

CITY OF RACINE
TITLE IX REVOLVING LOAN FUND PLAN

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City of Racine

Title IX Revolving Loan Fund Plan

Table of Contents

Part I: Revolving Loan Fund Strategy	Page
A. Economic Adjustment Overview.....	3
B. Business Development Strategy.....	13
C. Financing Strategy.....	18
D. Financing Policies.....	20
E. Portfolio Standards and Targets.....	23
F. RLF Loan Selection Criteria.....	26
G. Performance Assessment Process.....	27

Part II: Revolving Loan Fund Operational Procedures

A. Organizational Structure.....	27
B. Loan Processing Procedures.....	30
C. Loan Closing and Disbursement Procedures.....	35
D. Loan Servicing Procedures.....	36
E. Administrative Procedures.....	40

Attachments:

- A. Business Loan Checklist
- B. Loan Closing Checklist

CITY OF RACINE

TITLE IX REVOLVING LOAN FUND PLAN

PART I: REVOLVING LOAN FUND STRATEGY

A U.S. Economic Development Administration Title IX Revolving Loan Fund grant is being 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 and growth of businesses in order to create and retain jobs in the City.

A. ECONOMIC ADJUSTMENT OVERVIEW

The City of Racine has witnessed significant economic distress over the recent decades as indicated by the following data:

- 1) In 2010, the total population of the City was equal to 78,860; the total population in 2000 was 81,855. The City of Racine lost 2,995 residents, or -3.7 percent. Other areas of comparison had increases in population, including a 3.5 percent increase in Racine County, 6.0 percent in Wisconsin, and 9.7 percent in the United States (U.S. Census Bureau: 2010 Census, 2000 Census).
- 2) Per capita income in 2010 for the City of Racine is \$18,152, compared to \$25,555 for Racine County, \$25,458 for Wisconsin and \$26,059 for the United States. The City of Racine's per capita income is roughly 29% below the State of Wisconsin and Racine County (2010 American Community Survey 1-Year Estimates).
- 3) While total housing increased in the City from 33,314 in 2000 to 33,887 in 2010; 1.4 percent, this increase was less than Racine County, 10.0 percent; Wisconsin, 13.1 percent; and the United States, 13.6 percent (U.S. Census Bureau: 2010 Census, 2000 Census).
- 4) Educational attainment (high school diploma or higher) for the City of Racine is 82.8 percent. This percentage is lower in comparison to Racine County, 87.9 percent; Wisconsin, 90.1 percent; and the United States, 85.6 (2010 American Community Survey 1-Year Estimates).
- 5) In September 2011, the City of Racine unemployment rate was equal to 12.0 percent, a figure that is greater than that for Racine County, 8.6 percent; Wisconsin, 7.0 percent; and the United States, 8.8 percent (Department of Workforce Development: September 2011).

- 6) The City of Racine has a labor force of 37,390 residents; 32,914 of those residents are employed and 4,476 are unemployed. Resulting in a 12.0 percent unemployment rate (Department of Workforce Development: September 2011).
- 7) The City's economy has suffered a major economic loss in the recession of 2008-2009. Unemployment rates ranged from 7.6 - 17.6 percent from 2008-2010. Unemployment rates in the City of Racine reached its height in February 2010 at 17.6 percent; compared to 12.1 percent for Racine County, 10.3 percent for Wisconsin, and 10.4 percent for the U.S. (Department of Workforce Development).
- 8) The City supply of industrial park land is nearly depleted limiting opportunity for additional manufacturing development. There are currently 14 acres of industrial land left for development in the City of Racine, only 8 acres are contiguous.
- 9) There are no Class A industrial buildings in the City of Racine. The fact that there is no space prohibits businesses from relocating into the City.

Nature of the Economy

- 10) 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 73,700 total nonfarm employees:
 - i) Natural Resources, Mining and Construction:
 - (a) 3.12 percent work in Racine, SMSA;
 - (b) 3.56 percent in Wisconsin; and
 - (c) 5.03 percent in the United States.
 - ii) Manufacturing:
 - (a) **23.47 percent work in Racine, SMSA;**
 - (b) 16.28 percent in Wisconsin; and
 - (c) 8.99 percent in the United States.
 - iii) Trade, Transportation, and Utilities:
 - (a) 17.77 percent work in Racine, WI Metro SA;
 - (b) 18.45 percent in Wisconsin; and
 - (c) 18.92 percent in the United States.
 - iv) Information:
 - (a) 0.54 percent work in Racine, WI Metro SA;
 - (b) 1.70 percent in Wisconsin; and
 - (c) 2.02 percent in the United States.
 - v) Financial Activities:
 - (a) 3.80 percent work in Racine, WI Metro SA;
 - (b) 5.52 percent in Wisconsin; and
 - (c) 5.78 percent in the United States.

- vi) Professional and Business Services:
 - (a) 7.87 percent work in Racine, WI Metro SA;
 - (b) 9.80 percent in Wisconsin; and
 - (c) 13.19 percent in the United States.
- vii) Educational and Health Services:
 - (a) 15.74 percent work in Racine, WI Metro SA;
 - (b) 15.44 percent in Wisconsin; and
 - (c) 15.20 percent in the United States.
- viii) Leisure and Hospitality:
 - (a) 8.41 percent work in Racine, WI Metro SA;
 - (b) 9.58 percent in Wisconsin; and
 - (c) 10.21 percent in the United States.
- ix) Other Services, exc Public:
 - (a) 5.83 percent work in Racine, WI Metro SA;
 - (b) 5.21 percent in Wisconsin; and
 - (c) 4.14 percent in the United States.
- x) Government:
 - (a) 13.43 percent work in Racine, WI Metro SA;
 - (b) 14.45 percent in Wisconsin; and
 - (c) 16.54 percent in the United States.

As indicated above, the historical economic dependence on the manufacturing industry in the Racine SMSA is much greater than the comparable areas. In 2011, the manufacturing industry represents 23 percent of the Racine SMSA, a figure that could be expected to be similar in the City of Racine. This percentage has been decreasing over the years. In 2000, manufacturing was 29 percent of the economy and in 1990 it was 32 percent (Department of Workforce Development). In addition to large corporations such as S.C. Johnson & Son, Inc., CNH America LLC, Emerson Electric, Ruud Lighting, Nestle, Twin Disc, Inc., and Modine Manufacturing Company, the County has many smaller manufacturing companies. Within Racine County, manufacturing companies total approximately 430 in 2011 (Selectory.com).

During the 2008 to 2010 time period, the County overall, and the City in particular, suffered significantly losing approximately 1,800 manufacturing jobs in a two-year period. Similarly, in the somewhat milder national recession of the early 1990's, there were another 1,800 manufacturing jobs lost during an 18-month period (Department of Workforce Development).

To meet the needs of existing businesses in Racine County, RCEDC is conducting one-on-one interview with local companies. The interviews provide an opportunity to learn more about Racine County businesses, their challenges and opportunities and the company's view of the business climate in Racine County. The visits also provide an opportunity to share information about RCEDC and the services available to businesses through RCEDC and our partners.

During 2011-2013, RCEDC staff will target the over 400 manufacturing companies in Racine County, 200 of which are located in the City of Racine. Between May 2011 and October 2011, RCEDC has met with 80 companies in the County. Below is an overview of the 34 interviews conducted with City of Racine manufacturing companies to date.

- 68% of the Companies are 2nd stage manufacturing companies with between 10-99 employees.
- 86.67% of the companies state their sales are increasing, which is indicative that there will be a need for financing to support those sales increases.
- 41% of the companies indicate their primary market is national.
- 53% of the companies indicate their primary product is growing in its life cycle; 62.5% introduced a new product in the last 5 years; and, 58.06% anticipate new products in the next two years. These are all indicators that financing may be needed to support the growth of these companies.

RCEDC Response to Economic Conditions

In order to respond to the recent recession, the Racine County Economic Development Corporation (RCEDC) created the Jobs for Racine County (JRC) program, as a part of the Racine County Economic Development Plan (EDP) 5.0. This program targets City of Racine and Racine County businesses. The efforts of this program are to focus on proactive business recruitment and business retention and expansion (BRE). JRC, through different strategies, will assist businesses to create and retain jobs, create additional tax base and increase personal income in Racine County. The JRC business development strategies are detailed in Challenge Two of the EDP as described in the Strategies and Activities for that Challenge on pages 10-12 of the EDP.

Since the inception of the JRC program in January 2010, the RCEDC has assisted businesses in creating and retaining 2,849 jobs with average wage rates of \$19.22. Providing assistance to over 30 projects, RCEDC has increased the economic wealth with total project costs over \$197,500,000. Private sector participation in these projects was over \$168.5 million. Construction costs for these projects was over \$46 million adding to the local tax base. The following is a sample of the RCEDC projects to date:

1. Seda International Packaging Group selected Racine County after a competitive review of sites in the United States and Canada. This project brought almost 200 jobs to Racine County and approximately \$76 million in investments. RCEDC provided assistance with State and Local loans and also State Tax Credits.
2. DeltaHawk Engines Inc. expanded in Racine County during 2010. The company has created 25 jobs throughout the county and anticipates 100 more. They have invested over \$3,000,000 into the area. RCEDC assisted the company with receiving g City and State Department of Commerce Funds.
3. Cordstrap USA invested over \$33,000,000 into Racine County with their expansion project. RCEDC helped the company to receive State Tax Credits.

4. Summit Packaging Systems was retained and expanded during 2010 with assistance from RCEDC. This project retained 50 jobs and created 25 new ones. RCEDC played a vital role in them receiving City Grants and State Tax Credits.

5. Ruud Lighting is projected to invest over \$27,000,000 into Racine County with their project. They will also be creating 469 new jobs while retaining 618 jobs. RCEDC contributed by helping the company to attain State and Local assistance.

The redevelopment of industrial buildings in the City required the capitalization of the original City RLF in 1998, currently referred to locally as the Industrial/Commercial Building Revolving Loan Fund. However, because of the additional demand by local businesses for gap financing to assist with their funding needs as we exit the recession, the fund is to be renamed the City of Racine Revolving Loan Fund with the use of funds intended to address both of these local needs. The 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 the County of Racine. Once more, the City of Racine contracts with the RCEDC to provide all 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 29 members from both the public and private sectors, and employs a full-time executive director with a staff of sixteen professionals. The organization is representative of the community as a whole with its board of directors including representatives from local government, manufacturing, construction, accounting, legal, banking, media, and education.

RCEDC also works closely with various business groups and community organizations, including the Racine Area Manufacturers and Commerce (RAMAC), the Downtown Racine Corporation (DRC), the Community Economic Development Corporation (CEDCO), the Racine Development Group, Inc., the Women's Business Initiative Corporation (WWBIC) and most importantly, the City of Racine Economic Development Committee recently reconstituted.

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 the fifth update (edition 5.0) adopted in November 2010.

The original EDP was completed in 2002 and included a significant collection and analysis of demographic and economic data and information, much of which remains relevant today. An update to this analysis was conducted as a part of the Racine County Workforce Development Board "Higher Expectations: A Workforce Development Strategy for Racine County" in May 2008. Also, in 2009 Real Racine conducted a branding study. Finally, as a part of the development of the EDP 5.0, TIP Strategies, an RCEDC consultant, conducted a series of focus groups and a community survey designed to solicit updated information on the focus of future economic development activities.

The EDP 5.0 for Racine County is built around five challenges. *These challenges represent the areas that most directly affect the economic vitality of the county.* All of the strategies for the county, as well as the specific activities, are informed by these challenges:

Challenge One:

To Create an Entrepreneurial Culture in Racine County.

- Strategy A:** The SBDC and its respective 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.
- Strategy D:** Target additional resources and capacity to building high-impact businesses within Racine County.

Challenge Two:

To focus on a proactive business recruitment program and a business retention and expansion (BRE) program that will create and retain jobs, create additional tax base and increase personal income in Racine County.

- Strategy A:** RCEDC will continue to implement a targeted and proactive business recruitment program.
- Strategy B:** RCEDC will maintain an active BRE program that meets the needs of existing employers in Racine County.
- Strategy C:** RCEDC will support partner organizations that are working on issues that are critical to successful economic development through an active community engagement program.
- Strategy D:** Continue to provide staff assistance to business and local units of government that support business recruitment and business retention and expansion.
- Strategy E:** Focus the resources of Gateway Technical College's Center for Advanced Technology and Innovation (CATI) on becoming a regional center (Chicago-Milwaukee Corridor).

Challenge Three:

To utilize the existing natural and cultural resource, recreational opportunities and business location advantages to promote a positive image of Racine County to existing residents and those outside the County.

- Strategy A:** Local community development organizations in Racine County should continue to promote a positive image of the County to both internal and external audiences using the brand platform analysis completed by Prophet in 2002, and then restated by Boelter and Lincoln in 2009 as the blueprint for the orientation of this initiative.
- Strategy B:** To attract, engage and retain young professionals by enhancing the value of participating with Young Professionals of Racine (YPR) for members and partners; deepening YPR's commitment to the community; being the voice of

young professionals in the community; and, expanding YPR's reach both in recognition and membership.

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 development county-wide.

- Strategy A:** Provide high value real estate development opportunities that link Racine County with the Southeast Wisconsin Region and Northern Illinois, including an update of the Racine County Industrial Lands Absorption Study.
- Strategy B:** Support the extension of commuter rail 'other transit opportunities from Kenosha to Racine and Milwaukee.
- Strategy C:** Address the adequacy of public transportation for serving the needs of low- and moderate-income persons to access job opportunities in Racine County and throughout southeast Wisconsin.
- Strategy D:** Use the adopted Multi-Jurisdictional Comprehensive Plan for Racine County 2035 to properly guide urban growth and development in Racine County.
- Strategy E:** Facilitate cooperation between eastern and western Racine County relative to land use and transportation issues.
- Strategy F:** Continue the current County and local government initiatives to streamline the private sector land development process, through collaboration and communication.

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. Students will use multiple processes and technology to achieve their academic goals.
- 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:** Provide the infrastructure for new and expanding business and industry in areas of high unemployment and identify appropriate business targets with the potential to locate in and/or expand in these areas in order to employ the unemployed and underemployed persons that will be educated and trained through the programs identified elsewhere in the plan.
- Strategy D:** Provide alternative transportation options that more clearly link underutilized workers in the community with employment and educational opportunities within Racine County and between Racine County and other counties in the region.
- Strategy E:** Develop diversified approaches to meet the workforce needs of employers within Racine County.

How the RLF supports Specific Economic Adjustment Activities

The RLF Plan is Consistent with the Racine County EDP 5.0. The specific Challenges and Strategies that are applicable to the RLF Plan have been outlined below highlighting those activities under each category identifying the need for an RLF to address that challenge and strategy:

Challenge One:

To create an entrepreneurial culture in Racine County.

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.

Activities:

Maintain existing small business financing tools from the Community Economic Development Corporation, Racine County Economic Development Corporation and the Wisconsin Women's 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 for conventional financing. The RLF program provides the gap financing to help these businesses, including the establishment of new businesses.

Challenge Two:

To focus on a proactive business recruitment program and a business retention and expansion (BRE) program that will create and retain jobs, create additional tax base and increase personal income in Racine County.

Strategy A: RCEDC will continue to implement a targeted and proactive business recruitment program.

Activities:

Activities include recruiting the following industries:

- Foreign direct investment
- Small and medium-sized companies with significant growth potential
- Regional industry targets of the Milwaukee 7: water industries, advanced manufacturing and food processing

The RLF program specifically targets the small and medium sized companies with their gap financing needs. The other targeted groups could also be assisted with the program if relocating to the City of Racine but only 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 RLF financing.

Strategy B: RCEDC will maintain an active business retention and expansion (BRE) program that meets the needs of existing employers in Racine County

Activities:

Identify and provide assistance to small and medium-sized companies with significant growth potential

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

Strategy D: Continue to provide staff assistance to business and local units of government to support business recruitment and business retention and expansion.

Activities:

Provide secondary business financing to Racine County businesses, including the SBA programs and local revolving loan funds.

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.

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 development county-wide.

Strategy A: Provide high value real estate development opportunities that link Racine County with the Southeast Wisconsin Region and Northern Illinois, including an update of the Racine County Industrial Lands Absorption Study.

Activities:

Continue to competitively pursue industrial and commercial brownfield redevelopment projects in communities throughout Racine County.

The RLF Program specifically addresses assisting 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.

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 C: Provide the infrastructure for new and expanding business and industry in areas of high unemployment and identify appropriate business targets with the potential to locate in and/or expand in these areas in order to employ the unemployed and underemployed persons that will be educated and trained through the programs identified elsewhere in the plan.

Activities:

- Redevelopment for professional services and retail businesses;
- Redevelopment for manufacturing and warehousing;
- Ensure availability of business development incentive programs;
- Provide secondary capital to businesses;

Because one of the goals of the RLF program is to recruit, retain and grow businesses in the City of Racine, including locating businesses into vacant commercial and industrial spaces in the City, the RLF program is important to this strategy within the EDP. By providing financing to businesses located in the

City and by providing financing to promote the development of currently vacant sites, the RLF program is an important tool in attracting and growing businesses in the City which currently has the second highest level of unemployment in the State, according to the Department of Workforce Development data in September 2011. All loan recipients are required to enter into an Agreement with the Racine County Workforce Development Center to use their services to help fill newly created positions. 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 version 3.0, 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 the last three years, the City has engaged in an active program to redevelop brownfield, or former environmentally contaminated sites. The former Racine Steel Castings and Jacobsen-Textron 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 September of 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.

Strategies:

Promote public and private loan funds that support retention and expansion of existing businesses. In particular, support the re-capitalization of the City of Racine

Industrial/Commercial Revolving Loan Fund in order to provide the necessary capital to eliminate and/or re-use vacant industrial and commercial facilities.

Challenge V – To encourage and support brownfield redevelopment in the City.

Strategies:

Work 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

Assessment of Local Capital Market

There is currently a lack of funds available from traditional capital markets in Wisconsin for small businesses and entrepreneurs. Due to the struggling economy and recent changes in bank regulations that are concerned about the quality of credit, financial institutions have become more conservative in their lending practices. The combination of these factors has resulted in financial institutions requiring higher equity contributions from owners and to seek to finance only those businesses that can show a longer history of positive operating results. As a result, the financing of small businesses and business start-ups is a growing problem.

An indicator of current difficulties in obtaining business financing is addressed in a recent BizTimes article (March 4, 2011), which indicates “13 banks in southeastern Wisconsin are under regulatory orders to improve as the real estate market continues to languish. Six of the 13 banks under regulatory orders to improve actually achieved improvement in the fourth quarter of 2010. Seven declined in major performance measures.” Peter Bildsten, Secretary of the Wisconsin Department of Financial Institutions is quoted in the article as saying that in general banks in the State of Wisconsin are showing improvement but that “many banks still face challenges in improving to the point where they will exit regulatory orders that restrict their ability to make loans. As long as those banks remain under orders from federal and state regulators, businesses will have less access to capital.”

Difficulty in obtaining needed financing was further stressed at a local Jobs Creation Forum held by the Wisconsin State Governor in Racine in November 2011. One business executive present was quoted as saying: "Access to capital is our No. 1 issue. As CEO, I probably spend 90 percent of my time trying to get money." Another stated he would like to expand and double his staff. However, “It's frustrating because the banks don't seem to be cooperating.”

Overall, the most important indicator of the need for capital is the success of the existing City RLF. Funds are nearly depleted with interested applicants requesting more dollars than are currently available.

In today's post-recession conservative lending environment, the existing City RLF program has been very popular as banks seek ways to mitigate their risk. Reducing bank exposure in 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. The RLF funds currently on hand are insufficient to meet the demand for those dollars. Access to a City RLF is critical to continue the business retention and growth initiatives in the City of Racine.

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 the City of Racine in addition to continuing to address the problem of industrial and commercial building vacancies as the current RLF Plan allows. The City has experienced a high level of unemployment, currently the second highest in the State. As a result, 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.

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 Central City. 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. This problem was identified as an issue in the most recent Racine County EDP. The Loan Fund will 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 program.

Launch Box Initiative

The City of Racine faces several economic development constraints, which require a specific strategy to address the lack of industrial park land, high unemployment, the need to foster existing small business development services and expand small business resources in order to meet the needs of entrepreneurs.

In response to these constraints the City and RCEDC are working together on a new initiative, the Launch Box. The program is designed around four challenges. The challenges were developed as a result of recommendations within the "Building a More Entrepreneurial Racine" a report completed by EntreWorks Consulting, and commissioned by the City of Racine, as well as active participation by the partner organizations.

Specific to the need for additional financing options is **Challenge One**, which is "To strengthen, revitalize and coordinate business assistance provided by the Partners that include RCEDC, the Community Economic Development Corporation (CEDCO), UW- Parkside Small Business Development Center and the Wisconsin Women's Business Initiative Corporation (WWBIC) for both neighborhood and high impact entrepreneurs." The first strategy under this Challenge is to increase the number of Stage One (2-9 employees) companies that mature into Stage Two (10-99 employees) companies. In order to

accomplish this, RCEDC and our partners need to establish additional sources of funding specific to these early stage companies.

The City of Racine is initiating a public sector municipal water technology initiative that is expected to interest other communities and the private sector. We anticipate that business development opportunities will result from this initiative.

The RLF program will be 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.

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 described below:

Racine County EDA Revolving Loan Fund

Racine County, with the assistance of the EDA, has established a revolving loan fund that is available to businesses located in Racine County. The RLF provides fixed asset financing at below-market interest rates. To date, RCEDC has made 61 loans with another commitment in place. Once the most recent loan is funded, the total amount lent since the inception of the program is nearly \$5.6 million with a remaining \$31,390 available for lending.

The City of Racine Minority Loan Fund

The City of Racine also has a revolving loan fund for minority businesses that is administered by the Community Economic Development Corporation (CEDCO) for businesses in the City of Racine. CEDCO was established to meet area financing needs through the assistance of the RCEDC and they contract with RCEDC for assistance in managing its portfolio. CEDCO provides microloans of up to \$15,000.

Community Development Block Grant Revolving Loan Fund Programs

The Village of Union Grove, the City of Burlington, and Racine County have received grants from the Small Cities Community Development Block Grant-Economic Development (CDBG-ED) program. The City of Burlington received three CDBG-ED grants totaling \$524,000, the Village of Union Grove received a \$750,000 CDBG-ED grant, and Racine County received a \$3,937,000 CDBG-ED grant. Most of the repayments on CDBG-ED loans can be used to establish local revolving loan fund (RLF) programs. The Village of Union Grove and City of Burlington currently have adequate funds available for lending. However, Racine County has less than \$20,000 available for lending. The RLF programs established with CDBG-ED funds are being administered by the RCEDC. All RLF monies referenced above must be spent in areas outside the City of Racine.

Newly Created Racine County RLF

The County of Racine recently approved its 2012 budget with a \$1 million allocation into a new countywide revolving loan fund. These funds will target business attraction, retention and growth projects that require very attractive rates and terms. These funds were necessary due to the depletion of the CDBG County fund mentioned above. Racine County had also received an additional \$4 million CDBG-ED award to fund a project for Midwest Express. One-half of the repayments on this loan over the next three years will be placed into this new RLF for lending. However, these dollars must be repaid to the State at a future date.

Racine Development Group, Inc. (RDG)

The RDG is a multi-bank community development corporation, organized to provide high-risk business financing and housing renovation services in the Racine central city. Currently, seven banks and two private corporations including RCEDC are members and have provided approximately \$873,000 in capital. To date, the RDG has provided twenty-one business loans, created two temporary micro loan programs, invested in two mortgages for low-income individuals and renovated four formerly vacant houses. The RDG currently has no funds available for lending.

Manufacturing Grants

Racine County offers grants of up to \$2,500 to qualifying manufacturing companies to cover the cost of consulting or training services to improve operations.

Minority Business Grants

Racine County offers grants of up to \$2,500 to qualifying small and mid-sized minority owned businesses to offset the costs of employee skills training, technology implementation projects or consulting services.

Workforce Training Assistance

Grants are available through the Racine County Workforce Development Center to cover between 50-90% of on-the-job training cost of hiring a new employee.

In addition to the local programs described above, RCEDC coordinates the use of Federal and State loan and grant programs, which in many cases are used in conjunction with the locally funded programs. These programs include:

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; and the purchase of equipment. The program also currently does limited refinancing. The SBA interest rates are competitive with conventional lenders but offer the rates fixed for longer terms. 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. The program is also only available to owner-occupants, and, as such, will be difficult to use with the recycling of central City industrial buildings.

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 to the customers 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.

Women's Business Initiative Corporation (WWBIC)

The 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 of \$100,000 or less for the start-up and expansion of businesses. These are generally higher risk businesses that do not qualify for conventional financing.

Industrial Revenue Bonds

Local units of government in Racine County provide fixed-rate financing, at below-market interest rates to manufacturing business that purchase land, buildings, and new machinery and equipment. Businesses access this financing through the issuance of industrial development revenue bonds or redevelopment revenue bonds. Bond issues can be used to finance 100 percent of costs associated with a financing project. While industrial revenue bonds are a widely used source of capital for manufacturing projects, financing is only feasible for much larger projects because of the underwriting costs for issuing the bonds.

Wisconsin Economic Development Corporation (WEDC) programs

Tax credits and low-interest loans are available through the WEDC to companies expanding or relocating to Wisconsin. Qualifying projects are adding jobs and making capital investments. In order to qualify for WEDC low-interest loans, businesses must generally be manufacturing type businesses and must be projecting large job creation and investments making this financing option unavailable for many local small and medium sized companies. Businesses located in the City of Racine do not qualify for the low-interest loan programs through the WEDC.

Wisconsin Department of Commerce, Minority Business Development Fund

The Minority Business Development Fund provides financing to assist minority-owned firms in obtaining funds for working capital, the purchase of machinery and equipment, and the acquisition of land and buildings. Loans of up to \$100,000 are available for qualified projects, with applicants required to contribute at least 25 percent of the loan amount from non-State sources.

Wisconsin Department of Transportation, Transportation Facilities Economic Assistance and Development (TEA) Program

The Transportation Facilities Economic Assistance and Development (TEA) program will provide grants of up to 50 percent of the cost associated with transportation-related infrastructure improvements for manufacturing and warehouse/distribution businesses. Assisted businesses must create or retain a significant number of jobs to qualify for the program.

Wisconsin Housing and Economic Development Authority

The Wisconsin Housing and Economic Development Authority (WHEDA) offers two types of programs for small businesses. The WHEDA Small Business Guarantee program is designed to assist businesses with less than 50 employees guaranteeing the lessor of 80 percent or \$200,000 on conventional private sector loans of up to \$750,000. The WHEDA Linked Deposit Loan Subsidy is intended to assist minority- and women-owned and controlled businesses by reducing the interest rate on loans made by private financial institutions. The Linked Deposit Loan Subsidy allows for interest rate reductions on loans of up to \$99,000.

C. FINANCING STRATEGY

Targeted RLF Assistance

The City RLF would continue to target the recruitment, retention and expansion of existing businesses and the development of new businesses in the City of Racine. Also as indicated, the County has experienced a significant shift in the location of businesses from the City of Racine to the outlying areas, with industrial space in need of economic development tools, such as the Loan Fund, to help revitalize older industrial sites in the City of Racine.

The RCEDC will utilize the RLF to provide gap financing to businesses and/or developers for environmental remediation, and/or the purchase and renovation of older commercial and industrial buildings in the City of Racine as well as for traditional gap financing needs to meet the other goals with the County EDP.

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 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.

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.

Targeted Industries:

Based upon the need to assist the manufacturing industry, to diversify the local economy and to create the maximum number of new jobs in the City of Racine, the RLF program will target manufacturing and service firms that employ less than 100 employees. Additionally, in order to address the high level of vacant and industrial buildings in the City, the program will continue to target projects that result in the occupancy of those buildings. The RLF will further target those companies identified as targeted industries by TIP Strategies, the consulting firm hired by RCEDC to develop a business recruitment strategy for RCEDC. One of TIP Strategies tasks was to develop a list of priority targets for the recruitment efforts. Those targets have been defined as “driver and support industries” and “international recruitment” targets. The driver and support industries are identified as follows:

1. Agriculture, Construction & Mining Manufacturing (NZICS 3331)
2. Navigational, Measuring, Electromedical, & Control Instruments manufacturing (NAICS 3345)
3. Engine, Turbine & Power Transmission Equipment Manufacturing (NAICS 3336)
4. Other General Purpose Machinery Manufacturing (NAICS 3339)
5. Machine Shops, Turned Product, & Screw, Nut & Bolt Manufacturing (NAICS 3327)
6. Computer Systems Design & Related Services (NAICS 5415)
7. Other Professional, Scientific, & Technical Services (NAICS 5419)
8. Specialized Design Services (NAICS 5414)
9. Scientific Research & Development Services (NAICS 5417)

Other Targets

The RLF program targets projects that would create jobs in order to address the high level of unemployment in the City of Racine. Each loan recipient would enter into an Agreement with the Racine County Workforce Development Center 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 \$15 per hour or more, as well as those positions that offer fringe benefits.

The RLF program will also target minority-owned businesses, in an attempt to assist unemployed minority workers. Overall, a goal of 15 percent of the loans will be provided to minority entrepreneurs and developers.

There continues to be a need for small loans of less than \$200,000 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 to recapitalize existing public sector business loan funds that are responsive to the needs of local businesses and that will provide subordinated funding for businesses.

The recapitalization of the RLF to assist City of Racine businesses 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.

D. FINANCING POLICIES

As indicated in the RLF application, the City of Racine will contribute \$500,000 as a local match for the EDA Title IX funds for the RLF program. This local share is available in cash for lending in the same manner as the Federal funds, and will be loaned out proportionately with the requested Federal funds in order that the Federal funds will not be drawn upon any faster than the local share.

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

1. Total Number of Loans in Initial Funding Cycle: Approximately seven loans will be made as a part of the initial funding cycle.
2. RLF Loans Size: The average loan size will be \$150,000, with a minimum loan size of \$50,000 and a maximum loan size of \$200,000 for each individual borrower.
3. 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;
 - f. Machinery and equipment purchases;
 - g. Furniture and fixture purchases;
 - h. Leasehold improvements; and
 - i. Working capital.
4. Loan Terms: Loans will be for a maximum of five years with amortization periods not to exceed 20 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 refinancing for an additional five-year period. Loans for tenant improvements will generally be no longer than the term of the lease.

5. Prohibited Use of Funds: The following activities are not eligible for RLF assistance:
 - (1) Acquire an equity position in a private business;
 - (2) Subsidize interest payments on an existing RLF loan;
 - (3) Provide for borrowers' required equity contributions under other Federal Agencies' loan programs;
 - (4) 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;
 - (5) 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
 - (6) 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.
6. 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 Economic Development Plan 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, industrial and developer loans as is targeted by this program. New business start ups will be evaluated more closely based upon the feasibility of their business plan including the market study and financial projections.
7. 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.

8. Standard Rate of Interest: 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 of prime plus 2.5 percent. 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. 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.
9. 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 firm's financial projections. These techniques include: 1) a deferral of principal and/or interest payments during the first year of an RLF loan, when the applicant business has a projected level of cash that is below that which is determined to be sufficient; and 2) the subordination of the RLF security position to private sector lenders that are participating the RLF Project.
10. 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.
11. Collateral Requirements: Each RLF loan will include a loan agreement between the RCEDC and recipient owner-occupant or tenant business, or a developer's agreement between the RCEDC and recipient developer. The loan or developer's agreement will detail the terms and conditions of the RLF loan, and the collateral documents necessary to secure the RLF programs interest in the project.

Collateral may include mortgages on land and building and liens on machinery and equipment. In addition, key-person life insurance coverage, with a declining balance equal to the outstanding loan balance, 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 loan and will have RCEDC listed as a loss payee or mortgagee on the insurance policy as appropriate.

10. 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 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.
12. Interest Payments on Recycled RLF Funds and Sales of RLF Loans: The RLF program will utilize a maximum of 50 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 costs will be placed in the RLF for relending to other businesses. The program will not sell any of the RLF loans.
13. 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
14. RLF Program Coordination with SBA 504 and Other Programs: The RLF program will utilize both 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.
15. RLF Cannot Substitute Private Capital Participation: 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.
16. Deviations from RLF Financing Policies: Any deviations from the RLF financing policies would require RCEDC Loan Committee and Executive Committee approval. Any deviations from the guidelines set forth in the RLF Plan would also be submitted to the Economic Development Administration 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 both redevelop older industrial properties in the City of Racine and assist in attracting, retaining and growing businesses in the City resulting in jobs being created and retained for city residents.

1. Primary Goals of the RLF Program: The Primary goals of the RLF program would be to:
 - a. Emphasize the creation of new tax base, as well as to aggressively address the problem of “Brownfield” sites and vacant, older industrial building in the City of Racine. The program would emphasize Census Tracts 1 through 5 in the central City, which represents the lowest income areas, and inventory and market older industrial buildings to developers, as well as companies that would occupy the facilities; and
 - b. Create and retain jobs in the City of Racine by providing financing to businesses in need of secondary financing to accomplish this goal.

2. Job/Cost Ratio: The Program would require the creation or retention of an average of one full-time equivalent (FTE) job for every \$35,000 of the RLF investment.

3. Job Creation: Loan recipients will be required to enter into an Agreement with the Racine County Workforce Development Center to assist with the posting of new employment positions. The goal of the program is to assist the unemployed in the City of Racine and 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 and ideally \$15 per hour or more as well as those that offer fringe benefits. The Workforce Development Center works with both employers and job seekers to assist in making these positions available.

4. Private Sector Leverage Ratio:

An average ratio of two private sector dollars for each RLF dollar will be required of 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:

 - (i) Capital invested by the borrower or others;
 - (ii) Financing from private entities; or
 - (iii) The non-guaranteed portions and ninety (90) percent of the guaranteed portions of the U.S. Small Business Administration’s 7(A) loans and 504 debenture loans.

The RLF program will maximize private sector leverage and ensure that RLF funds are not substituted for private financing by requiring all businesses 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.

5. Type of Activities and Businesses Eligible for Funding:

As a part of its strategy to enhance economic opportunities in the City of Racine, the RLF program will emphasize small- and medium-sized manufacturing, warehouse, distribution, transportation, service, and construction businesses with less than 100 employees. In addition, professional services and retail businesses may also benefit from this program as they are targeted industries within the EDP. Specific industry targets identified include:

- Agriculture, Construction & Mining Manufacturing (NAICS 3331)
- Navigational, Measuring, Electromedical, & Control Instruments manufacturing (NAICS 3345)
- Engine, Turbine & Power Transmission Equipment Manufacturing (NAICS 3336)
- Other General Purpose Machinery Manufacturing (NAICS 3339)
- Machine Shops, Turned Product, & Screw, Nut & Bolt Manufacturing (NAICS 3327)
- Computer Systems Design & Related Services (NAICS 5415)
- Other Professional, Scientific, & Technical Services (NAICS 5419)
- Specialized Design Services (NAICS 5414)
- Scientific Research & Development Services (NAICS 5417)
- International recruitment

The goals of the program will include providing:

- 10 percent of the loans to new businesses and 90 percent to existing businesses.
- 50% of the loans to manufacturing businesses
- No more than 20% of the loans to retail businesses

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

6. 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.
7. 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 Racine County.
8. The RLF program will target the development of minority-owned businesses as a part of the RLF program, and, at a minimum, 15 percent of the RLF portfolio will be provided to minority-owned

businesses. In addition, the RLF program will encourage the development of women-owned businesses in the City of Racine.

9. The RLF program will target those businesses making investments into new technology that would assist the business in becoming more sustainable and create more jobs over the long-term.
10. The RLF program will support those businesses making investments that would assist them in being more innovative and more competitive, such as purchasing state-of-the-art equipment in order for them to better compete in the marketplace.
11. Those projects that would assist Stage One (2-9 employees) companies into becoming Stage Two (10- 99 employees) companies as is the goal of the City's Launch Box initiative described on page 14.
12. Those projects that fit in with the City's water technology initiative.

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) 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.
- 3) Projects that will emphasize the creation of new tax base that can provide a location for business in the central City as its primary objective.
- 4) Projects that would help address the problem of "Brownfield" sites and vacant, older industrial buildings in the City of Racine, with emphasis on Census Tracts 1 through 6 in the central City. This will provide impetus for the revitalization of the central City as well as the creation of new, and the retention of existing, businesses in an area that had an historical decline in employment as businesses move their operations to outlying locations.
- 5) 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. 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, particularly those that pay \$15 per hour or more and offer fringe benefits.
- 6) Projects that will target the development of minority-owned businesses in an area with high minority unemployment.
- 7) Loan applicants that will encourage the development of women-owned businesses.

- 8) Projects that capitalize on regional assets such as those that fit in with the targeted industries for the area are detailed above under E.5 above, those projects that fit in with the southeast Wisconsin seven county (Milwaukee 7) initiatives or that fit in with the water technology initiative for the City of Racine will also be targeted. As stated on page 10 under Challenge To of the EDP, the Milwaukee 7 targets include:
 - (a) Foreign direct investment;
 - (b) Small and medium-sized companies with significant growth potential; and
 - (c) Regional industry targets of the Milwaukee 7: water industries, advanced manufacturing and food processing.
- 9) Projects that support innovation and increasing productivity for businesses, such as purchasing state of the art equipment that will assist the company in competing.
- 10) Projects that fit into the existing and emerging industry clusters as identified in E.5. above.
- 11) Projects target those businesses making investments into new technology that would assist the business in becoming more sustainable and create more jobs over the long-term.
- 12) Projects that fall into the City's Launch Box initiative described on page 14.

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 on an annual basis to reflect the changing needs of the redevelopment area. Every three years, the RCEDC prepares a Racine County Economic Development Plan (EDP) which is adopted by the Racine County Board. The EDP is evaluated annually by the RCEDC.

With each revision of the EDP, RCEDC will evaluate the RLF standards and financing policies of this Loan Fund program, and 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 agreement between the EDA, the City of Racine, and the RCEDC. At a minimum, the RLF Plan will be updated every five years.

The performance of the RLF is evaluated semi-annually through a Plan Certification process that includes RCEDC Executive Committee and Racine City Council approval.

PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. ORGANIZATIONAL STRUCTURE

The City of Racine and RCEDC are applying as co-grantees for the proposed recapitalization of the revolving loan fund program. As such, a letter contract agreement is in place 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 all economic development activities and programs in Racine County. The RCEDC provides staff support for the RLF program and the RCEDC Executive Committee functions as the Loan Administration Board.

Loan Administration Board

The RCEDC and the City of Racine have chosen to delegate the responsibility for the RLF program to the RCEDC Executive Committee, which is comprised of nine members of the RCEDC Board of Directors. These members include representatives of local units of government and community representatives including executives of local businesses. The RCEDC Executive Committee functions as the Loan Administration Board for the RLF program. RCEDC Board members and Executive Committee members are nominated and elected to the Board annually as terms expire. 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. 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 Committee for consideration. The Loan Committee is comprised of nine members that represent a cross-section of the business community. The RCEDC Loan Committee is responsible for reviewing loan requests and making funding recommendations to the RCEDC Executive Committee. The Loan Committee members are selected on the basis of their area of representation and appointed by the RCEDC. The RCEDC Loan Committee includes the following representation: 1) bankers; 2) attorney; 3) accountants; 4) business representatives; and 5) a construction company. All decisions are made by a simple majority vote of those members present at a Loan Committee meeting.

Staff Capacity

The staff for the RLF program consists of the staff of the RCEDC, including the Executive Director, the finance division manager, one Loan Officer, one Portfolio Manager/Closer, one Business Manager and the Business Services Team Leader. These staff members will be responsible for all aspects of the RLF program, except the loan approval process as detailed above. The staff functions include program development; marketing; financial analysis; and loan packaging, processing, and servicing and are segregated as follows:

Executive Director

Responsible for management of RCEDC including oversight of each division. Also assists with marketing of the loan programs.

Division Manager

Responsible for day-to-day management of the division, marketing of the loan programs and identification and development of appropriate funding opportunities. This individual meets with and provides business assistance and advisory services to eligible applicants completing an application. This position also does loan processing.

Loan Officer

Responsible for loan packaging and processing, completing a written loan presentation and making a recommendation to the RCEDC Loan Committee.

Portfolio Manager/Closer

Responsible for loan closings, collections and servicing, handling defaulted loans and foreclosures, and compliance with EDA requirements.

Business Manager

Responsible for reporting requirements including the monthly portfolio status report and semi-annual reporting to the EDA. This position also handles all loan disbursements and collection of monthly payments.

Business Services Team Leader

The Business Services Team Leader manages the staff at the Workforce Development Center that works with employers when new employment positions become available. They enter into a contract with RLF loan recipients for the process of filling newly created positions.

Additional RCEDC staff that are not directly involved in administering the RLF assist in marketing the program to local businesses. The staff responsible for the administration of the RLF has a combined 48 years of experience in the area of economic and community development and the administration of nonconventional business loan programs.

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 \$1 million through West Bend Insurance Company. To the best of our knowledge, non-profit corporations in Wisconsin need not be bonded in order to administer public funds.

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 Committee members and Executive Committee 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 Committee members and Executive Committee 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;

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

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

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 will include the following:

- Meetings with local government officials to inform them of the program and to seek their support;
- Meetings with representatives of the major financial institutions and commercial real estate firms to explain the program and to request their assistance in promoting the program;
- A press release at the time of the grant award to announce the availability of the RLF program, as well as other business loan programs in the County;
- Meetings with representatives of manufacturing firms and developers in Racine County to promote the availability of the program; and
- Advertisements and news releases placed in the RCEDC newsletters and local newspapers on a periodic basis, to promote the RLF program and to provide local business persons with information on the availability of RLF funds.

The RCEDC has created a trade name for its finance division, Business Lending Partners, in order to highlight the loan programs offered through the organization. A separate website has been developed for this division which advertises the City RLF program along with the RCEDC website's promotion of it.

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 337 loans with total public sector financing of over \$75 million towards total project costs of over \$297 million. These projects resulted in job creation numbers since the inception of the loans of 4,106. There are now 107 active loans with outstanding principal balances totaling nearly \$31.0 million in public sector financing. The delegation of the RCEDC as the agent for this EDA grant will ensure that the revolving loan fund is coordinated with existing loan programs and integrated with all economic development activities in the County.

As indicated, the day-to-day operation of the RLF program will be the responsibility of the RCEDC staff. The RCEDC staff will also be responsible for all administrative activities identified in this plan. However, only the RCEDC Executive Committee will have the authority to approve loans and make the policy recommendations necessary to efficiently administer RLF loan activities.

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:

1. 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. Industry standards as reported in the most recent edition of Robert Morris Associates, "Annual Statement Studies", will be used for these comparisons.
2. Financial projections will be examined to determine if there is sufficient cash flow during 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 public sector financing programs to provide a working capital loan as a part of the financing package.
3. The application materials will be examined to determine, to the extent feasible, whether a market exists for the proposed project.
4. 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.

Included as Attachment A is a checklist showing the items that must be submitted by each applicant to be considered for an RLF loan. This includes a completed loan application, private sector financing commitment, business plan, and copies of all credit reports and appraisals that are obtained on the project. 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 includes the Division Manager and the Loan Officer.

RCEDC staff will prepare loan write-ups that will be presented to the RCEDC Loan Committee for consideration prior to making a lending decision. The write-ups will discuss how the proposed project will not replace private sector funding sources, as well as 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.

Specific steps in the loan review process include the following:

Preliminary Review: 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 prepare a written presentation for the Loan Committee that includes information on the firm's history, management experience, a summary of the company's products and services, market conditions, a cash flow analysis, a collateral analysis and a review of the company's financial history or in the case of a start-up, the business plan and financial projections. 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.

Formal Review: The RCEDC Loan 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 Committee will forward the request to the RCEDC Executive Committee with its approval recommendation. The Executive Committee has final authority for all loan approvals. Included in the Executive Committee 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 Racine County Economic Development Plan.

Negotiation of Terms: Upon acceptance by the RCEDC Executive Committee, RCEDC staff will contact the business to review and explain the terms of the loan.

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

Rejection of Award: If the application is not approved, RCEDC staff will notify the applicant in writing 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.

Equity Documentation

RLF loan recipients will be required to follow the equity requirements that are documented part I, Section I.D (9) of this RLF plan. 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.

Closing/Appraisal Requirements

RLF loan closings will utilize the legal documents necessary to secure the RLF program's interest in the financed project. The collateral documented in part I, Section I. D(10) of this RLF plan will be used to secure all loans. Prior to closing, the RCEDC staff will obtain a real estate appraisal when this is made a contingency of the loan. In most cases, the participating bank will obtain the appraisal and provide a copy for the RLF loan.

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.

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.

To ensure that loan recipients comply with civil rights guidelines, the RLF program will require all applicants to complete EDA Forms "Assurances of Compliance with Civil Rights and Other Legal Requirements" and "Current and Projected Employee Data" as a part of the RLF loan application process. Violations of civil rights provisions will be investigated by the RCEDC staff, and, when appropriate, the EDA will be consulted as to the suitable corrective action. Corrective action may include declaring the loan in default in accordance with the procedures identified herein.

Environmental Laws and Regulations: RLF loan applications must include data concerning all environmental impacts of activities to be financed. The RCEDC Loan Committee, through the RCEDC staff and more specifically the Portfolio Manager/Closer, will assess the significance of all 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 Committee will make any required mitigations part of the loan conditions.

Historic and Archaeological Impact

A summary of the any project that involves significant new construction and expansion will be submitted to the State Historical Society of Wisconsin, State Historic Preservation Officer (SHPO), for a review on the impact of the project on historic and archeological resources prior to closing the loan. In cases where the SHPO has recommended actions or has determined an adverse impact, the RCEDC and loan applicant will work with the SHPO and EDA to address any issues identified before the loan is closed.

The RCEDC Loan 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. Additionally, no project will be approved which would result in the alteration of any wetland or in any adverse impact on any wetland, without prior consultation with, and consent of, the U.S. Department of the Interior, Fish and Wildlife Service.

Construction Projects:

For loans that finance construction, no activity shall be financed which:

- 1) 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) Would result in the alteration of any wetland or in any adverse impact on any wetland without prior consultation with the U.S. Department of the Interior Fish and Wildlife Service and, if applicable, a Section 404 Permit with the Army Corps of Engineers shall be obtained.
- 3) 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.
- 4) Involve unresolved site contamination issues. Loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues prior before any loan can be approved for the affected site.

Relocation: The location for all RLF loan projects will be within the City of Racine. An RLF loan will be considered delinquent 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 Racine County. All applicants will be required to submit an EDA 501A as a part of an RLF loan application.

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.

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. This would include the Davis-Bacon Wage Compliance involving all building construction financed in whole or in part with RLF funds will be required to conform with federal labor standards as define in the Davis-Bacon Act, as amended (40 U.S.C. – 276a-5).

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.

Environmental Study

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. The purpose of these reports is to determine whether there were any hazardous materials such as EPA identified hazardous substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls or other hazardous materials present on or adjacent to the affected property that have been improperly handled and may have the potential of endangering public health.

Determination of Need

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.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

Prior to releasing funds, the RCEDC will assemble the necessary documentation to secure the RLF financing as shown below. Also, included as attachment B is a checklist that will be used for all loan closings.

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 Committee and Executive Committee.

Loan Approval

The RCEDC Executive Committee will review and approve a complete application for each eligible applicant. Upon approval of the loan, Loan Commitment Letter will be issued detailing the terms and conditions of the loan.

Board Meeting Minutes

RCEDC Loan Committee and Executive Committee minutes will be kept in RCEDC files reflecting loan approvals and key discussion points.

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.

Loan Agreement

The RCEDC Attorney will prepare a loan agreement or developer's agreement which will be executed by the appropriate officers of the RCEDC, as well as the authorized representatives of the business or developer. The Loan Agreement will detail the approved use of RLF loan proceeds.

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 or developer, and specify the amount and terms of the loan funds to be delivered.

Security

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 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; e) assignment of life insurance; f) property-casualty insurance documentation; g) personal guarantee; and h) other documentation as may be appropriate.

Amortization Schedule

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

Evidence of Program Expenditures

Documentation will be provided by the applicant to evidence RLF program expenditures are made in accordance with the Loan Agreement prior to the release of funds. Documentation includes 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.

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.

D. LOAN SERVICING PROCEDURES

Loan Payment and Collection Procedures

1. All borrowers are set up on an automatic debit system to ensure timely loan payments.
2. If rejected, the borrower is notified and a second attempt is made.

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 Portfolio Status Report. The Report is reviewed by the Executive Director, Loan Committee and the Executive Committee. See discussion below for potential and actual delinquencies.

2. Semi-Annual monitoring of loan conditions is done by RCEDC staff including the following
 - a. Financial statements reviewed semi-annually and graded annually.
 - b. All insurance covering collateral is reviewed semi-annually and on an as needed basis when notifications are received from insurance companies.
 - c. UCC refilings are monitored monthly to ensure they are continued within three (3) months of expiration.
 - d. Site visits are conducted annually, more frequently if needed.
 - e. Real estate taxes, if applicable, are reviewed semi-annually to confirm prompt payment.
 - f. Semi-annual confirmation is made as to number of jobs created and retained specifying jobs provided to females and minorities and wage levels paid. Job creation and retention numbers are verified when compared to the employment levels of the Borrower at the time of application as stated within the Loan Application.
 - g. Tickler files are kept and reviewed monthly to ensure compliance with the above loan conditions and compliance with any Federal requirements of the grant.
 - h. An Employment Memorandum of Agreement is completed by the employer and RCEDC, and an Account Representative is assigned to the Company from the Workforce Development Center to ensure that jobs are made available to low- and moderate-income persons.

Late Payment Follow-up Procedures

1. Any RLF loan payment not received within ten (10) days of its due date is assessed a delinquency charge.
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 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 meet with borrower and participating lender.
2. Loans are reported to the RCEDC Loan 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:
 - (1) Costs of collection;
 - (2) Outstanding penalties and fees;

- (3) Accrued interest to the extent due and payable; and
- (4) Outstanding principal balance.

Write-Off Procedures

1. RLF write-offs have been accounted for by establishing an “Allowance for Uncollectible Funds” 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 Committee and legal counsel are consulted to determine whether all efforts have been made to recover funds.
3. If all appropriate legal actions have executed and chances of recovery determined minimal, the RCEDC Executive Committee is requested to formally write off the loan.

Generally Accepted Accounting Principles (GAAP)

The RLF will operate in accordance with Generally Accepted Accounting Principles (GAAP).

Recordkeeping

A loan servicing file will be established and maintained 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 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, including the commitment letter, the loan agreement, the 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. This file 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 property-casualty 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 as detailed in the example Attachment B.

4. Loan Management File: RLF financial management records will be maintained that include the following registers:
 - a. "Tickler File" System: A tickler file 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 monthly-coded index registers:
 - 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 for 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 loan recipients will be notified of scheduled changes in the loan amortization scheduled per loan agreements.
 - b. Financial Statement Register: The financial statement register will include the business' periodic financial statements as required by the loan covenants with a statement indicating the RCEDC staff reviewed the data.
 - c. Field Visit Register: RCEDC staff will make periodic field visits to verify information in the financial statements. A summary of each site visit will be placed in the permanent file, including any information that can assist in rating the overall condition/risk of the loan.
5. Repayment Monitoring File: The repayment monitoring file 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 Committee and notations placed on the Monthly Watch List to remind RCEDC staff of the need to provide continued monitoring.
6. Loan Review/Grading 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 and site visits. A report on the loan review will be placed in the Financial Management File and address the following: timeliness of monthly payments; conditions of collateral securing the loan and status of security documents; overall financial condition of the business; the presence of material liens or lawsuits; and violations of loan covenants and suggested corrective actions.

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.

E. ADMINISTRATIVE PROCEDURES

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 in locked filing cabinets at the offices of RCEDC.

Managing the RLF capital

The RLF loan funds are retained in a separate bank account for this RLF program. Monthly bank statements, clearly details loan repayments, interest earned and other transactions from the account. These statements are reconciled with an internally prepared obligations journal for each transaction in the RLF account. Both the EDA share and local match of funds for this program are tracked in this bank account.

Funding newly approved loans will be shared proportionately between draw requests to the EDA and the City of Racine to ensure EDA funds are not drawn at a faster rate than the local funds. The entire EDA grant and local funds will be made available for recapitalization of the RLF for lending purposes.

Capital Utilization Standards

During the Revolving Phase, the RCEDC will manage the repayment and lending schedules to provide that at all times at least seventy-five (75) percent of the RLF Capital is loaned or committed.

RLF Administrative Costs

RLF Administrative costs will be charged to the RLF bank account monthly and tracked through the internally generated obligations journal. The Business Manager retains records on costs and expenses incurred to document the amount and percent of RLF income expended to the RLF. 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 a maximum of 50 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 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

EDA Reporting Requirements

The RCEDC Business Manager is responsible for reporting requirements including submission of the semi-annual report required by EDA. As part of the reporting requirements, the RCEDC and City of Racine will certify to EDA that the RLF is operating in accordance with the applicable RLF Plan.

If fifty (50) percent or more (or more than \$100,000) of RLF Income is used for administrative costs in a twelve-month (12) reporting period, the RCEDC will submit a completed Income and Expense Statement to the appropriate regional EDA office within ninety (90) days of the end of its fiscal year. If less than fifty (50) percent and less than \$100,000 of RLF Income is used for administrative costs in a twelve-month (12) reporting period, the RCEDC will prepare and retain for four (4) years a completed Income and Expense Statement for the applicable fiscal year, which shall be made available to EDA upon request.

Audit Requirements

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.

Attachment A
Business Loan Checklist



LOAN APPLICATION CHECKLIST

Documentation Requirements	Provided
1. Completed Business Loan Application (form attached).	
2. 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 competitive advantage.	
3. Resumes on all owners, officers and key management (SBA form attached).	
4. Personal Financial Statements for all 20% or more owners (SBA form attached)**.	
5. Documentation to substantiate costs, i.e. quotes on equipment, accepted offer to purchase, construction contract on real estate.	
6. Last three years of Profit & Loss Statements, Balance Sheets, cash flows and net worth reconciliation.	
7. Interim financial statements including Profit & Loss and Balance Sheets (if more than 90 days since year-end) together with an aging of accounts receivable and accounts payable.	
8. Projections for two years including Profit & Loss and Balance Sheets. If borrower is a new business, monthly cashflow statements for the first 12 months or three months beyond break-even are also required. Describe assumptions.	
9. Corporate and Personal Federal Tax Returns for past two years.**	
10. Information on any other businesses owned/partially owned by the owners, including business names, ownership structure and the last two year end financial statements and/or federal tax returns.	
11. Commitment Letters for other funding sources.	
Other Requirements:	
1. Appraisal.	
2. Environmental Assessment.	

* Original signature and date must be provided on all documents provided by the applicant.

** If married, spouse must also sign and date the Personal Financial Statement and Income Tax Returns.

Attachment B
Loan Closing Checklist

CLOSING CHECKLIST

Loan Name:

Borrower:

Loan Amount:

Project Property:

Business Lending Partners (BLP), a division of Racine County Economic Development Corp.

Third Party Lender (Loan Amount):

Attorney Name (attorneys for BLP)

Name:

Phone:

Fax:

Email:

	Matter/Document	Responsible Party	Drafted/ Ordered	Executed/ Delivered
A.	PRE-CLOSING MATTERS/DOCUMENTS			
	1. Appraisal approval	BLP		
	2. Environmental approval	BLP		
	3. Flood Hazard Determination – Project Property	Attorney		
	4. Evidence of Project Costs (\$0.00 for purchase of real estate and equipment)	Bank/ Borrower		
	a. Closing Statement/Offer to purchase			
	b. Equipment List (items with unit value of \$5,000 or more)			
	5. Evidence of Equity Injection (\$0.00)	Bank/ Borrower		
	6. Title Commitment (Project Property)	Bank (Attorney to order update)		
	7. UCC/Lien Searches	SB&G		
	8. Financial Statements	Borrower		
	9. Authority to Conduct Business	Borrower		
	a. FEIN			
	b. Licenses required to operate			
	10. Evidence of Insurance – Project Property	Attorney (Borrower to provide contact information)		
	a. Certificate, Binder or Declaration Pages			
	b. Mortgagee and Loss Payable clause(s) from policy			
	c. 30 day notice of cancellation			
	11. Organizational Documents of Borrower	Borrower/ Attorney		

	Matter/Document	Responsible Party	Drafted/ Ordered	Executed/ Delivered
	a. Articles of Organization of Borrower (and any amendments)	Borrower		
	b. Borrower's Operating Agreement (and any amendments)	Borrower		
	c. Certificates of Status for Borrower	Attorney		
	12. Check marked "Void"	Borrower		
	13. Life insurance policy – Name (\$0.00)	Borrower		
	14. Lease	Borrower		
	15. Construction Documents	BLP/ Attorney		
	a. Construction Contract	BLP		
	16. EDA Documents (6)	BLP		
B.	CLOSING MATTERS/DOCUMENTS			
	CORE DOCUMENTATION			
	1. Term Loan Agreement	Attorney		
	2. Note	Attorney		
	3. ACH (with Voided Check)	Attorney		
	4. IRS Form W-9	Attorney		
	5. Borrower Certification	Attorney		
	COLLATERAL REQUIREMENTS - PROJECT REAL PROPERTY			
	1. Mortgage	Attorney		
	2. Tenant Subordination Agreement by Operating Company	Attorney		
	COLLATERAL REQUIREMENTS - PERSONAL PROPERTY			
	1. Security Agreement by Borrower	Attorney		
	2. Financing Statement	Attorney		
	COLLATERAL REQUIREMENTS - OTHER			
	1. Unconditional Guarantee	Attorney		
	2. Assignment of life insurance policy upon the life of Name (\$0.00)	BLP		
	BANK DOCUMENTS			
	1. Copy of Note	Bank		
	2. Copies of lien documents securing Note (mortgages)	Bank		
	3. Copy of UCC Statements			
	4. Intercreditor Agreement	Attorney		
	BORROWING/GUARANTEERING RESOLUTION AND OTHER BORROWER DOCUMENTS			
	1. Resolution of the Members of Borrower	Attorney		
	2. Member's Certification (Borrower)	Attorney		

	Matter/Document	Responsible Party	Drafted/ Ordered	Executed/ Delivered
	CDC DOCUMENTS			
C.	POST-CLOSING MATTERS/DOCUMENTS			
	1. Record documents	BLP		
	2. File UCC with WI Department of Financial Institutions	Attorney		
	3. Request Loan Title Policy	Attorney		
	4. Request updated UCC/lien search	Attorney		
	5. Obtain originals of recorded documents	BLP		
	6. File life insurance assignment and obtain confirmation of no other assignments of liens	BLP		
D.	POST-CONSTRUCTION			
	1. Inspection	Borrower		