

CITY OF MUSKEGON

ECONOMIC DEVELOPMENT REVOLVING LOAN FUND PROGRAM POLICIES AND GUIDELINES

PURPOSE

The purpose of the City of Muskegon Revolving Loan Fund is to promote economic development in the City of Muskegon through the provision of capital for new and expanding locally-sited businesses, with a special emphasis on minority and female entrepreneurship. The Revolving Loan Fund is intended to supplement but in no way replace conventional financing sources.

POLICY

Financing will be made available for sound business purposes where there is a reasonable expectation of repayment, but where conventional lenders are unwilling or unable either to accept the total risk or to make financing available under terms and conditions which the applicant can afford. Priority under the program will be assigned to ventures with conventional participation and minimal use of public funds either for the project itself or for supporting public improvements. Principal and interest repayments on loans from the Fund will revert to the Fund for support of similar activities.

In extraordinary circumstances, the Fund may be used to finance public improvements necessary to support private developments, where those improvements are critical to the success of the project, and where the overall development will result in creation of permanent, full-time jobs. The Fund, however, is intended to be permanent and self-sustaining, and no disbursements should be made without the expectation of full and timely repayment.

I. ELIGIBLE ACTIVITIES

Loans from the Revolving Loan Fund can be used to finance acquisition and development, including land acquisitions as well as rehabilitation, modernization, and conversion of existing facilities and purchase of machinery and equipment. Working capital loans will only be made if essential to the creation or retention of jobs. Project must conform to local zoning and/or building codes.

Loans may be used to finance industrial, commercial and residential development which is in conformance with the properties and restrictions established for this program.

A. Industrial Development

1. Job Creation or Retention – Projects with an emphasis on job creation or retention involving the hiring of Muskegon residents or long-term unemployed will be more favorably considered.

B. Commercial Development

1. Job Creation or Retention – Projects with an emphasis on job creation or retention involving the hiring of city residents or long-term unemployed will be more favorably considered.
2. Project Location – Preference will be given to financing for commercial development projects to be located either in the downtown, or on the lakefront and in conformance with official land use plans. Also, preference will be given to projects involving the renovation or preservation of historic or architecturally significant structures.
3. Type of Business – Priority will be assigned to commercial development which contributes to a diversification of the area economy, with little or no negative impact on the environment.

C. Residential Development

Preference will be given to financing for market rate commercial housing to be located in the downtown. Also, preference will be given to projects involving the renovation or preservation of historic or architecturally significant structures.

II. LOAN POLICIES

- A. Assistance from the Revolving Loan Fund may be made available in the form of loans or loan guarantees, under terms established by the City Commission. All loans should be secured by assets having a value equal to or exceeding the loan amount. No loan or loan guarantee shall be extended if funds are otherwise available from private lenders or other federal agencies on terms which will permit the accomplishment of the project.
- B. The applicant shall provide at least twenty percent (20%) equity in the total business or project. It is the intent of this program that loans be made to supplement (but not replace) private financing where such private financing alone is insufficient to make an otherwise worthwhile project feasible. Accordingly, no loan will be made unless private financing equal to at least fifty percent (50%) of the total project cost has been secured (or can be confirmed contingent upon RLF loan approval). No more than thirty percent (30%) of total project costs should be provided by the Revolving Fund for a new business, or forty percent (40%) of total assets for expansion of an existing business. “Total Assets” as used here includes those assets anticipated to be purchased or constructed with proceeds of the requested loan. Interest rates will vary based on the payback period. Interest rates will be set at 0% if the loan is repaid within one (1) year. Interest rates will be set at the prime rate if the loan is repaid within one to two (1-2) years. Interest rates will be set at the prime rate plus two percent (2%) if the loan is repaid within two to five (2-5) years. The term of a loan shall not exceed five (5) years. A loan to a

tenant may not extend beyond the unexpired term of the lease, excluding any options to extend the term of the lease that have not been exercised prior to loan approval.

- C. Applicants will be required to submit a business plan, financial statements, including balance sheets, income statements, and supporting statements, for the applicant's three (3) most recent fiscal years. A credit check will be conducted on all applicants and may be used in determining the applicant's credit worthiness. In addition, the City will require submission of projected pro forma balance sheets and income statements, cash flow, and supporting statements of the applicant on a quarterly basis. Applicants may also be required to submit additional information as determined by the City of Muskegon.
- D. Loan conditions will include the following, as determined by the City:
 - 1. Fire, hazard, and normal business insurance on all assets for the term of the loan.
 - 2. Subordination of the applicant's shareholder debt and all debts of shareholders to the loan;
 - 3. Restrictions on salaries and dividends during the term of the loan;
 - 4. Personal guarantees (including spouses and security in other assets);
 - 5. Such other conditions as the City determines are necessary to assure the safety and soundness of the loan;
 - 6. Favorable credit check;
 - 7. Adherence to the City of Muskegon's Affirmative Action policies and goals, including submission of an up-to-date affirmative action plan; and
 - 8. Current and projected employment profile detailing place of residence, racial and gender characteristics, and employee classifications.
- E. Loans will be approved only on the condition that the applicant not relocate facilities or employment outside of the City of Muskegon during the term of the loan. To the extent possible, loans will be approved only if it can be demonstrated that the collateral exceeds the loan amount.
- F. Principal and interest payments will commence on the date(s) set by the City. The applicant must submit quarterly financial statements in conformance with Generally Accepted Accounting Principles (GAAP).

III. EXTRAORDINARY CIRCUMSTANCES

- A. Notwithstanding the above, it is recognized that the assets of the Revolving Loan Fund may be used for projects or purposes not

contemplated here or for loans that do not meet all of the policies and guidelines outlined. In such cases, approval by a two-thirds majority of the City Commission will be necessary. Commission approval shall be required for the use of funds for public improvements, purchase of land or equipment by the City, or other public purposes.

- B. Throughout the duration of the loan, the borrower shall not appeal the valuation of any real or personal property at the facility to the Michigan Tax Tribunal or State Tax Commission. The penalty for doing so will be an increased interest rate on the loan.