

TO: COMMON COUNCIL - CITY OF RACINE

FROM: CAROLYN ENGEL, BUSINESS FINANCE MANAGER

**RE: REQUEST DE-FEDERALIZATION OF THE CITY OF RACINE ECONOMIC
DEVELOPMENT ADMINISTRATION (EDA) REVOLVING LOAN FUND'S (RLF'S)**

DATE: JULY 7, 2022

Introduction

The purpose of this memo is to recommend the City of Racine pursue defederalization of the City EDA RLF program and approve a new Policies and Procedures Manual for the RLF program. RCEDC is a co-grantee along with the City of Racine for its Revolving Loan Fund (RLF) which was capitalized by the Economic Development Administration (EDA) along with City funds. Because of the federal funds used to capitalize the RLF, the program is regulated by the EDA with continued federal restrictions and reporting requirements.

The Request

1. Approval for the City of Racine to formally request the EDA to defederalize the RLF and approve a required City Council Resolution to proceed;
2. To allow City of Racine staff to sign documentation for this formal request; and
3. To approve a new Policies and Procedures Manual for the RLF to implement upon defederalization. A 'draft' City RLF Manual is attached for review.

Background

A federal RLF Act was recently passed referred to as the *"Reinvigorating Lending for the Future Act"* providing an opportunity, with limitations, to release the federal oversight on older RLF's like the City of Racine's EDA RLF.

Eligibility:

- It has been more than seven years since EDA contributed to the RLF.

- The RLF recipient has complied with the terms and conditions of the RLF award.
- The RLF funds will be used for activities that continue the economic development purposes of the Public Works and Economic Development Act (PWEDA) of 1965.

Examples of Benefits:

- The RLF can participate in projects at a higher percentage where it is currently limited to 33% of the project.
- The RLF can be the sole lender on a project.
- There is no longer a need to document that the financing is not available elsewhere.
- Interest rates can be lower than currently allowed to provide incentives to businesses being recruited, retained or growing in the City of Racine.
- No more reporting to EDA or approvals needed to change the Policy Manual. Instead, program goals and parameters can be established locally based on current market conditions.

Limitations:

- The Davis-Bacon prevailing wage requirements continue to apply
- Funds cannot be used to induce the relocation of jobs from one region to another

The Process

1. RLF Recipient submits a written request to EDA for the defederalization along with a City Council Resolution, draft provided for consideration.
2. EDA provides a determination within six months.

Continuation of RLF Program

It is recommended the RLF funds be used to continue to administer the RLF program which will then have more flexibility when federal requirements no longer apply as indicated in the benefits listed above. In the future, the City of Racine can make a local decision of the re-use of funds as long as it continues the purposes of the PWEDA. No future changes or ongoing reporting will be required by EDA once the funds are defederalized.

Overview of the City EDA RLF

The RLF program has been successful historically with the number of business investments it has supported and job creation/retention as a result. This is because as loans are repaid by businesses,

the principal is returned to the RLF for relending which compounds the number of businesses the program supports and the job impacts. Key RLF parameters are summarized below along with a snapshot summary of the City RLF:

<i>RLF Purpose:</i>	Provide gap financing for business recruitment, retention, start-up and growth of City of Racine businesses
<i>Borrower Benefits:</i>	Low interest rate Lower equity requirement, 10% if appropriate
<i>Use of Funds:</i>	Typically building and equipment purchases
<i>Fund Growth:</i>	Monthly principal payments return to fund for future lending <u>Note:</u> Only distressed communities qualify for new capitalizations into fund
<i>Administrator:</i>	RCEDC promotes, processes, approves and services these loans

CITY EDA RLF PROGRAM SUMMARY

<i>Date Established:</i>	1998
<i>Source of Funds:</i>	\$1,134,355.50 Federal Economic Development Administration (EDA) \$438,355.50 City of Racine

City EDA RLF Snapshot as of December 31, 2021:

Description	Details
<i>Active Loans in RLF</i>	9
<i>Principal Balances – RLF's</i>	\$888,828.47
<i>Available to Lend</i>	\$579,835.29
<i>Total RLF Loans Provided</i>	52
<i>Total RLF Dollars Loaned</i>	\$6,085,480.70
<i>Total Project Investments</i>	\$29,334,274.70
<i>Total loan write-offs</i>	4
<i>Total dollars written-off</i>	\$418,526.78
<i>Total Job Creation/Retention</i>	328

RLF Program Parameters

The RLF program was established to provide 'gap' financing to support projects where there remains a funding gap after the borrower's equity and bank financing are contributed. RCEDC

recommends the RLF dollars continue to be used for gap financing but also be used for smaller RLF loans where bank financing may not be needed. These two scenarios are described below:

1. Traditional RLF ‘Gap’ Financing

The RLF will continue to provide loans in partnership with bank financing thereby increasing the total financing available to businesses while reducing cash needed from the business towards capital expenditures. Cash needed from the business may be reduced to ten percent, or less in some cases, as a percentage of the total investment being made.

Below is an example of a business loan structure that could be provided in the Traditional RLF ‘Gap’ Financing example:

Building purchase for \$300,000

Conventional bank financing may require 20% or more of the \$300,000 building investment be paid by the business reducing the business’ cash reserves that could otherwise be available to support business growth, i.e., hiring employees, inventory purchases, supporting receivables.

The financing structure would be as follows:

Bank financing	\$170,000 (50%, previously 57%)
RLF financing	\$100,000 (40%, previously 33%)
Cash from Borrowers	<u>\$ 30,000</u> (10%)
Total	\$ 300,000

The updated City of Racine RLF would be able to provide more funding from the RLF, at a lower interest rate, thereby reducing the company’s monthly repayment. Examples of recent building purchases that were assisted using this structure include 1st Choice Properties in Waterford, Ana Living in Burlington, First Call Heating & Cooling in Mount Pleasant and Davis Property Care in Raymond. These companies and others can obtain 90% financing through the support of the RLF program, reserving their cash to support business growth.

2. Smaller RLF loans to support business growth without a Financial Institution Partnership

Provides smaller loans to meet more needs in the current market. The goal is to assist businesses with financing needs of \$100,000 or less to support their growth until they reach a level when bank financing is more suitable. This target market was discussed with the RCEDC Board of Directors in

January 2020 which agreed with the initiative and supported it with the creation of its own loan fund using RCEDC cash reserves in the amount of \$200,000. Smaller RLF loans have a more streamlined application process, approval process and closing process. The intent is to make loans that would follow more streamlined processes proposed, but under the review of experienced RCEDC management which mitigates any added risk. Higher risk loans would be referred to other organizations that would be a better fit for lenders that do higher risk micro-lending. Overall, applicants still need to demonstrate a community benefit and meet the eligibility criteria for the loan fund.

What makes these loans different from the existing City of Racine RLF?

Loans made under this lending criteria are unique as they meet one of the criteria listed below:

- There is no private dollar match from a financial institution loan
 - RCEDC is not able to do this with the government sourced programs
- Collateral is less than typical for the RLF program
 - For example, leasehold improvements, working capital and FF&E would result in minimal if any collateral coverage for the RLF loans and represents financing that financial institutions would be challenged to provide conventionally
- RCEDC/BLP management approves loans of \$50,000 or less
 - Neither the Loan Advisory Committee nor RCEDC Board is part of the approval process unless there were a negative credit issue to consider
- The loan closings are completed by RCEDC staff without legal counsel
 - Closing loans internally reduces costs passed on to the customer and makes smaller loans more feasible to offer
 - Reduces costs but adds to risk in a default situation (WBA documents are being used)
- The use of funds is primarily for working capital, leasehold improvements or another use that is not typically a primary focus of the RLFs

To summarize, the following table provides program parameters as they exist now and how they are proposed to change. For the Board's reference, a 'draft' Policies and Procedures Manual is attached for consideration.

Loan Fund Parameters

Program Parameters	Existing	Proposed
Program Objectives:	<ul style="list-style-type: none"> • Meet RCEDC's Strategic Plan. • Recruitment, retention and growth of businesses to create and retain jobs. • Supplement existing business financing and attract other public and private financing sources to assist local businesses. 	<ul style="list-style-type: none"> • To encourage the creation and retention of permanent jobs. • To encourage the leveraging of new private investment in the form of fixed asset investment, particularly in land, buildings, and equipment but not limited to those uses. • To perpetuate a positive and proactive business climate which encourages the retention and expansion of existing businesses and helps to attract desirable new businesses. • Building projects that are non-owner occupied may be considered where tenants may commit to job creation/retention requirements • To support woman, ethnic minority, and veteran-owned businesses • Other community benefits as deemed appropriate such as: <ul style="list-style-type: none"> ○ The Project is in a targeted development area ○ The Project is in a rural location
Eligible Area:	City of Racine	City of Racine
Approval Process:	<p>Approval process determined by RCEDC's Board of Directors, currently:</p> <p><i>Loans \$50,000 or less:</i></p> <p>Approved by RCEDC Management</p> <p><i>Loans greater than \$50,000:</i></p> <ol style="list-style-type: none"> 1. RCEDC Loan Advisory Committee. 2. RCEDC Board of Directors 	No Change

Loan Closings	Follows RCEDC policies, not specifically addressed in Policy Manual.	<p><i>RCEDC Policy:</i></p> <p><i>Loans \$100,000 or less:</i></p> <p>RCEDC staff will prepare loan closing documents and consult legal counsel if needed.</p> <p><i>Loans greater than \$100,000:</i></p> <p>The RCEDC attorney shall prepare loan documents.</p>
Eligible Uses:	<ul style="list-style-type: none"> • Land and/or building acquisition; • Building construction; • Site preparation and demolition; • Building renovation and expansion; • Machinery and equipment purchases; • Furniture and fixture purchases; • Leasehold improvements; and • Working capital. 	<ul style="list-style-type: none"> • The acquisition of land and buildings. • Machinery and equipment acquisition, furniture and fixtures. • Site preparation and the construction or reconstruction of buildings or the installation of fixed equipment. • Clearance, demolition, removal of structures, rehabilitation and renovation of buildings, facade renovation and other such improvements. • Leasehold improvements, where the lease period is for the term of the RLF loan. • Business acquisition through purchase of assets or stock. • The payment of assessments for sewer, water, street, and other public utilities if the provision of the facilities will directly create or retain jobs. • Working capital. • Training costs related to the jobs created or retained because of the RLF loan. • Other costs which represent opportunities to further the goals and objectives of the City of Racine.

		<i>RCEDC Note: All eligibility criteria are intended to be guidelines at the discretion of the Loan Committee and Board.</i>
Ineligible Uses:	<ul style="list-style-type: none"> • Acquire an equity position in a private business; • Subsidize interest payments on an existing RLF loan; • Provide for borrowers' required equity contributions under other Federal Agencies' loan programs; • 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; • 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 • Refinance existing debt, except in specific situation 	<ul style="list-style-type: none"> • Refinancing or consolidating of existing debt if it results in job creation or retention • Reimbursement for expenditures made more than nine months prior to a complete loan application being received, unless the time limit is extended or waived by the RLF Administrator for good cause. • Specialized equipment that is not essential to the business operation. • Residential building construction or reconstruction (unless such reconstruction is intended to convert the building or a portion of the building to a business or industrial operation). • Routine maintenance. • Other activities that the RLF Administrator may identify during the administration of the program.
Ineligible Businesses:	Not specifically addressed.	<ol style="list-style-type: none"> 1. Lending institutions. 2. Gambling operations. 3. Non-public recreation facilities. 4. Other businesses not serving the interests of the City of Racine.
Loans:	Generally, up to \$275,000 or up to 25% of RLF capital base, whichever is less.	Loan amounts are subject to the availability of program funds.
Private Funds Leveraged:	An average ratio of 2:1 private dollars invested for every RLF dollar. The RLF participation would be no more than	Remove this requirement to allow for smaller RLF loans to provide 90% financing.

	33% of the RLF portfolio.	
Equity:	10% when appropriate	No Change
Interest Rate:	75% of prime or minimum 4%	As deemed appropriate by the RLF Administrator based upon the project and current rate environment, currently 4%.
Terms:	Up to 10 years with amortizations up to 25 years	<p>Generally, balloon payments will be used with terms as deemed appropriate.</p> <p>Typically:</p> <ul style="list-style-type: none"> • Working capital up to 7 years. • Equipment up to 10 years. • Real Estate up to 25-years.
Deferrals:	May include a 12-month deferral	Payment of principal may be deferred for up to eighteen (18) months. Interest may be deferred, if appropriate, and shall accrue during the deferment period to be paid in full or added to the principal amount of the loan following the deferment period.
Job Creation:	Typically, 1 job created/retained for every \$35,000 in RLF dollars loaned.	<p>Update the jobs requirement to be consistent US Small Business Administration (SBA) program. At least one (1) full-time permanent position or full-time equivalent shall be created or retained for every \$75,000 of program funds requested, or \$120,000 for small manufacturers. For loans less than \$75,000, at least one (1) full-time permanent or full-time equivalent (FTE) must be created/retained. The jobs shall be created or retained within a period of 24 months following the commitment of the loan.</p> <p>Jobs may be waived for loans that meet other objectives for the program if the portfolio overall is meeting the job creation criteria.</p>
Collateral:	May include mortgages, liens on equipment, key man life insurance,	No Change. Will seek the best collateral position possible.

	personal guarantees, etc. May be subordinate to participating financial institution.	
Credit not Otherwise Available:	Cannot substitute available private capital; must demonstrate credit is not available at same rates and terms.	Remove this requirement
Assumptions and Prepayments:	Allowed with no prepayment penalties	No Change
Relocation of Jobs:	Cannot assist project that would result in relocation of jobs from outside the labor market.	No Change per EDA requirements
Prevailing Wage Rates:	The Davis Bacon Act applies that requires prevailing wages be paid to contractors constructing or installing anything financed through the RLF.	No Change per EDA requirements
Administrative Costs	Fees charged to Borrower: <ul style="list-style-type: none"> • Loan Processing Fee • Loan Closing Fee and out-of-pocket costs Interest paid on loans	<ul style="list-style-type: none"> • No Change

CITY OF RACINE

ECONOMIC DEVELOPMENT ADMINISTRATION
REVOLVING LOAN FUND PROGRAM

Policies and Procedures Manual

Prepared by the:

Racine County Economic Development Corporation
2320 Renaissance Blvd
Sturtevant, WI 53177

JULY 2022

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FORWARD

In 1999, the City of Racine and RCEDC established the City of Racine Economic Development Administration Revolving Loan Fund (City EDA RLF) program to provide gap financing to businesses in the City of Racine. In 2022, this program was defederalized under the "Reinvigorating Lending for the Future Act" providing more flexibility in how the RLF program is administered with decision making at a local level.

SECTION 1. GENERAL PROVISIONS

1.1 PURPOSE

The purpose of the policies and procedures contained within this manual, hereafter referred to as the RLF Manual, is to present the criteria which governs the economic development activities assisted with funds made available through the City of Racine's Revolving Loan Fund (City RLF).

1.2 OBJECTIVES

Economic development activities assisted with funds made available through the RLF program are intended to meet the following objectives:

- 1) To encourage the creation and retention of permanent.
- 2) To encourage the leverage of new private investment in the form of fixed asset investment, particularly in land and buildings, and manufacturing equipment but not limited to those uses.
- 3) To perpetuate a positive and proactive business climate which encourages the retention and expansion of existing businesses and helps to attract desirable new businesses.
- 4) To perpetuate a positive and proactive business climate which encourages the retention and expansion of existing businesses and helps to attract desirable new businesses.
- 5) To support real estate projects that are non-owner occupied may be considered where tenants may commit to job creation/retention requirements.
- 6) To support woman, ethnic minority, and veteran-owned businesses
- 7) Other community benefits as deemed appropriate such as:

- a. The Project is in a targeted development area
- b. The Project is in a rural location

1.3 AMENDMENTS and MODIFICATIONS

The City of Racine may from time to time amend the provisions imposed by the policies and procedures contained within the RLF Manual.

SECTION 2. ADMINISTRATION

2.1 LOAN ADVISORY COMMITTEE

1. The City of Racine is responsible for the appropriate administration of the RLF program and has therefore designated Racine County Economic Development Corporation (RCEDC) as the RLF Administrator. Funding decisions relative to RLF loans will be made by the RCEDC with a loan review process determined by its Board of Directors.
2. The City of Racine has entered into an agreement with the RCEDC for the administration of the RLF program (RLF Administrator). RCEDC holds the RLF funds and acts as Lender for loans made.
3. The RLF Administrator shall explain the RLF program to prospective applicants, provide information on the program and application materials, assist applicants in completing applications, and process requests for financing. The Administrator, where necessary and appropriate, shall counsel or guide loan applicants to other more appropriate technical and financial resources when the loan applicant has needs beyond those available from the RLF program.
4. The Administrator shall periodically review all financial statements and loan amortization schedules of RLF loan recipients, review and approve documentation of business expenditures financed with RLF proceeds, record RLF security instruments, maintain the RLF accounting records and report at such times as required by the City regarding the use of the RLF funds.
5. The RCEDC Loan Advisory Committee shall function as the RLF Loan Review Committee and will consist of individuals representative of broad community interests, and having special expertise and knowledge of commercial lending and other professions as deemed appropriate such as legal, accounting, real estate, etc. The Loan Review Committee shall

have the authority to review, select and recommend loan applications to the RCEDC Board of Directors for final approval. The RCEDC Board of Directors may delegate loan approval authority to RCEDC Management or the RCEDC Loan Advisory Committee. Periodic activity reports prepared by the RLF Administrator shall be provided to members of the Racine Common Council.

6. The RCEDC attorney shall prepare all loan agreements, promissory notes, mortgages and other lien instruments for loans greater than \$100,000. RCEDC staff will prepare closings for loans of \$100,000 or less and consult legal counsel as needed. All attorney fees incurred shall be charged to the borrower.
7. The RLF Administrator shall be responsible for the maintenance of all other records for the RLF, particularly those related to the expenditures of the RLF moneys for the program administration purposes.

2.2 MEETINGS

The RCEDC Loan Advisory Committee and RCEDC Board meetings shall be held on an as-needed basis. A majority of the Committee or Board members in attendance at a meeting constituting a quorum shall be required for official Committee action or as deemed appropriate within the RCEDC Bylaws.

2.3 RECORDS

Records of all program activities, including program meetings, loan applications, and related documents, shall be maintained in appropriate files. All files will be maintained electronically except for original collateral documents which will be maintained in a secure place with limited access by authorized personnel. The City of Racine shall be consulted regarding compliance with state and municipal open record laws.

The following files shall be established and maintained for each loan recipient:

1. Loan Application File. This electronic file contains all application, business financial statements, personal financial statements, credit reports, business plan documents, a summary of the credit analysis, recommended actions for the application, and other supporting loan information submitted to the RCEDC, including all applicable

correspondence. The minutes of RCEDC Loan Advisory Committee meetings and Board meetings summarizing the action taken on the loan request shall be maintained in the RCEDC files.

2. Loan Closing File. This file contains copies of all the loan closing documents. All original legal documents from the loan closing, including security instruments, the note and other applicable closing documents shall be placed in a locked fireproof filing cabinet located in the offices of RCEDC. Copies of the loan closing documents and an amortization schedule will be provided to the loan recipient, along with an invoice, if applicable, for loan fees.
3. Loan Servicing File. This electronic file contains all records of subsequent activity related to the administration of the loan. This includes:
 - Information on applicable loan covenants;
 - Records of site visits conducted periodically to each loan recipient, the scheduling of which depends on the nature of the project, highlighting any information that can help in overall condition/risk of the loan;
 - Evidence of insurance for all collateral, including life insurance, as applicable;
 - Evidence of payment of real estate taxes, if applicable;
 - Borrower financial statements as required by the loan covenants;
 - Documentation for job creation and retention;
 - All written correspondence;
 - Record of important telephone conversations; and
 - Any other documents received that are deemed important in servicing the loan.
4. "Tickler" System. A tickler system shall be established and maintained to ensure that loan repayments, financial information, the loan agreement, UCC updates, and other time sensitive documentation requirements are tracked and obtained as required. The following information will be maintained:
 - Expiration dates for insurance policies;
 - Due dates for all financial statements;
 - Expiration dates for UCC financing statements with ticklers to renew as appropriate;
 - Scheduled dates of annual loan performance and covenant reviews;
 - Dates for site visits;
 - Due dates for property tax payments;
 - Review dates for job monitoring; and
 - Dates on which loan recipients will be notified of scheduled changes in the repayment schedule per loan agreements.

5. Repayment Monitoring. This includes the loan amortization schedule, status of payments, and the outstanding balance of the loan. Observations suggesting concerns or problems shall be reported to the RCEDC Loan Advisory Committee and notations shall be placed in the tickler file to remind the RLF Administrator of the need to provide continued monitoring. The RCEDC will notify the loan recipient of any payment deficiencies and the action that will be taken should the payment not be made. Should there be a late payment; the RCEDC will contact the loan recipient to determine the reason for the delayed payment. Contact may need to be made with other participating lender(s) to determine if their loans are current and to alert the lender of a potential problem. All payments shall be applied first to accrued late payment penalties and collection costs, then to interest accrued, and then to principal.
6. Loan Review. All loans are to be reviewed on an annual basis, and at such other times as may be deemed necessary by the RLF Administrator. The review will follow receipt of the fiscal year-end financial statements, the year-end surveys, and any site visits that may occur. A loan 'risk rating' will be completed upon completion of the review and shall be maintained in the servicing file.

If the business is experiencing problems and given a low 'risk rating' of D or E, it would be deemed a 'troubled loan,' by RCEDC staff, in which case it is reviewed quarterly with a report to the Loan Committee and RCEDC Board of Directors which includes the following: Timeliness of monthly payments, a collateral analysis; risk rating of the overall financial condition of the business; the presence of material liens or lawsuits, and violations of loan covenants and suggested corrective actions.

With any troubled loans, the RLF Administrator is to work with the loan recipient to identify actions that are needed to correct the identified deficiencies, including restructuring of the loan to protect the City of Racine and RCEDC's interests and meet the needs of the business. If appropriate, the Administrator will arrange for business assistance, including services available through the University of Wisconsin-Extension, Small Business Development Center (SBDC), the Service Corp of Retired Executives (SCORE), and other entities having an interest in serving the needs of businesses.

In the event, the findings of the loan review suggest serious problems, particularly if the loan is at risk for default, RCEDC will work with the RCEDC attorney to initiate steps

necessary to protect the loan and to insure the maximum repayment of the balance due. Corrective actions may be achieved through restructuring or if necessary, legal actions.

2.4 ADMINISTRATION

Reasonable administrative funds may be withdrawn from the RLF to cover necessary administrative expenses as agreed to by the City of Racine. This may include collections/legal costs associated with Troubled Loans. The RCEDC as RLF Administrator also requires the following fees:

- Loan Processing Fee – Typically 1.5% of the loan amount but may be adjusted as needed to cover administrative costs of the program.
- Out-of-Pocket Fees – All out-of-pocket costs related to determining the value of collateral and perfecting the collateral. Costs may also include charges directly related to either processing an application or servicing a loan, including but not limited to, appraisals, title reports, lien searches, credit reports, UCC filing fees and Register of Deeds fees.
- Closing Fees – A fee for the preparation the loan agreement, the note, all security agreements and related documents as required by the loan commitment, including any legal fees, may be invoiced to the customer.
- Servicing Fees – Interest paid on loans.

SECTION 3. ELIGIBILITY CONSIDERATIONS

3.1 ELIGIBLE AREA

The area served by the RLF program shall be the City of Racine.

3.2 ELIGIBLE APPLICANTS

1. Applicants shall be any business wishing to establish a new operation, expand an existing operation or purchase/construct a facility for lease to business(s) located in the Eligible Area and which will comply with the Program Requirements.

2. Applications may be submitted by the sole proprietor, managing partner, managing member or Chief Executive Officer of any business wishing to establish a new operation or expand an existing operation within the Eligible Area.
3. No member of the governing body, the RCEDC Loan Advisory Committee, or any other official, employee, or agent of the City of Racine who exercises decision-making functions or responsibilities in connection with the implementation of this program is eligible for financial assistance under this program. Former Racine City Council Members and RCEDC Loan Committee Members are ineligible to apply for or receive loan funds for a period of one year from the date of his/her services.
4. No program loans will be made which conflict with Section 946.13 of the Wisconsin Statutes (Private Interest in Public Contract Prohibited).
5. Applicants shall not be disqualified based on age, race, religion, color, handicap, sex, physical condition, development disability as defined in s. 51.01(5), sexual orientation or national origin in any employment or construction activity related to the use of business proceeds.

3.3 ELIGIBLE ACTIVITIES

Program loans shall be available to eligible applicants for the following activities:

1. The acquisition of land and buildings.
2. Machinery and equipment acquisition, furniture and fixtures.
3. Site preparation and the construction or reconstruction of buildings or the installation of fixed equipment.
4. Clearance, demolition, removal of structures, rehabilitation and renovation of buildings, façade renovation and other such improvements.
5. Leasehold improvements, where the term of the RLF loan is equal to the lease period or five years, whichever is less.
6. Business acquisition through purchase of assets or stock or rolling stock.
7. The payment of assessments for sewer, water, street, and other public utilities if the provision of the facilities will directly create or retain jobs.
8. Working capital.
9. Training costs which are incurred to create or retain the jobs resulting from the RLF loan or which will create or retain jobs as a result of maintaining the competitiveness of the borrower.
10. Refinancing or consolidating of existing debt if it results in job creation or retention.

11. Other costs which represent opportunities to further the goals and objectives of the City of Racine.

Note: All eligibility criteria are intended to be guidelines at the discretion of the Loan Committee and RCEDC Board of Directors.

3.4 INELIGIBLE ACTIVITIES

Program loans shall not be available for the following activities:

1. Reimbursement for expenditures made more than nine months prior to a complete loan application being received, unless the time limit is extended or waived by the RLF Administrator for good cause.
2. Specialized equipment that is not essential to the business operation.
3. Residential building construction or reconstruction (unless such reconstruction is intended to convert the building to a business or industrial operation).
4. Routine maintenance.
5. Professional services such as feasibility and marketing studies, accounting management services, and other similar services. Legal services incurred in the closing of a RLF loan are eligible.
6. Other activities that the RLF Administrator may identify during the administration of the program.

3.5 INELIGIBLE BUSINESSES

Program loans shall not be available for the following businesses:

1. Lending institutions.
2. Gambling operations.
3. Non-public recreation facilities.
4. Other businesses not serving the interests of the City of Racine.

3.6 PROGRAM REQUIREMENTS

To be eligible for funding, a proposed project must meet the following minimum requirements.

1. Private Funds Leveraged. In general, the applicant would leverage a minimum of one dollar (\$1.00) of private funds for every one dollar (\$1.00) of loan funds requested. Smaller RLF loans as described below would not require private funds leverage.
2. Cost Per Job Created. At least one (1) full-time permanent position or full-time equivalent shall be created or retained for every \$75,000 of program funds requested, or \$120,000 for small manufacturers. For loans less than \$75,000, at least one (1) full-time permanent or full-time equivalent (FTE) must be created/retained. The jobs shall be created or retained within a period of 24 months following the commitment of the loan. Jobs may be waived for loans that meet other objectives for the program if the portfolio overall is meeting the job criteria.
3. Financial Feasibility and Business Viability. The applicant must demonstrate that the proposed project is viable and the business will have the ability to repay the funds.
4. Records. Loan recipients will maintain those records that are necessary for the RLF Administrator to determine if the performance of the business complies with the terms of the loan agreement. The records may include, but may not be limited to, purchase orders, invoices, records of payments, cancelled checks, and payroll records for new or retained employees that are a part of the Project. The RLF Administrator will have access to all records pertinent to the Project for the purposes of examination.
5. Compliance With Applicable Laws. Applicants shall comply with all applicable local, state, and federal laws and codes.
6. Nondiscrimination. Not to discriminate on the basis of age, race, religion, color, handicap, sex, physical condition, development disability as defined in s. 51.01(5), sexual orientation or national origin in any employment or construction activity related to the use of the business loan funds.
7. Penalty for the Failure to Comply with reporting requirements or any other condition of the Loan Agreement. The RLF Administrator shall have the option to increase the interest rate on loans to Borrowers who do not comply with reporting requirements under the RLF loan program or any other condition of their loan agreement. Interest rates will be set at rates determined by the RLF Administrator, but generally Prime + 2%.

SECTION 4. TERMS AND CONDITIONS

4.1 TERMS AND CONDITIONS

RLF Funds will be provided in the form of loans. Loan terms and conditions shall be structured on need and ability to repay. Standards may include the following:

1. Loan Amount. Loan amounts are subject to the availability of program funds and to be determined by the RLF Administrator.
2. Interest Rate. Interest rates shall be determined by the RLF Administrator and may be fixed or variable.
3. Terms for Loans. Typically, balloon payments will be used with amortization periods that generally do not exceed the useful life of the collateral. Loan terms would generally not exceed the following:
 - Working capital loans shall have term of up to seven years.
 - Loans for machinery, equipment and fixtures shall have terms of up to ten years.
 - Real estate loans shall have terms of up to 25 years.
4. Deferral of Payments. Payment of principal may be deferred for up to eighteen (18) months. In some cases, interest may be deferred but shall accrue during the deferment period to be paid in full or added to the principal amount of the loan following the deferral period. Following the deferral period, interest and principal shall be paid for the remaining term of the loan.
5. Prepayment. Borrower may prepay the loan in full or in part at any time without penalty.
6. Collateral. The RLF Administrator will seek to have the best collateral position. The collateral requirements will be determined on an individual basis by the RLF Administrator and may include mortgages and/or liens on land, building, machinery, equipment, accounts receivable, inventory or other assets of value owned by the borrower, principal owners, other co-borrowers or guarantors. The collateral position of the RLF may be subordinated to private sector financial institutions participating in the project. Personal guarantees from the principals of the business may be required. In addition, life Insurance coverage on the principal owner may be required.
7. Hazard Insurance. Businesses receiving loans secured by real estate and fixed assets will be required to obtain property-casualty insurance and have RCEDC listed on the insurance policy. Proof of insurance with appropriate endorsement or coverage documents will be prior to the closing of the loan.

8. Smaller RLF loans. Loans of \$100,000 or less will be made to support more needs in the current market. The goal is to support the needs of businesses until their capital needs reach a level where bank financing is more suitable. Smaller RLF loans would have a more streamlined application process, approval process and closing process adding more risk to lending. The intent would be to make loans that would be higher risk due to the streamlined processes proposed, but not necessarily as high risk as those that would be a better fit for lenders that do higher risk micro-lending.

Some current market needs that have been identified for smaller RLF loans initiative include:

- Leasehold improvements
- Renovations where a first mortgage holder may already exist
- Exterior improvements
- Furniture, fixtures and equipment
- Small working capital term loans
- Offering of principal deferrals to provide cash flow relief up to 1.5 years

Overall, applicants would still need to demonstrate a community benefit and meet the eligibility criteria for the loan fund.

What makes these loans different from the traditional RLF

Loans made under these new lending criteria are unique to the existing programs as they will meet one of the criteria listed below which would create some added loan risk as noted.

- There is no private dollar match from a financial institution loan.
- Collateral is less than typical for the RLF program.
 - Based on the use of funds above, i.e., leasehold improvements, working capital, FF&E, this would result in minimal if any collateral coverage for the RLF loans and represents financing that financial institutions would be challenged to provide conventionally
- RCEDC/BLP management approves loans of \$50,000 or less.
 - Neither the Loan Advisory Committee nor RCEDC Board would be part of the approval process unless there was a negative credit issue to consider.

- The loan closings will be completed by BLP staff without legal counsel.
 - Closing loans internally reduces costs passed on to the customer and makes smaller loans more feasible for RCEDC to offer.
 - Reduces costs but adds to risk in a default situation (WBA documents are being used).
- The use of funds is primarily for working capital, leasehold improvements or another use that is not typically a primary focus of the RLFs.
 - This is not typically done under the existing RLFs due to the collateral shortfall it would offer. Examples of liquidation values for uses of funds proposed would typically be:
 - Leasehold Improvements: 10% value of cost
 - Furniture and Fixtures: 10% value of cost
 - Equipment: 50% value of cost
 - Working capital: Dependent upon what is available, i.e., accounts receivable, inventory.

SECTION 5. APPLICATION PROCEDURES

5.1 DISCUSSION OF REQUIREMENTS

Prior to applying, the applicant shall discuss the program with the RLF Administrator. The Administrator shall assist the applicant, as is reasonably necessary, in completing the application.

5.2 PRIORITY

Applications shall be reviewed in the order received and based on readiness for the proposed project to proceed. In the event that loan funds requested exceed available funds, the following criteria will be used to determine which business(s) will be awarded with loan(s).

1. Eligibility of the applicants.
2. Eligibility of the project to be undertaken.
3. The extent to which private funds are to be leveraged.
4. The extent to which jobs are to be created, and the type jobs and wages.

5. The extent to which the loan can be secured.
6. Evidence of ability to repay the loan.
7. Size of the loan requested.
8. Timing of the proposed expenditures.
9. Completeness of application.
10. Other factors as deemed appropriate including whether the project will support a woman, ethnic minority or veteran owned business.

5.3 TIMING

Applications may be submitted at any time during the calendar year.

5.4 LOAN APPLICATION

Applicants shall submit an application using the application checklist and forms provided by RCEDC. These items include but are not limited to the following:

1. Project description of how the business plans to use the requested funds.
2. A business plan, if appropriate for new businesses that includes the history and description of the business and analysis of management ability.
3. Personal Financial Statement typically within 90 days for each proprietor, partner member or stockholder with 20% or more ownership of the business, and, if different, each owner with 20% or more ownership of its real estate holding company.
4. Personal Background Statement/Resume of the principals and any key personnel involved in the management of the business.
5. Balance sheet and income statement for the previous three years for the business. The RLF Administrator may require that these be accountant prepared or may require tax returns in lieu of financial statements.
6. A balance sheet and income statement dated typically within 90 days of the application. The RLF Administrator may also require an aging of the accounts receivable and accounts payable report.
7. Annualized projections, if appropriate, including both balance sheet and income statement for the first two years with written assumptions attached.

8. For a new business, a monthly cash flow analysis for the first 12 months of operation or three months beyond break even, (whichever is longer) together with a description of assumptions attached.
9. A schedule of debts which includes the original amount, date, monthly payment, interest rate, present balance, maturity, to whom payable and collateral.
10. The names of affiliated (through management control) or subsidiary businesses and, if requested, the last two fiscal year-end financial statements and a current financial statement for each of these firms.
11. A copy of key cost documents related to the project such as purchase agreements, contractor cost estimates, equipment quotes, etc.
12. An accepted offer to purchase land and/or buildings.
13. If applicable, a copy of the existing or proposed lease agreement. *
14. An independent appraisal for construction projects on an "as completed basis" and otherwise as required.*
15. Environmental analysis, if applicable. *
16. A letter from the participating lender stating the terms and conditions of its participation.
17. A resolution from the Board of Directors of the borrower authorizing it to borrow or (if applicable) a Partnership Borrowing Agreement. *
18. If applicable, corporate documents, including but not limited to Articles of Incorporation, Corporate By-laws, etc. *

*These items may be provided following loan approval but must be provided prior to loan closing if included as a contingency of the loan. The RLF Administrator, at its discretion, may waive any of the above requirements.

5.5 REVIEW PROCESS

Specific steps in the review process include the following:

1. Preliminary Review. The RLF Administrator will review the application for completeness and verify that the proposed project meets the minimum requirements of the RLF program. If the application is not complete, the Administrator will inform the applicant of the deficiencies.

2. Formal Review. The application will be reviewed generally within 30 days of the receipt of a completed application or at some other predetermined schedule.
3. Negotiation of Terms. Once approved, the Administrator will contact the business in writing to review and explain the terms of the loan.
4. Notice of Award. If the application is approved, a closing will be scheduled to execute the necessary loan documents.
5. Rejection of Award. If the application is not approved, the RLF Administrator will send a letter to the applicant stating 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.

SECTION 6. DISTRIBUTION OF FUNDS

6.1 LOAN PROCEDURES

Prior to releasing funds, the following documentation must be in place or provided at the appropriate time during the term of the loan.

1. Notice of Award. The application must have been reviewed and approved.
2. Loan Agreement. The RLF Administrator shall provide a loan agreement as appropriate which shall be executed by the RCEDC and the approved business.
3. Promissory Note. A promissory note shall be prepared and signed by the Borrower at the time of loan closing. The note must be dated; it must reference the agreement between the RCEDC and the business; and it must specify the amount and terms of the loan funds delivered.
4. Security. Mortgage or lien instruments or personal guarantees provided as security as deemed appropriate shall be executed at the time of the loan closing. The Loan Administrator shall record the instrument and place a copy in the project file to include as appropriate:
 - (a) Mortgage and/or security agreement.
 - (b) UCC searches and filing.
 - (c) Guarantee agreement.
 - (d) Title insurance.
 - (e) Assignment of Life Insurance.
 - (f) Casualty Insurance binder.
 - (g) Personal guarantee.
 - (h) Other documentation as may be appropriate.
5. Repayment Schedule. A loan repayment or amortization schedule shall be prepared by the RLF Administrator after the loan proceeds are fully disbursed. At that time, the repayment schedule shall be provided with copies of all other closing documents to the Borrower.

6. Evidence of Permits. Documentation must be provided by the applicant that all necessary permits, licenses, and any other registrations required have been obtained by the applicant prior to the release of program funds.
7. Evidence of Program Expenditures. Documentation must be provided by the business to evidence program expenditures prior to the release of funds if being reimbursed or invoices for payment directly by the RLF. Documentation shall include bills and invoices of receipts for materials, final bills of sale, canceled checks, financial statements for working capital uses or other documentation as deemed appropriate by the RLF Administrator. All documentation shall be reviewed and approved by the RLF Administrator. Disbursing RLF funds in installments may also be an option for equipment purchases, working capital or other needs where installments are necessary for the use of funds.
8. Equipment. Equipment financed with program funds should be purchased, delivered, and installed unless agreed to in advance by the RLF Administrator. The Administrator shall verify the installation of fixed equipment.
9. Other Documentation. As appropriate or necessary, the borrower may be asked to provide the following:
 - (a) A Certificate of Status from the Department of Financial Institutions.
 - (b) The Articles of Incorporation and By-Laws.
 - (c) A Board Resolution to borrow funds and Secretary's certificate.
 - (d) Current financial statements.
 - (e) Evidence of having secured other funds necessary for the project.
 - (f) An Environmental Assessment for real estate loans which may an environmental questionnaire, Phase I or other document, depending on the environmental condition of the site.
 - (g) Other documentation as identified in the Term Sheet, Commitment Letter and/or Closing Checklist provided by RCEDC.

With the above documentation in place, the Administrator will schedule a loan closing. All documents will be executed before funds are disbursed and mortgages and UCC Statements shall be recorded with the Register of Deeds and/or the Wisconsin Department of Financial Institutions.

SECTION 7. POST APPROVAL REQUIREMENTS

7.1 OBLIGATION OF LOAN RECIPIENT

In addition to the terms and conditions of the loan, all borrowers shall agree to comply with the following:

1. The creation or retention of the agreed upon number of jobs within 24 months of the date of the Commitment Letter.
2. Not to discriminate on the basis of age, race, religion, color, handicap, sex, physical condition, development disability as defined in s.51.01(5); sexual orientation or national origin in any employment or construction activity related to the use of business loan funds. The loan recipient will abide by all federal laws, when applicable.
3. To use the loan money only to pay the cost of services and materials necessary to complete the project or activity for which the loan funds were awarded.
4. To permit inspections by the RLF Administrator of all projects and properties assisted with loan funds. Related project materials shall also be open to inspections which include, but may not be limited to, contracts, materials, equipment, payrolls, and conditions of employment. Requests for inspection shall be complied with by the borrower.
5. To maintain records on the projects as may be requested by the RLF Administrator. These files shall be maintained as long as the loan is active or for at least three (3) years after completion of the work for which the loan has been obtained, whichever is longer.
6. To submit periodic progress reports to the Administrator in accordance with the schedule in the loan agreement. These reports shall report on project progress including number of jobs created or retained.
7. To maintain fire and extended coverage insurance on the project property required during the term of loan. RCEDC shall be listed as Loss Payee and/or Mortgagee as deemed appropriate by the RLF Administrator. Term life insurance may be required of the applicant to cover the loan balance through the life of the loan.

SECTION 8. PERFORMANCE MONITORING

8.1 PRIVATE LEVERAGE COMMITMENTS

The Administrator shall monitor the use of the funds and expenditure of private leverage commitments. Documentation may include invoices or receipts for materials and supplies, letters from lenders, final bills of sale, cancelled checks or other documentation deemed appropriate by the RLF Administrator.

8.2 HIRING OF NEW EMPLOYEES

The Administrator shall monitor the borrower's progress in meeting job creation or retention goals. Job creation must be documented using payroll records or signed certifications from the business. Failure of the business to provide the targeted number of jobs may be a condition for default or result in penalties, unless the business can show it made a good faith effort to create the targeted number of jobs but did not succeed due to reasons beyond its control.

8.3 DEFAULT

1. In addition to the grounds specified in the loan agreement, the following shall be considered default:
 - (a) Defaulting on other loans with private lenders.
 - (b) Cessation of operations or relocation of operations from the City of Racine.
 - (c) Sale of the business.
2. In the event the business is in default on any of the terms and conditions of the loan agreement, all sums due and owing, including penalties shall, at the RLF Administrator's option, become immediately due and payable. To exercise this option, the RLF Administrator or attorney representing them shall prepare a written notice to the business. The notice shall specify the following:
 - (a) The default.
 - (b) The action required to cure the default.
 - (c) A date, not less than thirty (30) days from the date of the notice, by which the default must be cured to avoid foreclosure or other collective action.
 - (d) Any penalties incurred as a result of the default.

SECTION 9. USE OF LOAN REPAYMENTS AND REPORTING

9.1 RLF ACCOUNT

Repaid RLF loan funds may be re-loaned in a manner consistent with the policies of the RLF Manual. A separate accounting record for each loan shall be kept to account for all funds loaned.

SECTION 10. LOAN SERVICING

10.1 MONITORING

The RLF Administrator shall monitor each loan to ensure compliance with the loan terms and conditions and the financial health of the business to insure continued repayment of the loan. The monitoring will also ensure that all recordkeeping requirements are met, particularly in regard to job creation and expenditures of RLF funds.

The Administrator will notify the loan recipient of any payment deficiency and the action that will be taken should the payment not be made. Should there be a late payment; the Administrator will contact the loan recipient to determine the reason for the delayed payment. Contact may need to be made with other participating lender(s) to determine if their loans are current and to alert the lender of a potential problem. All payments shall be applied first to accrued late payments penalties, then to interest accrued late payment penalties, then to interest accrued, and then to the principal.

10.2 RECORDKEEPING

In addition to the above, the RLF records provide the following information:

- (a) Revolving Loan Fund Status Report. – Contains the business name, loan date, loan amount, terms, and date repayment begins.
- (b) RLF Loan Repayment. – The RLF Administrator's accounting systems will monitor repayments made by each business which has received a loan from the RLF. It also tracks the balance of repayments from all loans from RLF.