizations that processes applications for this fund and makes recommendations to the City. Funds are limited and typically this is a last resort financing option for businesses in need of small loans which are considered higher risk due to insufficient collateral or credit concerns.

#### Community Development Block Grant Revolving Loan Fund Programs

The Village of Union Grove, the City of Burlington, and Racine County have historically received grants from the Small Cities Community Development Block Grant-Economic Development (CDBG-ED) program. Some of the repayments on CDBG-ED loans were used to establish local revolving loan fund (RLF) programs. The RLF programs established with CDBG-ED funds are being administered by the RCEDC, however, the State of Wisconsin Department of Administration recently began the process to close all CDBG RLFs in Wisconsin. Through this 'close out' process, funds are being returned to the State and repurposed for other uses; therefore, no new loans can be made from these RLFs. The only community able to retain its funds in Racine County is the Village of Union Grove due to the length of time that has passed since its last capitalization into the fund.

#### Racine County 'High Impact Fund' RLF

In 2012, the County of Racine approved funding for a 'high impact' RLF intended to provide incentives to business recruited to or expanding in Racine County. These funds target business attraction, retention and growth projects that require very attractive rates and terms, including forgivable provisions, for high job creation and high investment projects. These funds were necessary as incentives for catalytic projects to occur in Racine County.

#### Greater Racine County RLF

In 2018, Racine County established a new RLF to support businesses impacted by the Foxconn development. This fund may be used to support supplier companies, support companies that need to automate or other impacts deemed appropriate. The RCEDC administers this program for Racine County.

#### Racine Development Group, Inc. (RDG)

The RDG was initially established as a multi-bank community development corporation, organized to provide high-risk business financing and housing renovation services in the Racine central city; however, the RDG actively lends throughout Racine County. In all, it includes seven bank investors and two private corporations including RCEDC with approximately \$873,000 in total capital initially from all the investors. As of this year, the RDG no longer exists as a separate organization and it is now a

loan program within RCEDC.

#### Seed Capital RLF

The City of Racine has a SEED capital program that provides grants and loans to support emerging businesses in the City of Racine. To date, four projects have been assisted through this fund.

#### City of Burlington RLF

The City of Burlington created a TID RLF with the creation of one of its TID Districts (#3) to be utilized for gap financing to promote local investments that increase tax base, job creation and other benefits deemed appropriate by the City. The TID has since closed and the funds have been repurposed for an RLF available throughout the City for loans and grants to assist projects that fit within the City's strategic plan. This fund is administered by the RCEDC.

#### Brownfield Cleanup RLF

Funded through the EPA, the City of Racine has a brownfield cleanup RLF to assist with the remediation and/or redevelopment of brownfield sites in the City that are deemed eligible by EPA's Brownfields RLF program. To date, two projects have been funded through this RLF with a third application recently approved.

#### Racine County Matching Grant Program

Racine County offers grants of up to \$5,000 to manufacturers, as well as, women-owned, veteran owned or minority owned businesses to cover the cost of consultants, training or marketing services to grow their business.

#### SBA 504 Certified Development Company Program

The RCEDC is a Certified Development Company organized under provisions set forth by the U.S. Small Business Administration (SBA) and is therefore able to provide long-term, below-market financing through the SBA 504 program for the acquisition of land and buildings; building construction, expansion, and renovation; the purchase of equipment and limited refinancing. The SBA interest rates are competitive with conventional lenders but offer rates fixed for longer terms and lower equity requirements. The loans are subordinated to the first mortgage lender. SBA 504 loans can be used to generally finance up to 40 percent of the total project costs. Due to the level of fees associated with the SBA 504 Program, it is less attractive as a financing mechanism for smaller projects and therefore smaller or less profitable businesses.

#### SBA 7(a) Loan Guarantee Program

The SBA 7(a) Loan guarantee program provides guarantees of up to 85 percent on fixed asset and working capital loans provided by private financial institutions. The loans are provided at market rates of interest for a specific term. The program also charges significant fees on loans of more than \$150,000 making it less attractive as a financing option. In addition to the basic SBA 7(a) program, the SBA operates other guarantee programs for specific purposes that are structured similarly.

#### Wisconsin Women's Business Initiative Corporation (WWBIC)

The Wisconsin Women's Business Initiative Corporation (WWBIC) offers a variety of business financing and technical assistance programs for businesses, including but not limited to those owned and operated by women, minorities, and economically disadvantaged individuals. WWBIC administers a Micro Loan Program and provides loans for the start-up and expansion of businesses. These are generally higher risk businesses that do not qualify for conventional financing.

In addition to the local incentives identified above, state incentives may also be available through the Wisconsin Economic Development Corporation and WHEDA, the Wisconsin Economic Development Authority.

#### RLF Financing Niche

This program will continue to assist with gap financing to businesses that fit within the EDP providing low down payment options to businesses where typically collateral is not sufficient for bank financing. There is also a need to assist developer's and potential buyers with the purchase, renovation, and reuse of older, vacant industrial buildings in the City of Racine. The City of Racine's economic problems are reflected by high minority unemployment, geographic location away from Interstate Highway 94, "brownfield" sites and vacant industrial buildings, and lack of capital investment. The City RLF helps address the above-referenced problems through job creation, the recycling of brownfield sites and vacant buildings, and the leveraging of private capital and other public sector loan programs. Applicant businesses are subject to the financing policies outlined in the next section.

### **D. FINANCING POLICIES**

The following financing policies will be utilized in the RLF program:

1. Eligible Lending Area:  
Eligible projects for RLF loans would be located in the City of Racine, Wisconsin. Projects located outside the City limits are ineligible.
2. Allowable Borrowers/Eligible Applicants:  
Eligible applicants would include a variety of business structures and industries as long as the applicant fits into the goals of the Racine County EDP and the City targets and eligibility criteria for the RLF program. This includes both for profits and nonprofits, as well as, start-up businesses and established business of all business sectors including but not limited to retail, commercial, service and industrial. New business start-ups will be evaluated more closely based upon the feasibility of their business plan including the market study and financial projections.
3. Allowable Lending Activities/Type of Activities and Businesses Eligible for Funding:  
Loans will be made for the following eligible purposes:
  - a. Land and/or building acquisition;
  - b. Building construction;
  - c. Site preparation and demolition;
  - d. Environmental remediation;
  - e. Building renovation and expansion;
  - r. Machinery and equipment purchases;
  - g. Furniture and fixture purchases;
  - h. Leasehold improvements; and
  - i. Working capital.
4. Prohibited Lending Activities/Use of Funds:  
The following activities are not eligible for RLF assistance:
  - a. Acquire an equity position in a private business;
  - b. Subsidize interest payments on an existing RLF loan;

- c. Provide for borrowers' required equity contributions under other Federal Agencies' loan programs;
- d. Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF;
- e. Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit or any investment unrelated to the RLF; or
- f. Refinance existing debt, unless:
  - (i) The RLF Recipient sufficiently demonstrates in the loan documentation a sound economic justification for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a sound economic justification; or
  - (ii) RLF Capital will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF Capital may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within eighteen (18) months following the date of refinancing.

5. RLF Loans Size:

Generally loan sizes will be up to \$400,000 or up to 25% of the RLF capital base, whichever is less.

6. Interest Rates:

The minimum interest rate charged would be four (4) percentage points below the lesser of the current money center prime interest rate quoted in the Midwest Edition of the Wall Street Journal, or the maximum interest rate allowed under Wisconsin State law. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the Wall Street Journal. An exception to the minimum rate is if prime interest rate listed in the Wall Street Journal should exceed 14 percent, the minimum RLF interest rate is not required to be raised above 10 percent if doing so compromises the ability of the RLF Recipient to implement its financing strategy. Additionally, the RLF program may offer a graduated rate of interest over the term of the loan, within the parameters referenced herein. The interest rate may be fixed or variable for the term of the loan as determined at the time of the loan approval.

7. Loan Terms:

Loans will be typically up to ten years with amortization periods not to exceed 25 years. Amortization periods will generally match the life of the assets being financed or the term being offered by the participating private lender. When amortization periods exceed the loan term, borrowers would have the option of making a balloon payment at the end of the term or request the term be extended. Loans for tenant improvements will generally be no longer than the term of the lease.



8. Fees

- (1) Loan Origination Fee: The RLF program will charge a loan origination fee not to exceed 1.5 percent on all RLF loans. The RLF reserves the right to waive or reduce this loan origination fee when deemed appropriate. The loan origination fee will be used to pay for administrative costs associated with the RLF program.
- (2) Legal and Out of Pocket Fees: The RLF program will charge legal and out of pocket fees incurred by RCEDC to review the application, draft closing documents, and perfect all RLF liens. Examples include credit reports, lien searches, recording, filing, or title policy fees.

9. Equity and Collateral:

- (1) Equity Requirements: The RLF program will require a 10 percent equity injection for each RLF loan, when appropriate. Consideration will be given for individuals that have made substantial equity commitments to the applicant business, as well as to individuals who do not have sufficient financial resources to contribute to the RLF project. All equity contributions must be provided through private sources. The RLF program will not be used to purchase or finance equity.
- (2) Collateral Requirements: Each RLF loan will include a loan agreement between the RCEDC and recipient owner-occupant. The loan agreement will detail the terms and conditions of the RLF loan and the collateral necessary to secure the RLF loan.

Collateral may include mortgages on land and building and liens on machinery and equipment. In addition, key-person life insurance coverage, junior liens on all corporate assets, cross-collateralizing of multiple loans, and personal guarantees may be used where appropriate. This collateral may be subordinated to private sector financial institutions participating in the RLF project, if required. The RCEDC will be listed as the secured party on all RLF collateral documents.

In addition, the contractual agreement between the RCEDC and the City of Racine will contain a provision that all revolving loan fund monies on deposit and all revolving loan repayments are assignable to the City in the event that the City's contract with the RCEDC is terminated.

Finally, businesses will be required to obtain insurance on the assets held as collateral for the RLF loans and will have RCEDC listed as a lender's loss payee or mortgagee on the insurance policy as appropriate.

10. Moratoria/Special Loan Terms:

The RLF program retains the option of offering special loan terms to those applicants that demonstrate a need as evidenced by the company's financial projections. These techniques include: 1) a deferral of principal and/or interest payments during the first year of an RLF loan; and 2) the subordination of the RLF security position to private sector lenders that are participating the RLF Project. All special loan terms will be approved by committee.

11. Start Ups:

The RLF will make loans to startup businesses. In order to evaluate these applications the applicant will be required to provide a business plan and financial projections for their business.

12. Working Capital:  
Loans for working capital would be eligible for RLF funds.
13. Credit Not Otherwise Available:  
The RLF loan cannot be used to substitute for available private capital and applicants must demonstrate that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. This will be shown through the financial institutions participating in the project providing a letter stating that the financial institutions contribution amount and indicating its loan is contingent upon the receipt of RLF financing.
14. 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 borrower is financially viable as evidenced through a business credit analysis. The RCEDC staff will work with the borrower to determine the need for restructuring, and, if appropriate, the RCEDC Loan Advisory Committee may restructure the RLF loan to improve cash flow. Restructuring can include deferring principal and interest payments, adjusting the rate of interest and extending the loan term.
15. Loan Assumptions:  
RLF loans may be assumed where the individual or company assuming the debt undergoes a full credit analysis and approval through the RCEDC Loan Advisory Committee. Additionally, the EDA criteria and regulations continue to apply following a loan assumption. RCEDC may charge at its discretion a loan assumption fee of one (1) percent of the unpaid principal balance on the loan at the time of the loan assumption request to cover administrative costs associated with completing the full credit analysis.
16. Administrative Costs:  
The RLF program will utilize up to 100 percent of any and all program income earned on recycled RLF funds and deposited repayments for actual expenses associated with the administration of the RLF. The administrative costs paid by the RLF are limited to program income earned and costs accrued in the same RCEDC fiscal year. Any program income that is not used in a fiscal year to cover administrative costs will be kept in the RLF for future lending activities.
17. Sale of RLF Loans:  
The program will not sell any of the RLF loans.
18. RLF Program Coordination with SBA 504 and Other Programs:  
The RLF program will utilize private sector financial institutions and the local SBA 504 Certified Development Company program, as well as other public sector financing programs, in packaging loans. When the RLF loan program will include other public sector loans, the guidelines established by the public sector agencies administering these loan programs will be coordinated with the financing policies of this RLF program.
19. Deviations from RLF Financing Policies:  
Any deviations from the RLF financing policies would require RCEDC Loan Advisory Committee and Board approval. Any deviations from the guidelines set forth in the RLF Plan

would also be submitted to EDA for consideration.

## **E. PORTFOLIO STANDARDS AND TARGETS**

The standards and targets described below are designed to efficiently operate the RLF program and ensure investment opportunities are created to assist in attracting, retaining and growing businesses in the City of Racine resulting in jobs being created and retained for City residents.

### 1. Target Percentages:

The following are the targeted percentage of RLF investments:

- (1) Land Use: 50% Manufacturing/Industrial; 50% Commercial/Service with not more than 20% of the loans to retail businesses
- (2) Business Status: 10% Start-Up; 90% Expansion/Retention
- (3) Loan Type: Primarily Fixed Assets (up to 100%); however, Working Capital loans will be considered

### 2. Private Sector Leverage:

An average ratio of two private sector dollars for each RLF dollar will be sought from businesses participating in the RLF program. All private sector dollars must be obtained from a non-public debt or equity source. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans. To be classified as leveraged, private investment must be made within twelve (12) months of approval of an RLF loan, as part of the same business development project, and may include:

- (1) Capital invested by the borrower or others;
- (2) Financing from private entities;
- (3) The non-guaranteed portions and ninety (90) percent of the guaranteed portions of any federal loan such as the U.S. Small Business Administration's 7(a) loans and 504 debenture loans; or
- (4) Loans from other State and local lending programs.

Private investments shall not include accrued equity in a borrower's assets.

The RLF program will maximize private sector leverage and ensure that RLF funds are not substituted for private financing by requiring all business to provide the following documentation as a part of an RLF application:

- (1) Financial institutions participating in the project must submit a letter stating that the financial institutions contribution amount and indicating its loan is contingent upon the receipt of RLF financing; and
- (2) Equity contributions must be documented with a commitment to the injection of the equity upon receipt of an RLF loan, and identification of the exact dollar amount and source of the funds.

### 3. Job Cost Ratio/Job Creation:

The RLF would require the creation or retention of an average of one full time equivalent (FTE) job for every \$35,000 of RLF investment. This requirement can be waived by the RCEDC Loan Advisory Committee and Board if the borrower is: 1) meeting another economic development benefit such one of those detailed below; and 2) the RLF portfolio

overall meets the job cost ratio requirement of one FTE per every \$35,000 of RLF investment.

- (1) Women/minority/veteran owned business (51% or more);
- (2) Revitalizing a business district with a written revitalization or redevelopment plan;
- (3) Rural Development; and
- (4) Any other significant economic development impact as deemed appropriate by RCEDC Loan Advisory Committee and Board.

Loan recipients will be required to enter into a Loan Agreement identifying the number of jobs to be created. Borrowers will be able to work with Workforce Solutions staff to assist with the posting of new employment positions. The goal of the program is to assist the unemployed in the City of Racine by placing them in new positions, particularly those that offer higher-skills and higher- wages. Specifically, the program targets those projects that pay above minimum wage as well as those that offer fringe benefits. The Workforce Solutions team works with both employers and job seekers to assist in making these positions available.

The additional standards listed below will be applied to all RLF loans:

- (1) All loan activities and economic benefits resulting from RLF activities will be located within the City of Racine. RLF assistance will be withdrawn if the RLF finance activity is moved outside of the City.
- (2) Loans that assist with the relocation of jobs from outside of the labor market area will be prohibited. The labor market is defined as all areas within a 25-mile radius of the boundaries of City of Racine.
- (3) The RLF program will target the development of minority and women- owned businesses giving preference to these applications when there are competing applications for limited funds with a target of 15% of the funds being provided to minority owned businesses.

## **F. RLF LOAN SELECTION CRITERIA**

As stated in this RLF Plan, the proposed RLF program has several “economic impact” criteria that have been developed for the program. Loan applications will be considered based upon whether they meet these criteria:

1. Loan applications being considered must be consistent with this RLF Plan.
2. Loan applications being considered must be consistent with the Racine County EDP and City of Racine strategies.
3. Borrowers are not eligible for RLF financing if credit is otherwise available on terms and conditions that would permit the completion and/or successful accomplishment of the project activities to be financed. This will ensure the maximum amount of private sector leverage.
4. The program would require the creation or retention of an average of one full time equivalent (FTE) job for every \$35,000 of RLF investment, unless waived by the RCEDC Loan Advisory Committee and Board for an alternative economic development impact as outlined above. In addition, the RLF program will target those projects that result in

the creation or retention of higher- skill and higher- wage jobs. The program will target those that pay above minimum wage, and offer fringe benefits.

5. Projects that will emphasize the creation of new tax base that can provide a location for business in the City of Racine as its primary objective.
6. Projects that will target the development of minority-owned businesses in areas with high minority unemployment.
7. Loan applicants that will encourage the development of women-owned businesses.
8. The RLF program will also target projects that assist in addressing vacant or threatened to be vacant commercial and/or industrial buildings in the City of Racine.

## **G. PERFORMANCE ASSESSMENT PROCESS**

The RCEDC is responsible for maintaining the economic adjustment strategy for Racine County, evaluating the ongoing economic development program, and updating the strategy to reflect the changing needs of the area. Periodically, the RCEDC participates in the updating the Racine County Economic Development Plan (EDP) which is adopted by the Racine County Board.

With each update to the RLF standards and financing policies of this Loan Fund program, revisions of the EDP or City of Racine strategies will be evaluated and incorporated into the RLF Plan as appropriate. If changes should occur in the local economy that would justify redefining the program, the RLF plan would be amended to meet the changing conditions of the future needs of the City of Racine. All such amendments would require a written approval of the EDA, the City of Racine, and the RCEDC. At a minimum, the RLF Plan will be updated every five years.

## **PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES**

### **A. ORGANIZATIONAL STRUCTURE**

The City of Racine and RCEDC were co-grantees for the RLF with RCEDC acting as the administrative agent for the RLF program. The RCEDC is a nonprofit development corporation that was incorporated in 1983 for the purpose of coordinating economic development activities and programs in the City of Racine. The RCEDC provides staff support for the RLF program and the RCEDC Board of Directors functions as the Loan Administration Board.

#### **1. Critical Operational Functions:**

Given the structure of the RCEDC several of the critical operational functions are shared amongst staff members. The primary individual responsible for each of the core seven (7) functions identified by EDA is list below with a more detailed overview of each staff member's responsibilities following in the Staff Capacity section.

- (1) Marketing: Marketing Events Coordinator
- (2) Business Assistance: Loan Officer(s)
- (3) Environmental Review: Loan Officer(s)
- (4) Loan Processing: Loan Officer(s)
- (5) Loan Closings: Loan Closer
- (6) Loan Servicing: Administrative Assistant
- (7) Organizational Administration: Controller (financial record keeping) and Business Finance

Manager (compliance with EDA requirements)

#### Staff Capacity

The staff for the RLF program consists of the staff of the RCEDC, including the Executive Director, Business Finance Manager, Loan Closer, two Loan Officers, Portfolio Manager for Northeastern Wisconsin SBA Loans, BLP Administrative Assistant, Controller, three (3) staff in the Business Development Division (business recruitment and expansion) and marketing staff. The staff functions include program development; marketing; financial analysis; loan packaging, processing, closing; and servicing and are segregated as follows:

#### Executive Director

- Management of RCEDC including oversight of each division.
- Assists with marketing of the loan programs.

#### Business Finance Manager

- Management of the financing division
- Marketing the loan programs
- Screening applications for loan eligibility and making partner referrals if appropriate
- Final signoff on loan presentations to Committees

#### Loan Closer

- Closes loans with the support of outside legal counsel to ensure all conditions of the loan approval have been addressed
- Maintains policy manuals and reports
- Addresses requests for information from EDA or City of Racine with respect to the RLF
- Monitors all Troubled Loans/Loan Liquidations

#### Loan Officers (2)

- Complete loan underwriting including final loan presentation and analysis (cash flow; collateral; loan risk rating)
- Reviews environmental reports and inspection reports
- Pre-Processing a loan application including but not limited to: Public Records Checks, Spreads financial statements; Cash Flow; Collateral; Identify Application Needs; Loan Risk Rating; provides Business Finance Manager a recommendation on credit eligibility and ability to repay
- Maintains Portfolio compliance with servicing documentation; loan risk rating; industry concentrations.

#### Portfolio Manager for Northeast Wisconsin SBA Loans

- Assists the Credit Analyst with portfolio compliance with servicing documentation and risk rating for the SBA portfolio in Northeast Wisconsin.

#### Administrative Assistant:

- Coordinates Loan Advisory Committee meetings and completes meeting minutes;
- Loan servicing support as directed by the Business Finance Manager including but not limited to: review insurance policies, monitoring for receipt of financial statements; monitoring real estate tax payments; and follow up communications with the borrower or agent on these matters;

- Completes reports related to servicing the loan portfolio; and
- Loan application and closing support as directly by the Business Finance Manager.

#### Controller

- Reporting requirements including all reporting required by EDA.
- Handles all loan disbursements and collection of monthly payments.

#### Business Development (Recruitment & Expansion) Division

- Assists with marketing the loan program including meeting with companies that may have a financing need and making appropriate referrals to the financing division.

Additional RCEDC staff that are not directly involved in administering the RLF also assist in marketing the program to local businesses. The staff responsible for the administration of the RLF has extensive experience in the area of economic and community development and the administration of nonconventional business loan programs including the SBA 504 program offered throughout Wisconsin.

RLF committee members who are employed by a financial institution that is a part of any given RLF loan package will be excluded from voting on all matters relating to that particular project.

The RCEDC has a complete operations aggregate general liability insurance limit of \$3,000,000 with each occurrence limited at \$3,000,000 through Lloyds of London. To the best of our knowledge, non-profit corporations in Wisconsin need not be bonded in order to administer public funds.

## 2. Loan Administration Board

The RCEDC and the City of Racine have chosen to delegate the responsibility for the RLF program to the RCEDC Board, which is currently comprised of ten (10) directors with a majority representing a quorum and a majority of those votes constituting the final decision. These members include representatives of local units of government and community representatives including executives of local businesses and commercial lenders.

The RCEDC Board functions as the Loan Administration Board for the RLF program. RCEDC Board members are nominated and elected to the Board as follows: The following three (3) persons shall automatically be appointed to the board of directors of the corporation: (i) the Racine County Executive, (ii) the Director of the Racine County Department of Planning and Development Services, and (iii) the Mayor of the City of Racine. The remaining up to eight (8) directors are nominated and elected by the Board for three (3) year terms. The RCEDC Executive Director evaluates the composition of the Board to determine whether there is adequate representation of those with lending expertise, minorities and females. Even more specifically, the RCEDC seeks members with the following skills as required by SBA regulations:

- Internal Controls
- Financial Risk Management
- Commercial Lending
- Legal Issues relating to Commercial Lending
- Corporate Governance
- Economic, Community or Workforce Development

When nominations are sought, if additional representation is needed in specific areas, that need is emphasized when seeking new nominees for the Board with priority given to those that meet the needs.

Once a loan application is received and processed by the RCEDC staff, it first goes before the RCEDC Loan Advisory Committee for consideration. The Loan Advisory Committee is comprised of up to ten (10) members that represent a cross-section of the business community. The RCEDC Loan Advisory Committee is responsible for reviewing loan requests and making funding recommendations to the RCEDC Board. The Loan Advisory Committee members are selected on the basis of their area of representation and appointed by the RCEDC Board. The RCEDC Loan Committee typically includes the following representation: 1) bankers; 2) attorney; 3) accountants; 4) business representatives; 5) small business resource provider; and 5) a contractor. A majority of Loan Advisory Committee members represents a quorum with a majority of the votes constituting the final decision.

#### Conflicts of Interest

The RLF program conflict of interest policies are as follows:

(a) RCEDC will maintain the highest standards of conduct to prevent conflicts of interest in connection with the RLF program. A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests. A conflict may also exist where there is an appearance that an Interested Party's objectivity in performing his or her responsibilities under the program is impaired. For example, an appearance of impairment of objectivity may result from an organizational conflict where, because of other activities or relationships with other persons or entities, an Interested Party is unable to render impartial assistance, services or advice to the Recipient, a participant in the Project or to the Federal government. Additionally, a conflict of interest may result from non-financial gain to an Interested Party, such as benefit to reputation or prestige in a professional field.

(b) The RLF program prohibits RCEDC Staff, Loan Advisory Committee members, Board members, Leadership Council members, consultants (including accounting and legal service providers) and their immediate family members (Interested Parties) from obtaining direct or indirect financial or personal benefits as a result of making an RLF loan decision.

(1) The RCEDC staff, Loan Advisory Committee members and Board members shall not receive any direct or indirect financial or personal benefits in connection with the RLF program or its use for payment or reimbursement of costs by or to the Recipient.

(2) An Interested Party shall also not, directly or indirectly, solicit or accept any gift, gratuity, favor, entertainment or other benefit having monetary value, for himself or herself or for another person or entity, from any person or organization which has obtained or seeks to obtain assistance from the RLF program.

(3) An Interested Party of a Recipient of an RLF Grant shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF loans. A financial interest or benefit may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a sub-award.

(4) A Recipient of an RLF Grant shall also not lend RLF funds to an Interested Party; and



(5) Former Board members and members of his or her Immediate Family shall not receive a loan from the RLF for a period of two (2) years from the date that the board member last served on the RLF's Board.

(c) The RLF will follow EDA's Conflicts of Interest Policy outlined in (13 CFR § 300.3; 13 CFR § 302.17)

(d) Duty to Disclose: Recipient must, in a timely fashion, disclose to EDA in writing any actual or potential conflict of interest.

(e) Written Standard of Conduct: RCEDC will maintain written standards of conduct to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of a personal or organizational conflict of interest or personal gain in the administration of the RLF. RCEDC staff, Loan Advisory Committee members, and Board members sign an annual conflict of interest statement.

#### Marketing Strategy

The RCEDC staff will be responsible for marketing the RLF program in the City of Racine. The marketing efforts for the RLF program will consist of a variety of activities that will be used to provide business persons with information on the program and promote the availability of the RLF loans. These activities may include the following:

- Meetings with local government officials to inform them of the program and to seek their support;
- Meetings with representatives of financial institutions and commercial real estate firms to explain the program and to request their assistance in promoting the program;
- Meetings with representatives of manufacturing firms and developers in the City of Racine to promote the availability of the program;
- Articles on businesses that have successfully used the program and press news releases placed in the RCEDC newsletters and local newspapers to promote the RLF program and to provide local business persons with information on the availability of RLF funds; and
- Promotion through social media.

The RCEDC has created a trade name for its finance division, Business Lending Partners (BLP), in order to highlight the loan programs offered through the organization. A separate website has been developed for this division which promotes the City RLF program in addition to RCEDC's website.

## **B. LOAN PROCESSING PROCEDURES**

The loan selection and approval process will be conducted in the same efficient manner that the existing public sector loan programs are currently being administered. The RCEDC is responsible for administering a portfolio that has closed 489 loans with total public sector financing of nearly \$136.9 million towards total project costs of over \$577.5 million. There are now 144 active loans with outstanding principal balances totaling over \$52.3 million in public sector financing. The delegation of the RCEDC as the agent for this EDA grant ensures that the revolving loan fund is coordinated with other loan programs and integrated with all economic development activities in the City.

As indicated, the day-to-day operation of the RLF program is the responsibility of the RCEDC staff which is also responsible for all administrative activities identified in this plan. However, only the RCEDC Board has the authority to approve loans and make the policy recommendations necessary to efficiently

administer RLF loan activities.

1. Standard Loan Application Requirements:

Included as Exhibit A is an application checklist showing the items that must be submitted by each applicant to be considered for an RLF loan. Not all checklist items will apply for each loan applicant and certain situations may also require additional items not on the list. Generally, the application requirements include a completed loan application, private sector financing commitment, business plan, and copies of all credit reports and appraisals that are obtained on the project, if applicable. The staff responsible for working with loan applicants interested in pursuing an RLF loan are outlined in the Staff Capacity section in part A above. The staff primarily responsible for loan processing are the Loan Officers.

2. Credit and Financial Analysis:

Applications that are submitted to the RCEDC for the RLF program will be examined to determine if the proposed project conforms to the standards and financing policies as set forth in this plan, as well as conforming to the following business credit guidelines:

- a) Financial projections will be examined to determine if sales growth; cost of goods sold; gross profit margin; selling, general, and administrative expenses; and earnings before taxes as a percent of sales conform with industry standards or provides an explanation of variances. Industry standards as reported in the most recent edition of Robert Morris Associates, "Annual Statement Studies", will be used for these comparisons.
- b) Financial statements and projections, if applicable, will be examined to determine if there is sufficient cash flow for the proposed project to cover debt service and the additional expenses that will be generated as a result of the project. When the proposed project will result in a cash shortfall, the RCEDC staff will examine the feasibility of using other conventional or public sector financing programs to provide a working capital loan as a part of the financing package.
- c) The application materials will be examined to determine, to the extent feasible, whether a market exists for the proposed project.
- d) Project collateral will be examined, and using conventional discounting factors, a determination will be made regarding the adequacy of project collateral should a default occur.

RCEDC staff will review the application for completeness and verify that the proposed project meets the minimum requirements provided in the RLF plan. If the application is not complete, RCEDC staff will inform the applicant of the deficiencies.

Once the application is complete, the RCEDC staff will conduct full loan processing and analyses, then prepare a written presentation for the Loan Advisory Committee that typically includes information on the company's history, management experience, a summary of the company's products and services, market conditions, a cash flow analysis, a collateral analysis, a review of the company's financial history or in the case of a start-up, the business plan and financial projections, and a review of personal and if deemed necessary corporate credit reports. The loan presentation will also include a summary of how the project would be consistent with the RLF's financing policy and whether there are any environmental issues.

At minimum the following will be addressed:

- (1) Credit Reports:  
Credit reports will be pulled and reviewed on each key owner of the business. Key owner will typically be any individual that owns 20% or more unless RCEDC staff determine otherwise based on information provided in the loan application. Corporate credit reports will be pulled and reviewed if appropriate for underwriting the loan.
  - (2) Standard Collateral Requirements:  
Typically only a lien (mortgage or security agreement/UCC) on those assets financed as a part of the RLF project will be sought along with personal (20% or more owner) and corporate guarantees (corporations involved or key affiliate companies). RCEDC staff may also require additional collateral such as key man life insurance dependent on the loan size and the overall credit review of the applicant. All collateral will be required to have insurance coverage to protect the RLF.
  - (3) Standard Equity Requirements:  
The RLF program will require a 10 percent equity injection for each RLF loan, when appropriate. Consideration will be given for individuals that have made substantial equity commitments to the applicant business, as well as to individuals who do not have sufficient financial resources to contribute to the RLF project. All equity contributions must be provided through private sources. The RLF program will not be used to purchase or finance equity. This policy applies to all loan applicants regardless of type of business. Prior to closing, Borrower must evidence the appropriate equity injections have been made with documentation acceptable to the RCEDC Staff, such as settlement statements or closing cost statements for real estate loans, copies of checks or paid invoices for equipment or other assets, etc. In the case of working capital loans, business financial statements may suffice, if deemed appropriate.
  - (4) Appraisal Reports:  
Prior to closing, the RCEDC staff will obtain a real estate appraisal when this is included as a contingency of the loan. In most cases, the financial institution providing financing to the business will obtain the appraisal and provide a copy for the RLF loan. A financial institution internal evaluation may be used to substitute an appraisal when approved by the Loan Advisory Committee.
  - (5) Credit not otherwise available (bank letter):  
A determination that financing is not available elsewhere will be made by RCEDC staff as it evaluates the project for eligibility for the RLF loan program versus other resources available. Additionally, the participating financial institution will be required to provide a letter indicating the level of their participation and that their participation is contingent upon participation of the RLF loan program.
3. Environmental Review (including Historic Preservation):  
RLF loan applications must include data concerning all environmental impacts of activities to be financed. The RCEDC Loan Advisory Committee, through the RCEDC staff and more specifically the Loan Officer, will assess any environmental impacts of activities to be financed, in compliance with the National Environmental Policy act of 1969 and other Federal

environmental mandates, as required. No activity will be financed that would result in a significant adverse environmental impact unless that impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, the RCEDC Loan Advisory Committee will make any required mitigations part of the loan conditions.

For construction projects the following procedures will be followed:

- (1) RCEDC staff will determine whether the project will result in a significant adverse environmental impact. The applicant may be asked to submit additional documentation as necessary to make the determination. No activity shall be financed which would result in a significant adverse environmental impact unless that impact is to be mitigated to the point of insignificance. When necessary to ensure compliance any required mitigation shall be made part of the loan conditions.
- (2) RCEDC staff will determine whether the project involves new above-ground development within a floodplain based on a review of the proposed development against FEMA Flood Insurance Rate Maps. No activity shall be financed which would result in new above-ground development in a 100- year floodplain, per E.O. 11988. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.
- (3) RCEDC Loan Advisory Committee will not approve projects which would result in construction, other than underground utilities, in the 100-year floodplain as defined by the Federal Emergency Management Agency (FEMA), unless all capacity removed from such floodplain is to be restored by excavation or other appropriate means.
- (4) RCEDC Staff will determine whether the project will be located within or adjacent to any wetland area. The applicant may be required to provide wetland delineation information as necessary. No activity shall be financed which would result in alternation of any wetland or in any adverse impact on any wetland without consultation with the U.S. Department of Interior Fish and Wildlife Service and, if applicable, a Section 404 Permit with the Army Corp of Engineers shall be obtained.
- (5) RCEDC Staff shall notify the Wisconsin Historic Preservation Officer (SHPO) of each approved loan that involves significant new construction and expansion and request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to closing of the loan. In cases where SHPO has recommended actions or has determined an adverse impact, RCEDC Staff and the applicant must work with the SHPO and EDA to address any issues identified before the loan is closed.
- (6) All loan applicants are required to provide information regarding whether or not there are hazardous materials such as EPA listed hazardous substances (see 40 CFR 300), leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials present on or adjacent to the affected property that have been improperly handled and have the potential of endangering public health, if deemed necessary, the loan applicant may be required to perform or provide evidence of performance of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and/or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants. No activity shall be financed which involve unresolved site contamination issues. Loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues before any loan can be approved for the affected site.

4. Loan Presentation:

RCEDC staff will prepare written loan presentations that will be provided to the RCEDC Loan Advisory Committee for consideration prior to making a lending decision. The presentations will

detail how the proposed project does not replace private sector funding sources as the private sector dollars used to leverage the RLF dollars will be specified, as well as typically provide a summary of the firm's history, management, product, production capability, market conditions, financing needs, assets to be pledged as collateral, repayment ability, consistency of the proposed project with the RLF financing policy, and whether there are any environmental problems associated with the project.

5. Procedures for Loan Approvals:

The RCEDC Loan Advisory Committee will meet to review an application within 30 days of the receipt of a completed application. Once the review is completed and the proposal is acceptable for funding, the Loan Advisory Committee will forward the request to the RCEDC Board with its approval recommendation. The Board has final authority for all loan approvals. Included in the Board presentation is information on how the loan fits into the eligibility criteria for the RLF program and the loan selection criteria of the RLF Plan based upon the goals of the EDP. A quorum is required of each Committee to vote on a loan application and a majority of the votes determine the decision. Meeting minutes are recorded, approved at a subsequent Committee meeting, signed and retained in RCEDC files.

6. Negotiation of Terms:

Upon acceptance by the RCEDC Board, RCEDC staff will contact the business to review and explain the terms of the loan.

7. Notice of Award:

If the application is approved, a written RLF loan term sheet will be issued which will include the equity injection requirements of the applicant. A closing will be scheduled to execute the necessary loan documents.

8. Rejection of Award:

If the application is not approved, RCEDC staff will notify the applicant of the reasons for rejection and offer to meet with the applicant to explore ways to strengthen the loan request or to identify alternative funding sources.

9. Procedures for complying with EDA Reporting Requirements

The RCEDC staff will be responsible for ensuring compliance with applicable environmental laws and regulations, monitoring and servicing loans made as a part of the RLF program. To assist the staff in this activity, a financial management system will be maintained that will provide financial records for both disbursing funds and for monitoring loan payments made to the RCEDC. In addition, the RCEDC will comply with the single audit requirements as set forth in the EDA Title IX Audit Guidelines.

10. Civil Rights:

No applicant will be denied a loan on the basis of race, color, national origin, religion, age, handicap, or sex. The RLF marketing effort, as described herein, will attempt to inform all business people in the country of the availability of the RLF program.

11. Relocation:

The location for all RLF loan projects will be within City of Racine. An RLF loan will be considered in default if the business moves out of the City. In addition, the RLF program will not fund projects that are relocating jobs from outside of the local labor market area. The

labor market area is defined as all areas within a 25-mile radius of the boundaries of the City of Racine.

12. Flood Hazard Insurance:

RLF applicants will be required to obtain flood hazard insurance, when appropriate, prior to the closing of an RLF loan. The business will be required to submit proof of insurance coverage to the RCEDC on an annual basis during the outstanding term of the loan.

13. Compliance with Federal Statutory and Regulatory Requirements

The Borrower's Loan Agreement will include the requirement that all activities carried out with RLF loans, will be in compliance of any federal statutory and regulatory requirements. The RLF loan documents and procedures will protect and hold the Federal government harmless from and against all liabilities that the Federal government may incur as a result of providing an RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.

14. Environmental Study (separate from the above Environmental Review)

At a minimum, the RCEDC Staff will require an Environmental Questionnaire be required on any real estate projects being financed through the RLF program. Based upon the results of that questionnaire, the loan applicant may be required to provide a Phase I Site Assessment or Phase II Site Assessment or something further to ensure that there is minimal risk of any recognized environmental concerns.

## C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

Prior to releasing funds, the RCEDC will assemble the necessary documentation to secure the RLF financing as outlined in this section.

1. Loan Closing Documents:

(1) Loan Application

This is required as part of the loan consideration process. A complete application must be received prior to consideration by the RCEDC Loan Advisory Committee and Board. A signed copy of this application will be kept by RCEDC.

(2) Loan Agreement

The RCEDC Attorney will prepare a loan agreement which will be executed by the appropriate officers of the RCEDC, as well as the authorized representatives of the business. The Loan Agreement will detail the approved use of RLF loan proceeds. All RLF loan documents and procedures must hold the Federal government harmless from and against all liabilities that the Federal government incurs as a result of providing RLF Grant assistance directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.

(3) Loan Approval and Meeting Minutes

The RCEDC Loan Advisory Committee and Board will review and approve a loan application based upon a loan presentation by RCEDC staff for each eligible applicant. Upon approval of the loan, a loan term sheet will be issued detailing the terms and conditions of the loan. RCEDC Loan Advisory Committee and Board minutes will be kept in RCEDC files reflecting loan

approvals and key discussion points.

(4) Promissory Note

A promissory note will be prepared by the RCEDC Attorney and signed by the authorized representatives of the applicant at the time of loan closing. The note will be dated, reference the agreement between the RCEDC and the business, and specify the amount and terms of the loan funds to be delivered.

(5) Security Agreements and Mortgage

Mortgage and/or lien instruments and personal guarantees provided as security for all loans will be prepared by the RCEDC Attorney and executed at the time of the loan closing. The RCEDC Attorney or Staff will record all security instruments and place copies in the project file, as applicable, to include; a) mortgage and/or security agreement; b) UCC searches and filing; c) guarantee agreement; d) title insurance commitment and policy (unless the requirement was waived by the RCEDC Loan Advisory Committee and Board); assignment of life insurance; f) property-casualty insurance documentation; g) personal guarantee; and h) other documentation as may be appropriate.

(6) Intercreditor Agreement

Where applicable RCEDC and the participating financial institution/prior lien holder will enter into an intercreditor agreement drafted by the RCEDC Attorney that will memorialize the final lien positions, credit limits, and collateral restrictions, if applicable.

(7) Bank Letter

A copy of the signed bank letter will be obtained prior to closing indicating the extent of bank financing and the need for RLF participation to demonstrate that credit is not otherwise available.

(8) Amortization Schedule

An amortization schedule will be prepared by RCEDC staff and forwarded to the loan recipient after all loan proceeds are fully disbursed.

(9) Evidence of Program Expenditures

Documentation will be provided by the applicant to evidence RLF program expenditures are made in accordance with the Loan Agreement. Documentation may include invoices or receipts for materials and supplies, final bills of sale, letters from lenders, and/or canceled checks. All documentation will be reviewed and approved by RCEDC staff. Progress payments may be provided on projects that exceed 30 days. RCEDC staff will also verify the installation of all fixed equipment.

(10) Other Documentation

Documentation will be provided by the applicant to evidence that all required permits, licenses, and registrations have been obtained prior to the release of RLF funds. As appropriate or necessary, the borrower will also be asked to provide the following documentation: a) a certificate of good standing from the Secretary of State; b) articles of incorporation and by-laws; c) a resolution or agreement to borrow funds; d) current financial statements; e) evidence of having secured other funds necessary for the project; and f) an environmental analysis for real estate loans.

## 2. Loan Agreement Provisions:

The RCEDC Attorney will prepare a loan agreement which will be executed by the appropriate officers of the RCEDC, as well as the authorized representatives of the business. The Loan Agreement will:

- Detail the approved use of RLF loan proceeds.
- Clearly state the purpose of the loan
- All RLF loan documents and procedures must protect and hold the Federal government harmless from and against all liabilities that the Federal government incurs as a result of providing RLF Grant assistance directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.
- All borrowers, consultants, or contractors will comply with Federal statutory and regulatory requirements that apply to activities carried out with RLF loans will be specified in Loan Agreements which will also include loan call stipulations for instances of non-compliance.

## 3. Loan Disbursement Procedures:

Loan funds will be disbursed following the closing of the RLF loan. Funds will be disbursed based upon invoices received or progress payments agreed upon. In cases of working capital, installments will typically be utilized with disbursements made following sufficient evidence of how the last installment was used. This may be demonstrated through company financial statements, invoices, cancelled checks or other documentation deemed appropriated by RCEDC.

## **D. LOAN SERVICING PROCEDURES**

### Repayment/Loan Payment and Collection Procedures

All borrowers are set up on an automatic debit system (AHC) to ensure timely loan payments and deposit of funds. Each month's ACH is drafted by the RCEDC Controller and reviewed and approved by the BLP Administrative Assistant.

### Late Payment Follow-Up Procedures

1. Any RLF loan payment not received within fifteen (15) days of its due date is assessed a delinquency charge that can be waived by RCEDC staff. The late fee will be 5% of the payment amount or \$50.00, whichever is greater.
2. The borrower is contacted subsequent to any rejection of the automatic withdrawal. Should the first debit reject, a second attempt is made. Should the second attempt reject, the borrower is notified to remit payment by check, including any delinquency charges, and NSF fees owing.
3. Should the borrower become more than thirty (30) days delinquent, a meeting is requested by RCEDC staff with the participating lender and borrower to discuss the reason for the delinquency and their plan for repayment.
4. Any loan over thirty (30) days delinquent is reported to RCEDC Loan Advisory Committee, and appropriate action taken.

### Procedures for Handling a Loan Over 90 Days in Arrears

1. RCEDC staff closely monitors the loan and continues to communicate with the borrower and participating lender.
2. Loans are reported to the RCEDC Loan Advisory Committee and a collateral analysis is conducted.
3. If no repayment plan is agreed upon, legal counsel is sought.
4. When an RLF Recipient receives proceeds on a defaulted RLF loan that is not subject to



liquidation, such proceeds shall be applied in the following order of priority:

- a) Costs of collection;
- b) Outstanding penalties and fees;
- c) Accrued interest to the extent due and payable; and
- d) Outstanding principal balance.

#### Write-Off Procedures

1. RLF write-offs have been accounted for by establishing an "Allowance for Doubtful Accounts" as determined on an annual basis taking into consideration factors such as historical portfolio performance, current economic conditions and collateral positions compared to outstanding balances on loans graded as 'at risk'. This account is examined annually with the RCEDC auditors to determine its adequacy.
2. The RCEDC Loan Advisory Committee and legal counsel are consulted to determine whether all efforts have been made to recover funds.
3. If all appropriate legal actions have been executed and chances of recovery determined minimal, the RCEDC Board is requested to formally write off the loan.

#### Loan Monitoring Procedures

1. Monthly monitoring of loan payment status is done by RCEDC staff through examination of bank statements and preparation of a monthly Loan Balance Report and quarterly Portfolio Status Report. The Portfolio Status Report is reviewed by the Business Finance Manager, the RCEDC Loan Advisory Committee and the RCEDC Board. See discussion below for potential and actual delinquencies.

Annual monitoring of loan conditions is done by RCEDC staff including the following

- a. Financial statements reviewed and loan is risk rated annually.
- b. All insurance covering collateral is reviewed annually and on an as needed basis when notifications are received from insurance companies.
- c. UCC filings are monitored to ensure they are continued prior to expiration.
- d. Site visits are conducted as needed.
- e. Real estate taxes, if applicable, are reviewed semi-annually to confirm prompt payment.
- f. Ticklers are maintained to ensure compliance with the above loan conditions and compliance with any Federal requirements of the grant.
- g. An Employment clause is included in the Loan Agreement detailing the job creation commitment. Confirmation of job creation is documented by the borrower in writing certifying to actual jobs created compared to jobs at the time of application.

#### Loan Files/Recordkeeping

A loan file will be established and maintained either on paper or electronically for each loan recipient that includes the following:

1. Loan Application File: The loan application file will include a copy of the RLF application, business financial statements, personal financial statements, business plan documents, and other supporting loan information submitted to the RCEDC, including all applicable correspondence. In addition, the file will contain a copy of the loan application summary with recommended action regarding the application. RCEDC Loan Advisory Committee and meeting minutes will be kept in separate RCEDC files for those Committees.

2. Loan Collateral File: The loan collateral file will include all original closing documents applicable to the transaction, including the term sheet, loan agreement, note, mortgage, security agreements, UCC filings, guarantees, and other applicable security instruments; closing statement; title insurance commitment and policy, if applicable; authorization for automatic debit, life insurance policies with assignments and agreements pertaining to job creation/retention. Original copies of loan collateral documents will be placed in a locked, fireproof cabinet. Copies of the loan closing documents and an amortization schedule will be provided to the loan recipient.
3. Loan Closing File: The loan closing file will include all documentation required to be provided by the loan recipient in advance of loan closing and disbursement of funds including but not limited to certificates of insurance for all collateral, corporate documents such as By Laws, Articles of Corporation, lien searches, evidence of equity injection, copies of bank loan documents and other documents collected at part of the closing process.
4. Loan Servicing File: RLF records will be maintained that include the following:
  - a. "Tickler File" System: A tickler system will be established to ensure that loan repayments, financial information, the loan agreement, UCC continuation, and other documentation requirements are tracked and obtained as required. The system will include the following:
    - i. Expiration dates for property-casualty and/or life insurance policies;
    - ii. Due dates for all financial statements;
    - iii. Expiration dates for UCC Financing Statements, the reminder to update being at least 45 days prior to the expiration of the filing on hand;
    - iv. Scheduled dates of annual loan performance and covenant reviews;
    - v. Dates of site visits;
    - vi. Due dates for property tax payments and dates by which the community expects to hear from the borrower regarding confirmation of payment of taxes;
    - vii. Review dates for job monitoring; and
    - viii. Dates on which changes in the loan amortization schedules will take place.
  - b. Financial Statement Risk Rating: The financial statements risk rating reports will include the business' annual financial statements as required by the loan covenants with the applicable risk rating and comments.
  - c. Site Visit Reports: RCEDC staff may make periodic field visits to loan recipients. A summary of each site visit will be recorded, including any information that can assist in rating the overall condition/risk of the loan.
  - d. Job Creation: The RLF loan application will include a certification from the borrower regarding the number of full time equivalent employees they employ. RCEDC will monitor jobs by collecting an jobs memorandum from the Borrower on the required reporting dates which will include a certification as to the number of current full time equivalent employees on the payroll.
5. Repayment Monitoring: Repayment monitoring will include the loan amortization schedule the status of payments on the RLF loan. Observations regarding concerns or problems will be reported to the RCEDC Loan Advisory Committee and notations placed on the Quarterly Troubled Loan List to remind RCEDC staff of the need to provide continued monitoring.

6. Loan Review/Risk Rating Register: All loans will be reviewed on an annual basis, and at such other times as may be deemed necessary by the RCEDC. The review will follow receipt of the fiscal year-end financial statements. A report on the loan review will be placed in the Loan Servicing File and address the overall financial condition of the business; the presence of material liens or lawsuits; and violations of loan covenants.

If the business is experiencing problems, RCEDC staff will work with the loan recipient to identify actions that are needed to correct the identified deficiencies, including possible restructuring of the loan to improve cash flow within the business. Restructuring can include deferring principal and interest payments and/or adjusting the rate of interest. If appropriate, RCEDC staff will arrange for business counseling assistance.

7. File Retention: RCEDC shall maintain closed loan files and all related documents, books of account, computer data files and other records over the term of the closed loan and for a three-year period from the date of final disposition of such closed loan. The date of the final disposition of a closed loan is the date:
  - i. Principal, interest, fees, penalties and all other costs associated with the closed loan have been paid in full; or
  - ii. Final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the closed loan have occurred.

## **E. ADMINISTRATIVE PROCEDURES**

1. New RLF's: This section is left blank as this is not a 'new RLF'.
2. Accounting: The RLF loan funds are retained in a separate bank account for this RLF program. Accounting records clearly detail loan repayments, interest earned and other transactions from the account. These statements are reconciled with bank statements monthly. Both the EDA share and local match of funds for this program are tracked in this bank account. The RLF will operate in accordance with Generally Accepted Accounting Principles (GAAP).
3. Administrative Costs: RLF Administrative costs will be charged to the RLF bank account monthly and tracked by the RCEDC Controller. The RCEDC Controller retains records on costs and expenses incurred to document the amount and percent of RLF income expended to the RLF. In the event that administrative costs exceed 100% of program income RCEDC will cover these cost overruns through other loan program revenues. Sources of covering the administrative costs of the program including the following:
  1. Interest Payments on Recycled RLF Funds and Sales of RLF Loans:  
The RLF program will utilize up to 100 percent of any and all program income earned on recycled RLF funds and deposited repayments for actual expenses associated with the administration of the RLF. Those interest payments that are not utilized for administrative cost will be placed in the RLF for relending to other businesses.
  2. Loan Origination Fee:  
The RLF program will charge a loan origination fee of 1.5 percent on all RLF loans. The RLF reserves the right to waive or reduce this loan origination fee when deemed appropriate. The loan origination fee will be used to pay for administrative costs

associated with the RLF program.

In accordance with the CFRs, the RCEDC will retain records of administrative expenses incurred for activities and equipment relating to the operation of the RLF for three years from the actual submission date of any report that covers the fiscal year in which such costs were claimed. These records will be made available for inspection by EDA upon request.

4. Capital Utilization & Sequestration:

During the Revolving Phase, the RCEDC will manage the repayment and lending schedules to provide that at all times the allowable cash percentage as indicated by EDA each year is monitored and enforced to avoid the RLF from exceeding the allowance cash percentage.

5. EDA Reporting:

The RCEDC Controller is responsible for reporting requirements. RCEDC will complete and submit an RLF report, using Form ED-209, in a format and frequency as required by EDA. As a part of this report RCEDC will certify that the RLF is operating in accordance with the applicable RLF Plan and that the information provided is complete and accurate.

6. Audits:

The RLF funds are subject to an annual audit requirement by the EDA and the full value of the RLF (outstanding loans and available cash) must be shown every year on the RCEDC's Schedule of Federal Expenditures. If the dollar amount of the RLF qualifies the RLF as a major federal program, the RCEDC must ensure that the auditor performs the required federal audit procedures.

7. Safekeeping of loan documents.

Loan collateral files including those documents referenced under recordkeeping: Loan Collateral Files above will be placed in a locked, fireproof filing cabinet. All other loan files will be kept either electronically or in locked filing cabinets at the offices of RCEDC.

## Exhibit A - LOAN APPLICATION CHECKLIST

<b>Documentation Requirements</b>	<b>Provided to BLP</b>
<i>*Original signature and date must be provided on <u>all</u> documents</i>	
Completed Business Loan Application (form attached).	
If the borrower is a new business, a Business Plan including description of business products/services, history of Company and management and a market analysis which includes key customers, size of market, competitors and competitors and	
Resumes on all owners, officers and key management (SBA form attached).	
Personal Financial Statements for all 20% or more owners (SBA form attached). If married, spouse must also sign and date this document.	
Documentation to substantiate costs, i.e. quotes on equipment, accepted offer to purchase, construction contract on real estate, etc.	
Last three years of Profit & Loss Statements, Balance Sheets, cash flows and net worth reconciliation.	
Interim financial statements including Profit & Loss and Balance Sheets (if more than 120 days since year-end) together with an aging of accounts receivable and accounts payable.	
Projections for next two years including Profit & Loss and Balance Sheets with detailed assumptions. If borrower is a new business, an opening balance sheet and monthly cash flow statements for the first 12 months or three months beyond	
Last three years Corporate and Personal Federal Tax Returns	
Information on any other businesses owned/partially owned by the owners, including names, ownership structure and the last three year-end federal tax returns.	
Bank Credit Memorandum (to be provided by the Bank).	
Commitment Letters for all funding sources.	
<b>Other Requirements:</b>	
1. Appraisal.	
2. Environmental Assessment.	
3. Information of the applicants' life insurance policies if a collateral assignment is required.	