# New Glarus Revolving Loan Fund

## SECTION 1. INTRODUCTION

### Introduction

The Village of New Glarus plans to capitalize a revolving loan fund and authorize the New Glarus Community Development Authority (CDA) to administer the program under its authority granted by Section 16-12, Village of New Glarus Code of Ordinances. The New Glarus Community Development Authority (CDA) was created and given the authority and powers authorized by §66.1335, Wis. Stats. These revolving loan funds (RLF) will be available to existing local businesses and to prospects planning to locate within the Village of New Glarus. The purpose of this plan is to set forth the criteria for future loans from the RLF.

### Purpose of the RLF

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

Program objectives include:

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

## SECTION 2. PARTICIPATION RELATIONSHIPS

Whenever possible, loans funded by the RLF shall be made by a private lender pursuant to a participation agreement between the Village and the lender.

## SECTION 3. ADMINISTRATION

### Administration of the RLF

CDA and the Village of New Glarus accept full responsibility for the appropriate administration of the RLF program, and have designated the Village Administrator as responsible for day-to-day administration of the program. Funding decisions relative to RLF loans will be made by CDA. CDA and the Village of New Glarus have established a separate account for the fund and reserve it use solely for the RLF program. On an annual basis, the funds utilized for administrative costs of the RLF shall not exceed the interest or program income generated for the year in which those administrative costs are incurred, and shall not exceed a maximum of 15% of the revolving loan fund annually.

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

**General Application Procedures**
Businesses that are interested in applying for a RLF loan must submit a completed pre-application form to the Village Administrator. A copy of the RLF pre-application and a description of the supporting documentation that is needed for each formal RLF application are included as Attachment A to this plan. Following the submittal of the pre-application, the Village Administrator will examine the pre-application for completeness and make a determination within 10 working days on whether the proposed project conforms to the RLF standards and policies as set forth in this plan. If the pre-application is complete and conforms to the standards set forth herein, it will then be forwarded to CDA for recommendation.

If approved by CDA, the Applicant will be requested to begin preparing the necessary documents to complete a formal application. Once the necessary documents required for each formal application have been completed, the Village Administrator or their designated agent will review the documentation submitted for completeness and, within 10 working days, the applicant will be informed of any deficiencies, and directed to file amendments to the documentation, if necessary. Upon receipt of all required documentation, the loan application will be forwarded to CDA for consideration at their next meeting. The applicant is required to attend this meeting to conduct a presentation and answer questions on their project

CDA reserves the right to reject any application even if the subject application otherwise conforms to the RLF standards and policy if the CDA determines that denial of the application is in the best interest of the program. Funds available for loans are limited and CDA must use its discretion in approving only those applications which in the judgment of CDA are most likely to fulfill the purpose and goals of the RLF.

## SECTION 4. ELIGIBILITY CONSIDERATIONS

### Eligible Area

The Revolving Loan Fund shall only be available to businesses which operate, or which intend to operate, within the Village of New Glarus.

### Eligible Applicants

1) Applications may be submitted by the sole proprietor, Chief Executive Officer or duly authorized representative of any business wishing to expand an existing operation or establish a new operation in the Village of New Glarus.
2) No member of the Village Board, the loan review board, or any other official, employee, or agent of the Village of New Glarus, who exercises decision-making functions or responsibilities in connection with the implementation of this program is eligible to participate in this program or shall participate in the decision for loan applications for their business or family members business.
3) Applicants shall not be disqualified based on age, race, religion, color, handicap, sex, and physical condition, development disability, sexual orientation or national origin.

### Ineligible Applicants

Program loans shall not be available for the following types of businesses:

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

### Eligible Activities

Activities eligible for funding through this program include, but are not limited to:

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

**Ineligible Activities** Program loans shall not be available for the following types of activities:

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

**RLF Requirements and Policies:**
The following program requirements will apply to all projects that are approved for funding:

1. Loan Application: The applicant must submit a loan application that includes a description and history of the business, organizational structure including ownership, marketing strategy, methods of production and such other information requested by CDA.

2. Financial Feasibility and Business Viability: The applicant must demonstrate to the reasonable satisfaction of CDA that the proposed project is viable and the business will have the economic ability to repay the loan.

3. Compliance with Applicable Laws: Applicants shall comply with all applicable local, state, and federal laws and codes.

4. Project Completion: Projects shall commence within one year from the date of the loan approval. Applicants shall provide CDA with a project implementation schedule not exceeding 18 months for project completion and job creation/retention. In addition, the applicant must maintain any guaranteed positions for at least 18 months from the date of completion of the project as determined by the CDA. In the event the positions are not maintained, CDA may accelerate the repayment of the loan or may require the applicant to add/maintain additional positions for an extended period of time, not to exceed an additional 18 months.

5. Loan Agreement: RLF loan recipients will be required to enter into an acceptable loan agreement with CDA.

6. Records: Loan recipients will maintain those records that are necessary for the CDA to determine if the performance of the business complies with the terms of the loan agreement. The records may include, but are not limited to, purchase orders, invoices, records of payments, canceled checks, and payroll records for new or retained employees that are a part

of the project. The applicant must agree to provide CDA with access to all records pertinent to the project for the purposes of examination and transcription.

7. Nondiscrimination: Recipient businesses may not discriminate against any employee or applicant for employment on the basis of race, color, religion, sex, national origin, age, or handicap.

8. Environmental Review: Recipient businesses will comply with all state and federal environmental regulations regarding the use of RLF loan funds, and the CDA will, when necessary, conduct an environmental review of the proposed project to determine compliance with these regulations.

9. Progress Reports: Loan recipients will be required to submit semi-annual progress reports to CDA during the outstanding term of the loan which includes:

> 1) a description of current and projected number and type of employees;
> 2) an updated business plan;
> 3) financial statements for the preceding six months;
> 4) a copy of the most recent annual income tax return, and
> 5) any other information that the CDA determines to be necessary to establish compliance with the program.
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> A CDA representative may also make annual on-site inspections.

10. Failure to Follow RLF Requirements/Policies & Terms/Covenants/Conditions: If an applicant does not follow the RLF requirements and policies or adhere to the terms, covenants and conditions of the loan agreement, it may result in an application being denied or loan having to be repaid in full immediately.

11. Disbursement of Funds: Final loan funds will not be disbursed until proof of purchase and/or project completion is documented, to the satisfaction of CDA. Partial payments may be issued if sufficient need can be documented. Payments may be issued to the loan recipient or directly to a vendor, unless another payment method is approved by CDA.

## SECTION 5. TERMS AND CONDITIONS

1) **Loan Amount:** The standard minimum loan size shall be $10,000 with lesser amounts considered on a case by case basis. The maximum loan amount will be dependent upon an individual borrower’s request and collateral and shall in all cases be subject to the availability of program funds. The CDA reserves the right to determine the maximum loan amount based on sufficient collateral and risk analysis of the project. The CDA has the authority to deny any application if its sole discretion the application is deficient, or if the CDA determines that the project is not in the best interest of the program for any reason.

2) **Interest Rate:** The minimum rate of interest will be 3% per annum. The interest rate may range from a minimum of 3% to market rates plus points depending on the project, risk involved collateral and economic development benefits associated with the project. The "market" rate shall be determined by CDA from time to time. CDA may consider a period of deferred but capitalized interest. The interest rate will be fixed for the entire term of the loan at the time a loan agreement is signed with CDA.

3) **Loan Terms:** Standard terms for RLF loans will be as follows:
   a) machinery, equipment, and fixtures up to 10 years, tied to the life of the asset financed;
   b) buildings and land up to 10 years, with possible consideration of a longer term.
   c) working capital up to 2 years, (CDA may consider a short term working capital loan up to $10,000 with a maximum term of 6 months at 0% interest rate if there is a tangible community benefit and sufficient collateral and appropriate capital.)
   d) in all RLF loans, the term of the loan shall not have a term longer than the terms of the other private financing in the project.

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

4) **Equity Requirements:** The minimum equity requirement to satisfy the RLF will normally be 20 percent of the total cost of the project. Equity may be in contributed assets other than cash, especially for working capital loans. CDA may require an equity injection for each RLF loan, when it deems it appropriate. Consideration will be given for individuals that have made substantial equity commitments to the applicant's business, as well as to individuals who do not have sufficient financial resources to contribute to the RLF project.

5) **Deferral of Payment:** CDA has the option of deferring principal and interest payments at any time during the term of the loan upon demonstration of need by the recipient business or as a business incentive. Interest will accrue during the deferral period and may be paid in one lump sum at the end of the deferral period or added to the principal of the loan and amortized over the remaining term of the loan at the discretion of the CDA.

6) **Repayment:** The terms and repayment schedule shall be in accordance with the specific loan agreement and associated documents.

7) **Prepayment:** There shall be no prepayment penalties.

8) **Collateral Requirements:** The collateral requirements will be determined on an individual basis by CDA and may include: mortgages on land and buildings, liens on machinery and equipment, and/or liens on accounts receivable and inventory.

General Collateral Considerations

- Collateral must be sufficient to cover the amount of the loan.  CDA must have first position to cover the loan, however, may accept a lesser position with personal guarantees satisfactory to CDA.
- Providing collateral and personal guarantees from the principals of the business or letters of credit will strengthen your application. In addition, key-person life insurance coverage with an adequate balance to cover the loan amount, naming CDA as a beneficiary, with a declining balance equal to the outstanding loan balance, and junior liens on all corporate assets may be used where appropriate.
- Finally, businesses receiving loans for fixed assets will be required to obtain property and casualty insurance for the appraised value of the property being financed, and have CDA listed as an additional insured on the insurance policy. For fixed asset loans, the weighted average of the useful life of the assets being financed should equal the term of the loan.

9) **General Policies for Restructuring RLF Loans:** RLF loans may be restructured when restructuring will improve the borrower's ability to repay the RLF loan, as long as the business is financially viable as evidenced through a business credit analysis. CDA will work with the owner(s) of the business to determine the need for restructuring, and, if appropriate, may restructure the RLF loan to improve cash flow within the business. Restructuring can include deferring principal and interest payments, adjusting the rate of interest, or providing additional working capital.

10) **Loan Application Fee:** CDA may require a loan application fee up to 1 percent of the loan amount, but not less than $500, paid at the time of loan closing. The loan application fees will be identified as RLF program income and deposited in the RLF account. These funds will then be used to pay for administrative costs associated with the RLF program.

11) **Loan Origination Fees:** CDA will require a loan origination fee equal to 1 percent of the loan amount plus payment of the VILLAGE's attorney fees for the RLF loan documents and closing. The fees may be added to the principal amount of the loan and paid with RLF funds. All loan origination fees, including attorney's fees, will be identified as RLF program income and deposited in the RLF account. These funds will then be used to pay for administrative costs associated with the RLF program.

12) **Availability of Funds:** In those instances where the number of requests for RLF funds exceeds available funding, RLF applications will be prioritized based upon the date of receipt of all requested application materials, collateral, risk analysis, economic development benefits, and the amount of private sector leverage that is included in the project. When feasible, the amount of RLF funds contributed to each project may be reduced in order to facilitate as many RLF loan requests as possible.

**ATTACHMENT A**
**REVOLVING LOAN FUND PROJECT DOCUMENTATION**

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

1) A current business plan that includes a detailed description of the proposed expansion project (see Note 1 for business plan requirements).
2) Financial statements for the past three years (audited, reviewed or compiled, if available) and a current internal financial statement, including balance sheets, profit and loss statements and cash flow statements, in accordance with generally accepted accounting principles (GAAP). (see Note 2 for business credit guidelines to be used in evaluating loan fund projects).
3) Financial projections for the first three years of the project, including balance sheets, profit and loss statements and cash flow statements that are prepared either internally or by an independent accountant in accordance with GAAP and include a discussion of all significant assumptions (officers compensation and direct labor costs should be listed separately). In addition, start-up businesses should provide quarterly financial projections for the first two years (see Note 2 for business credit guidelines to be used in evaluating loan fund projects).
4) Three (3) years of business income tax returns.
5) Personal financial statements and 3 years of personal income tax returns from the person(s) making the application on behalf of the business in the event personal guarantee is required.
6) A statement of the anticipated benefits to be derived from the proposed loan fund project.
7) A letter of commitment from the financial institution or other source of debt financing for the amount of debt financing that is a part of the project.
8) Documentation of the availability of funds for the private equity injection that is a part of the loan fund project.
9) A letter from the Chief Executive Officer or authorized representative committing the business to the proposed project.
10) Cost estimates for all machinery and equipment purchases, land and building acquisition, and building construction or renovation that is a part of the loan fund project.
11) A lease or pre-lease agreement for rental property or an offer to purchase for fixed assets that are a part of the project.
12) A schedule of the jobs to be created and/or retained with job titles and a brief description of the qualifications required for the new jobs and anticipated rates of pay for each position to be created or retained.
13) Documentation that the project is in compliance with local and state building codes and zoning regulations and other applicable local and state ordinances.
14) A map showing the exact location of the project.
15) Other documentation that may be required by the Community Development Authority that is deemed important relative to a determination regarding the loan fund project.

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Note 1: The business plan should present a detailed description of the business that includes the following level of detail:

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

Note 2: Historical financial statements and financial projections will be examined to determine whether the applicants business conforms to industry standards as set forth in the most recent edition of Robert Morris Associates, Annual Statement Studies or generally recognized source of industry financial information. In addition, the proposed project will be examined to determine whether or not there is sufficient cash flow to cover debt service and the additional expenses that will be generated as a result of the project.

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

Balance Sheet Analysis:

1) Does the business adequately collect on its account receivables?
- days accounts receivable vs. terms offered co customers
- trends in days accounts receivable over time

2) Does the business pay its vendors in a timely fashion?
- days accounts payable vs. terms offered to vendors
- trends in days accounts payable over time

3) Does the business control inventory?
- days inventory vs. inventory cycle
- trends in days inventory over time

4) Are the officers committed to the business?
- owners' equity in the business
- profit after taxes vs. retained earnings
- notes payable to officers
- notes receivable to officers

5) Does the business have a positive operating history?

- growth in retained earnings
- debt to equity ratio

Profit and Loss Statement Analysis

1) Is the business growing?

- historical sales growth

2) Does the business control profitability?

- cost of goods sold as a percentage of sales
- gross profit margin

3) Does the business control expenses?

- selling, general & administrative expenses as a percentage of sales
- use of selling, general & administrative expenses

4) Is the business truly profitable?

- before tax less other income
- earnings before tax as a percentage of sales, earnings
- cost of goods sold as a percentage of inventory

5) Does the business have hidden cash flow?

- excess officer compensation
- depreciation expense
- interest expense
- rent expense