

**REVOLVING LOAN FUND (RLF)
PROGRAM**

**ADMINISTRATIVE GUIDELINES
City of Urbandale, Iowa**

July 2015



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

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Revolving Loan Fund (RLF) Program

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Appendix A: Sample Loan Security Documents for City Assistance Only

Resolution
Loan Agreement
Personal Guaranty
Loan Amortization Schedule

Appendix B: Sample Loan Security Documents for Local Match to State Assistance

Resolution
Loan Agreement
Personal Guaranty
Loan Amortization Schedule



Appendix C Fair Play Agreement



CITY OF URBANDALE, IOWA REVOLVING LOAN FUND (RLF) PROGRAM

Introduction

The City of Urbandale's revolving loan fund is a local incentive to provide financial assistance to businesses that plan to make a capital investment and create new job opportunities and/or retain existing jobs in Urbandale. Assistance may be provided to encourage new business startups, expansion or retention of existing businesses, or the recruitment of out-of-state businesses to Urbandale. Assistance is provided in the form of low-interest loans. The awards are based in part on job creation, quality of employment, and benefits for the community.

Background of RLF in Urbandale

The City of Urbandale was awarded a Community Development Block Grant/Economic Development Set Aside (CDBG/EDSA) grant on September 13, 1989, by the Iowa Department of Economic Development (IDED). The CDBG/EDSA grant (number 89-ED-012-87) was in the amount of One-Hundred Twenty Thousand and 00/100 Dollars (\$120,000). The City as grantee loaned the \$120,000 to Kimberley Press Ltd., located in the Interstate Acres Industrial Park in the City of Urbandale. The loan was used to acquire printing equipment for the Kimberley Press plant expansion, to provide for the creation of thirty-eight (38) new full-time Jobs, and to expand the property tax base. The City entered into a direct loan agreement with Kimberley Press Ltd., which called for the loan of \$120,000 to be repaid at an interest rate of eight percent (8%) over a five (5) year term. Due to a business merger, Kimberley Press requested early project termination, effective April 30, 1991. The City Council, at its meeting of May 28, 1991, established the Revolving Loan Fund (RLF) program. The creation of the RLF was allowed and encouraged by the CDBG/EDSA program to benefit local economic development activities. Kimberley Press repaid the \$120,000 to the City on May 29, 1991.

On December 21, 1999, it was determined by IDED that the repayment by Kimberley Press to the City occurred after the expiration of the loan agreement between the City and State, and the repayment was considered by IDED to be exempt income. As a result of this finding, the City's RLF program is exempt from meeting the national obligations related to job creation and low to moderate income hiring guidelines. The City Council, at its meeting of December 28, 1999, established a public hearing date of January 11, 2000, to amend the Revolving Loan Fund program's administrative guidelines to eliminate the previous requirement that 51 percent of the new jobs created by a business receiving a RLF would benefit persons of low to moderate incomes.



In March of 2014, the Iowa Economic Development Authority (formerly IDED) confirmed that the City's RLF program is not subject to any CDBG HUD regulations including low to moderate income guidelines.



Goals and Priorities

The goals and priorities of the Revolving Loan Fund include:

- To enable the City to provide economic assistance to encourage new businesses to locate in the City, to assist existing businesses in the City, and to increase employment opportunities in the City. Priority will be given to new or existing for profit businesses with a majority of sales generated from clients located outside of the state of Iowa.
- To diversify and increase the property tax base of the City, and to encourage the development of businesses and industries that export products and services beyond the State of Iowa in support of new wealth generation for the City of Urbandale.
- To provide financial assistance to encourage new business start-ups, expansion of existing businesses and relocation of out-of-market businesses to Urbandale, with special emphasis on companies relocating from outside of the Des Moines Metro. Companies moving to Urbandale from within the Des Moines Metro seeking incentives must abide by the Fair Play Agreement (Appendix C).
- To provide financial assistance for the acquisition, construction, reconstruction, or installation of commercial or industrial buildings, structures, and other real property; acquisition of equipment and machinery; reuse of vacant or abandoned facilities; modernization of plant equipment or machinery; and research and product development. Excluded uses of funds include working capital and marketing.
- To provide financial assistance for activities that are consistent with the Comprehensive Plan prepared by the City of Urbandale, and which enhance and maintain the efficient use of land, resources, and infrastructure of the City. No significant negative land use or environmental impacts will occur as a result of the project.



Types of Assistance

The Revolving Loan Fund may be used in one of two ways:

1. As the required local match for a State assistance application through the Iowa Economic Development Authority
2. As a funding source to assist qualifying businesses to locate or grow in Urbandale that do not apply for State assistance

If a business needs the required local match for a State assistance program, there is no separate application process for City funding from the RLF. All underwriting and due diligence occurs at the Iowa Economic Development Authority.

If a business is not applying for State assistance and would like funding from the Revolving Loan Fund, an application must be filed with the City. Application review and due diligence occurs at the City or with approved local banking institutions.

The guidelines below pertain to applicants only requesting City assistance.

General Program Guidelines

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

- RLF assistance will be limited to loans, where it can be shown that the initial outlay of funds by the City will not exceed fifty percent (50%) of the total project cost, or be no greater than for any other form of project funding or project subsidy. RLF assistance would be awarded to the borrower as a loan to pay for costs directly related to the identified RLF request stated for the project. RLF assistance would be dispensed once the application has been approved.
- Multi-year funding commitments for a project will not be allowed under the RLF program. It is intended that only one loan of RLF proceeds will be made to a borrower. The City will consider a subsequent loan upon repayment of a RLF loan for a successfully completed project.
- There must be evidence of at least 10% owner or business equity; evidence that other loans proposed for project are consistent with terms generally accepted by conventional financial institutions for the type of property involved; and evidence that the project is feasible and can be a “going concern” in the foreseeable future. Determination is based on all documentation submitted with application.



The applicant should identify which reason from the following list best represents their need.

- Financing Gap: The business can maximally raise only a portion of the debt and equity funds necessary to complete the project. A gap between sources and uses exists, and financial assistance from the Revolving Loan Fund program is needed to fill the gap. This need will have funding priority under the RLF program.
- Insufficient Return on Investment: The business can raise sufficient debt and equity to complete the project, but the returns are inadequate to proceed with the project. The project risks outweigh the rewards.
- Locational Disadvantage: Two probable locations have been determined for the project. One location is more optimal, but the other location costs less. In order to locate at the more optimal site, the business will need a subsidy to equalize the costs. The cost differential between the two locations needs to be quantified.

Minimum Eligibility Requirements

Level of Financial Assistance

Level of financial assistance is dependent on job creation, quality of employment and benefits for the community, however, minimum requirements must be met to qualify for any level of assistance.

Interstate Commerce

Applicant must provide services in interstate commerce. Retail, health or professional services are typically not eligible industries.

Outside Sales

Applicant must have a minimum of 30% of sales from clients located outside of the state of Iowa to qualify for financial assistance.

“Sales from clients located outside of the state of Iowa” is defined as: Payment source is located outside of the state of Iowa.

Maximum Award Amounts

For applicants with more than 30% of sales from clients outside the state of Iowa, the level of financial assistance is available at two tiers:

If applicant has:



- 30-50% of sales from clients located outside of the state of Iowa, the maximum award amount is \$25,000, and must comprise no more than 50% of total project cost.
- 50% or more sales from clients located outside of the state of Iowa, the maximum award amount is the lesser of \$50,000 or 20% of total project cost.
 - If total project cost is \$125,000 or less, maximum award is \$25,000 and must comprise no more than 50% of total project cost.



Job Creation and Retention Guidelines

- The dollar cost job ratio shall not exceed a maximum of \$5,000 per job created or retained. A permanent job shall be defined as a minimum of forty (40) hours a week. Jobs created as a result of other jobs being displaced elsewhere in the State will be subject to the principles of the Fair Play Agreement (Appendix C) and will generally not be considered new jobs created for the purposes of the RLF program.
- Although there is not a mandatory requirement to hire persons of low to moderate incomes, preference would be given—when there is more than one application for RLF assistance, to a business that developed a hiring plan for persons with low to moderate incomes.
- Provide an average hourly wage rate equal to or greater than 90% of the regional labor shed wage as determined by the Iowa Department of Workforce Development for the ZIP code in which the project would be located. This requirement applies to new or retained jobs being taken into consideration for assistance.
 - Data may be accessed at <http://www.iowaeconomicdevelopment.com/Business/WageRequirements>



Application—Information Requested to Evaluate the Proposed Project (Application for City assistance only)

Project Description

- Provide a project description, project schedule, business plan, and market study, and demonstrate that the proposed project is feasible.

Budget & Financing

External review of financial documentation is provided by a local financial institution as part of the City's due diligence process. The following documentation is required for review:

- Provide a need for financial assistance, sources of funding, project budget, identify financing sources (owner's equity, private loans, other public funds, and RLF, etc.), and provide documentation of commitment that funds (other than the RLF request) are firmly committed or can reasonably be expected. Identify the amount of RLF requested and designated use of the RLF.
- Profit and loss statements (audited, if applicable) and balance sheets for the past 2 years of operation and current budget; if a new business, provide 2 years of individual federal tax returns of owners;
- Provide 2 projected profit and loss statements and balance sheets for at least 3 years into the future—1 with assistance from the RLF and 1 without assistance from the RLF.
- Bank name and reference.

Job Creation and Job Retention

- Provide job creation information by job title, proposed hourly wage or annual salary (without fringe benefits calculated in the rate), description of standard fringe benefits, number of retained jobs, and number of full-time positions for the project.

Project Timeline and Reports



- The project may begin upon loan approval and must be completed within twenty-four (24) months or another time frame if approved. Application should identify the projected start and end dates.
- The borrower will file an annual progress report with the City within 7 days of the anniversary of the loan approval to certify level of job creation.
- A one-time report must be filed with the City once fund has been expended in accordance with the Loan Agreement.
- The date of the first payment of principal and interest will not exceed one (1) year beyond the initial date of the loan approval; and the term of the loan shall not exceed five (5) years or the life of the fixed asset financed through the RLF, whichever is shorter.

Application—Review and Approval/Denial

Appropriate representatives from the City (City Manager's office, Economic Development, Finance, City Treasurer) will review the application on a first-come, first-served basis. The City reserves the right to use external reviewers to advise on the financial documents, project viability, etc. The City also reserves the right to request applicants to verify that the project principals are current on real property taxes, all mortgage payments, and State and Federal tax obligations; and reserves the right to request a credit reference report on the applicant(s) if other financial documents do not adequately reveal the credit worthiness of the applicant.

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



Security of the Loan

- The City prefers to assume a first position to the banks and other lending financial institutions involved in the proposed project.
- The applicant may be required to submit letters of equity and letters of commitment from the financing lenders with the application, indicating source, amount of loan, rate, term, end annual payment of supplemental financing.
- The applicant will provide a minimum of ten percent (10%) personal or business equity towards the total project cost. This amount should exclude the RLF request and bank financing and other financing secured for the proposed project. The equity should also exclude "sweat equity" and projected future cash flow return.
- The RLF award will not comprise more than 50% of the total loaned funds including bank or other regulated lender financing, other private financing, and public financing other than the requested RLF.
- Revolving Loan Fund loans will be secured by an Irrevocable Line of Credit. Other options may be considered, which include a pledged Certificate of Deposit, Corporate Guaranty, Personal Guaranty of owners comprising at least 50% of ownership, or pledged assets.
- Each applicant receiving a Revolving Loan Fund loan will be required to sign a Loan Agreement. Failure of a RLF recipient to abide by the provisions of the Loan Agreement may result in legal action.
- The City reserves the right to file a security interest with the Secretary of State if the applicant secures the loan with personal property, and to file a lien on real estate. If appropriate, the City reserves the right to record a lien and loan documents with Polk County or Dallas County, as may be appropriate.



Repayment of the Loan

The loan repayment terms, interest rate, and any other conditions will be determined on a case by case basis. In general, the following shall serve as guidelines:

- the date of the first payment of principal and interest will not exceed one (1) year beyond the initial date of the loan approval;
- the term of the loan will generally not exceed five (5) years or the life of the fixed asset financed by the RLF, whichever is shorter;
- the interest rate on the loan will generally not be less than one-half (1/2) the rate charged by the senior participating lender on the project, and a forgivable zero (0) interest loan may be considered;
- no penalty shall be assessed for prepayment or early retirement of the debt;
- loan may be renegotiated, however, renegotiation is not an inherent right of the borrower.

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

Prompt payment of due loan installments will be required based on the terms stated in the individual loan agreements and documents. No deviation from the terms of the loan agreement will be allowed unless when specific written approval is granted. Requests for relief and review of existing loan agreements should be directed towards the City Manager.



Termination of Loan Agreement

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



Liquidation Policy and Procedures

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

- The borrower is in default in the payment of one or more installments or defaulted in the performance of conditions contained in the loan agreement.
- Foreclosure or other procedure has been instituted which may jeopardize the interests of the RLF program.
- The borrower has filed a voluntary petition or an involuntary petition has been filed against the borrower pursuant to current bankruptcy acts.
- A receivership or other judicial action has taken place for the purpose of liquidating the borrower's assets.
- The borrower makes an assignment for the benefit of creditors which could result in the liquidation of secured or unsecured assets.
- The borrower is in default or has discontinued or abandoned the business and has not submitted an acceptable plan of remittance on the loan balance.

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

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



Internal Financial Management

The City of Urbandale will process all the financial components of the RLF program. The RLF program will be included in the Trust and Agency Fund, and will be reported as part of the total Trust and Agency Fund balance on the monthly "Clerks Trial Balance." The RLF program will have a separate account number to distinguish it from other accounts in the Trust and Agency Fund.

The City will record loan disbursement and repayments to the RLF program, and will record interest earned by the RLF on a quarterly basis.

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

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

The RLF program will be included in the annual City audit.



RLF Program–Interest Earned

The RLF proceeds will be invested by the Finance Director, with the concurrence of the City Manager, following the investment policies approved by the City Council.

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

The City will follow this policy with the RLF program, and will include the proceeds from the loan program in the secured investment pool to maximize investment yields. As is currently practiced, the interest earned from these investments will be credited to the source of the invested monies.



Amendment of the RLF Program

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

- Minor Operational Changes: The City Manager or designated staff will review and incorporate changes to administer the RLF program.
- Major Operational Changes: The City Manager will review the RLF program and local needs, and propose recommendations to the City Council to approve or deny the changes.