Economic Development Fund Policy

October, 2018

A. Purpose.

The purpose of these policies is to establish guidelines for administration of the *Economic Development Fund* (the "*Fund*"). The Cannon Falls Economic Development Authority (the "EDA") will apply these guidelines to evaluate applications and economic development opportunities that might be financed in whole or in part by the *Fund.*

The *Fund* has been established to promote economic activity that results in:

1. The creation/retention of employment opportunities; or
2. The preservation and/or expansion of the local tax base; or
3. The renovation, expansion and/or betterment of existing commercial real estate; or
4. Stimulation and/or leveraging of private investment that is consistent with the development goals and priorities of the EDA.

B. Project Eligibility.

M.S. 469.101 authorizes the EDA to initiate and conduct certain economic development activities. The *Fund* may be used to finance economic development efforts pursuant to and consistent with M.S. 469.101. The EDA will use the *Fund* to accomplish economic development.

The *Fund* will not finance the construction/renovation of residential dwelling units; vehicles; financing fees; furnishings or fixtures; refinancing of existing debt; or other costs that are determined to be ineligible by the Minnesota Department of Employment and Economic Development.

C. Business Subsidy.

In accordance with M.S. 116J.993 - 116J.995 as amended, a business subsidy of more than $150,000 must comply with the aforementioned State Statute, including reporting requirements.

D. Livable Wage Requirement.

A recipient of financial assistance from the *Fund* that is required by the EDA to create/retain jobs must agree to pay an hourly rate, including benefits not mandated by law, equal to or greater than 110% of the Federal poverty level for a family of four (4), adjusted annually. The minimum hourly rate including benefits not mandated by law is currently (2018) $13.27.

E. Loan Program Guidelines.

To foster, promote and facilitate economic development, the *Fund* may finance loans to private borrowers. On a case-by-case basis the EDA will evaluate a project requesting loan assistance in accordance with the following guidelines and procedures:

1. The minimum loan amount is $5,000 and the maximum loan amount is $100,000. A loan request exceeding $100,000 may be considered and approved if the EDA finds that the resulting project to be financed will generate an economic outcome and private investment considerably greater than the loan request.

To facilitate further investment in exterior façade and site improvements such as signage, windows, doors, painting, awnings, landscaping, fencing, blacktop and the like, the EDA offers an interest-free deferred loan of $5,000 per project. The deferred loan amount will be forgiven in its entirety provided that ownership of the property being improved is not sold for a period of five (5) years from the closing date of the loan. If the property is sold within this time period the deferred loan must be repaid in its entirety. To qualify for a $5,000 deferred loan, the amount invested to improve the exterior and/or interior of a building must total $25,000 or more and include a loan from the *Fund.* For example, assuming a total project cost of $25,000 (including $5,000 or more of exterior improvements), funding sources include a $5,000 deferred loan and $10,000 *Fund* loan with the Applicant financing the $10,000 balance.

2. The EDA requires that any loan from the *Fund* leverage private sector investment in an amount that at least equals, and preferably exceeds, the amount of the public sector participation. That is, the minimum ratio of "public to private funds" is 1:1.

3. In the event that a borrower is the recipient of multiple loans from the *Fund*, the maximum total outstanding loan amount per borrower is $120,000.

4. Typically a loan from the *Fund* must be secured by a first or second mortgage. If the loan is to be secured only by a second mortgage, the maximum loan amount typically should not exceed the lesser of ninety percent (90%) of the valuation of the property to be financed upon completion of the project less the outstanding balance of any prior mortgage, or $100,000. In these circumstances, the EDA will seek additional security or collateral to minimize risk and further protect the interests of the *Fund.*

5. The interest rate may be fixed for the duration of the loan term and will generally range from two percent (2%) below Wall Street Prime to two percent (2%) above Wall Street Prime; subject to a floor of four percent (4%) and a ceiling of ten percent (10%). The approved rate of interest (at the time of obligation) will be determined by the EDA in part to reflect the projected capability of the borrower and proposed project to finance the higher rate of interest.

The current (October, 2018) Wall Street Prime Rate is 5.25%.

6. The maximum term of the loan will be determined to reflect the specific purpose for which the funds will be used as follows:

a. 15-years for land and buildings.
b. 10-years for machinery and equipment.
c. 5-years for working capital, inventory and/or a deferred loan.

7. Procedural Guidelines:

On behalf of the City of Cannon Falls, the Director of Economic Development (the "Director") provides economic development services to the EDA and is assigned responsibility for working cooperatively with the private sector to facilitate economic development activity in Cannon Falls. The Director is responsible for administration of the *Fund* on behalf of the EDA.

Loan applications will be processed as follows:

a. The first step in the loan process is for the applicant to meet with the Director to generally discuss the proposed project and to explain the need for financial participation. Following this initial conversation, the applicant will be advised how to proceed. In the event that a request for financing is to be submitted to the EDA, the Director will provide application materials to the applicant. No application fee is required at this stage of the process.

b. Upon receipt of a complete application, the Director will schedule time for the Loan Committee (the "Committee") of the EDA to meet and evaluate the application. The Committee is comprised of two (2) members of the EDA and the Director. The Committee will review and evaluate any financial data that has been submitted by the applicant on a confidential basis. The application will be reviewed for consistency and compliance with the *Economic Development Fund Policy* and will include an assessment of financial feasibility. Following due consideration by the Committee, a recommendation will be prepared for consideration by the EDA at their soonest opportunity.

c. The EDA will review and consider the recommendation of the Committee and then either approve the application, deny the application or delay any decision pending receipt and consideration of further information.

In those circumstances that may require a public hearing and/or consent by the Cannon Falls City Council, the Director will advise the applicant /EDA and schedule the appropriate proceedings.

d. Following final approval by the EDA, the Director will schedule a closing date for the loan. Prior to scheduling the date and initiating preparation of documents, the applicant will be required to deposit a minimum of $1,000 but not more than $7,500 in escrow with the City of Cannon Falls. The actual amount to be deposited will be determined by the Director. The escrowed funds will be used by the City to pay costs incurred to complete loan documents and processing tasks. In the event that costs exceed the escrow amount, the applicant will be responsible for payment of the excess. Any unused escrowed funds will be returned to the applicant.

F. Policy Modifications.

The EDA recognizes that economic development initiatives often times present opportunities that can not be fully anticipated as to their financial needs and/or their anticipated outcomes. In these circumstances, the EDA is prepared to consider modifications to or deviations from the *Economic Development Fund Policy* on a case-by-case basis subject to majority approval by its members.

The Economic Development Fund Policy was approved by the Cannon Falls Economic Development Authority on February 10, 2010 and by the City Council on May 4, 2010.