

CITY OF EAST TAWAS UDAG FUNDS REUSE PROGRAM

UDAG FUNDS REUSE REVIEW BOARD

A UDAG Reuse Review Board (Board) will be established as an agency of the City. The Board will consist of the following individuals or positions:

- Mayor of East Tawas
- Treasurer of East Tawas
- City Manager of East Tawas
- Chairman of TIFA
- One other member of TIFA (to be appointed by City Council)
- Two members-at-large from the business community (to be appointed by City Council)

The term of membership of each of the individuals holding those positions listed above will be continuous with the elected term of office or appointment to such position. All members will serve without monetary remuneration, except that such reasonable expenses incurred by a member(s) in the conduct of Board responsibilities may be reimbursable upon submittal of voucher and approval of the same by the Board.

The Board will elect a Chairperson, and Vice-Chairperson from its membership. The City Clerk will be the designated Clerk of the Board and will maintain the public record. The terms of all offices will be one year.

The Board will meet at least once a year to review the status of UDAG Funds Reuse accounts and to prepare a status report to be presented to the City. In all other instances, the Board will convene on an as-needed basis, upon forty-eight hours notice by the Clerk, at the direction of the Chairperson. Any meeting of the Board will be preceded by adequate public notice under the terms of the Open Meetings Act.

The Board will establish additional appropriate rules in accordance with City Policy as may be required for carrying out its designated functions within the parameters as established in this plan.

Four members of the Board will constitute a quorum to take action at any meeting but to recommend loans, a majority vote of the Board membership (four of seven) will be necessary to authorize a loan.

UDAG FUNDS REUSE REVIEW BOARD RESPONSIBILITIES

The responsibilities of the UDAG Funds Reuse Review Board will be:

- ** To serve in an advisory/recommending capacity to the City Council regarding the loan or administrative use of any and all funds on deposit in the UDAG Funds Reuse Account.
- ** To promote the execution/implementation of the City Development Strategy as adopted and developed by the Tax Increment Finance Authority.
- ** To assist in encouraging the development of new commercial/industrial job generating facilities in the City.
- ** To work toward the rehabilitation/expansion of existing commercial/industrial job generating facilities.
- ** To make recommendations to the appropriate agencies regarding periodic updating of the City economic development strategy.
- ** To support the work of the other local agencies, commissions, and groups which carry on economic, job generating activities intended to benefit the City of East Tawas.
- ** To provide an accounting to the City Council on an annual basis as directed by the Council.

UDAG FUNDS REUSE INTENT

It is the intent of the City of East Tawas to establish a perpetual, revolving, low interest loan account for purposes of assisting the owners of existing businesses and industries wishing to rehabilitate and/or expand their operations and to assist those individuals or other entities proposing to construct new businesses or purchase and renovate existing businesses and industries in the City. The following guidelines are intended to define the parameters within which funds from the UDAG Funds Reuse Account may be employed to further the City's economic development goals.

** The funds may be employed for purposes of extending low interest loans for new construction, rehabilitation, equipment and/or expansion activities to continue an existing operation or initiate a new enterprise. (See Funding Parameters and Criteria)

** The funds may be employed to defray the cost of a portion of a necessary public works project which itself provides a significant economic benefit, or which is a vital adjunct to a project which will provide such a benefit. There will be no repayment of funds used for these types of public improvements.

FUNDING SCHEDULE / INTEREST RATE / LOAN PERIOD / ADMINISTRATIVE COSTS/ MAXIMUM AND MINIMUM LOAN LIMITS

Funding Parameters and Criteria

Low interest loans may be made available for those purposes noted earlier, but only within the following funds criteria:

Private Sector Projects

<u>UDAG Reuse Funds</u>	<u>Owner</u>	<u>Other Loan Sources</u>
* The maximum amount to be loaned from the City of East Tawas UDAG Reuse Account will be the lesser of 50% of the total proposed program cost or current maximum loan limit set by the UDAG Reuse Review Board.	* The owner will be committed to applying personal funds to the project in an amount no less than 20% of the total proposed program cost.	*The balance of the total proposed program cost may be funded from another loan source(s).

** The funds provided for any public project will be no more than 50%.

** The funds will be secured by assets, preferably in the form of property or equipment. It is generally accepted that the UDAG Reuse Review Board will be in a junior lien (secondary) position.

** Ineligible activities may be used to determine the total program cost but the total amount loaned cannot be more than 100% of eligible activities to a maximum of the lesser of 50% of total proposed program cost or current maximum loan limit.

Interest Rate

- a. Interest rate will be no less than 80% of the Prime market rate as determined by the most current Wall Street Journal.
- b. The interest rate will be on a floating basis; changing annually on the anniversary date of the loan.
- c. The interest rate may be higher in instances where the credit risk or current market conditions warrant same.

Loan Period

- a. Real Estate Loans 15 years
- b. Equipment/Machinery Loans 5-7 years
- c. Leasehold Improvements 5-10 years
- d. The cash flow of the company will be the governing factor in determining the term of the loan. That is to mean that loans will not automatically be made for the periods cited above. Should the cash flow indicate that the borrower can comfortably amortize the mortgage loan in 10 years or the equipment loan in 5 years then those terms should be used.
- e. The total amount of available security must be verifiable and must be at least one and a half times greater than the loan amount including all superior liens.
- f. In extremely unusual circumstances where the borrower is requesting terms in excess of the above, the following criteria should be met:
 - 1) require a 5 year cash flow
 - 2) cash flow should be negative for a maximum of two years
 - 3) collateral pledged should have a value (net of prior liens) of at least double the loan amount.
- g. When the borrower will be operating in leased facilities or acquiring fixed assets on a lease basis the term of the loan will never exceed the term of the lease.

Deferred Payment

- a. Principal and interest payments may be deferred for a period not to exceed two years. Said deferrals will only be granted when necessary to achieve a positive cash flow and then only for that period of time.
- b. Deferred principal and interest will be accrued in all cases with amortization commencing at the beginning of the first fiscal year after the positive cash flow is realized but in no event greater than 3 years.

Eligible Loans

Any application must be filed and approved before any of the following projects begin.

- a. Land and building acquisition
- b. New construction or renovation
- c. New machinery and equipment, furniture and fixtures (capital acquisitions)
- d. Leasehold improvements
- e. Land improvements
- f. Infrastructure
- g. Hard and soft costs association with construction
- h. Used machinery and equipment *

* Used machinery and equipment (M&E) may be financed under either of the following conditions:

- 1) M&E is not and has not been previously owned by borrower
- 2) Purchase of a business where M&E is already in place and part of buyout

Ineligible Loans

- a. Working capital and inventory
- b. Reserve fund for operating deficit, debt service or interest reserve
- c. Non-capital equipment (i.e. hand tools, office equipment)
- d. Rolling stock (i.e. railroad cars or boats not permanently moored, cars or movable heavy equipment)
- e. Free standing parking facility as the only project activity
- f. Educational facilities
- g. Gambling facilities, except on Indian reservations
- h. Acquisition of existing assets without additional private development activity
- i. Payment of prior debt, current debt, or any form of debt
- j. Research and development activities
- k. Refinance of existing assets

Supporting Documentation for Loans

- a. Specific descriptions and purchase cost of security must be presented prior to loan approval (i.e. purchase agreement, invoice, etc.)
- b. Appraisals will be required on all real estate loans.
- c. Environmental audit will be required, if indicated.

Guaranties

Will be required to be provided by principal borrower(s) on all loans.

Administrative Costs

Administrative costs resulting from the loan process are an eligible loan expense and all public costs will be reimbursed by the borrower.

Maximum and Minimum Loan Limits

The UDAG Reuse Review Board will establish the maximum and minimum loan limits. These limits can be changed at any time by a simple majority of the board voting.

SELECTION AND APPROVAL OF PROJECT

With administrative assistance of City staff and other qualified professionals, as needed, projects will be screened for review by the UDAG Funds Reuse Board. The process in reviewing and approving loans will typically follow the following steps and involve the assigned responsibilities:

Step 1 Loan Application

City staff and other qualified professionals as needed will assist businesses in structuring financing deals and in completing applications. A non-refundable fee of \$100.00 will be charged upon submission of an application. If the loan is approved, the fee will be applied to the administrative costs of the loan.

Step 2 Loan Analysis

Staff will prepare an analysis of the proposed project including how well the project meets Board policies for leverage ratio etc.

Step 3 Credit Analysis

The Board will be responsible for credit analysis and for recommending loan terms and conditions to the City Council. Professional staff may be hired to perform this task depending upon need. Credit analysis will be most importantly a cash flow analysis given the adopted financing policies.

The analysis will cover the following points:

Is cash flow adequate to repay the debt? Projected cash flow can be used for this test, given a strong business plan.

Is working capital, both existing and projected, adequate given the operating cycle of the business?

Are working capital ratios acceptable and do they indicate an ability to meet projections?

Is the quality of debt satisfactory? Highly leveraged deals will be accepted if the business plan is strong enough and if the economic impact of the deal is significant.

Personnel with credit experience, either from a local lending institution, or as hired by the Board, will be asked to prepare a loan write up covering these points as well as other appropriate considerations to be used by the Board in their deliberation.

In order to avoid conflicts of interest, the person preparing that analysis will not have a personal financial interest or work for an organization with a financial interest in the project. No member of the City Council or the Board will vote in the consideration of a loan request where such financial interest is present.

Step 4 Loan Recommendation

The Board will be responsible for reviewing the loan proposal in light of the Board plan policies (leverage, jobs created, etc) and for reviewing the business plans/credit analysis. The Board will negotiate loan terms and conditions and then recommend to the City Council approval of the loan.

Step 5 Loan Approval

The City Council will have final review and approval of the loan. They will limit their action to acceptance or rejection of the loan proposal as recommended by the Board. They will not alter any terms or conditions of the loan. In cases where additional changes must be negotiated to make the loan proposal more acceptable, the matter will be referred back to the Board. All final loan approvals or rejections will be submitted to the applicant in writing.

Loan Process Timetable

A. Every effort will be made to approve/reject loan application within 30 days from receipt of the properly completed application and required supporting documents.

Timetable

- Within 10 days of receipt of the application the Board will meet to hold initial loan review.
 - Within next 10 days assure all supporting documents, miscellaneous information are amassed and hold loan review meeting with applicant.
 - Within next 10 days perform due diligence; recommend approval or rejection of loan subject to any required conditions, i.e. receipt of appraisal, title work, environmental audit, etc.
- B. The applicant will have 90 days after approval to provide the Board with a letter of intent to use the funds including a timetable with estimated start and completion dates. Upon receipt of the letter of intent to use the funds, the applicant will have one year to complete the loan process. This time frame may be extended by action of the Board. If the applicant fails to submit the letter of intent and timetable to the Board within the 90 day period, the loan request will be considered withdrawn and the funds will be used for the next approved applicant.

SERVICING LOANS

Periodic financial statements may be required of the loan recipient by the Board. These will be reviewed by staff who will prepare periodic reports for the Board.

The City Council may approve changes to the original loan agreement including modifications or restructuring to assist loan recipient upon recommendation of the Board. Such changes will be approved if, in the judgment of the Council, the economic benefits to the City outweigh the risk and cost to the revolving fund. The City recognizes that due to the high risk nature of these loans, such actions will be necessary from time to time to achieve the objectives of the fund.

If a payment remains unpaid 30 days after the due date, the City Treasurer will notify the borrower. If a payment remains unpaid 15 days after notification, the Board will be notified of the default.

The first interest of the Board will be to work out an accommodation that preserves the jobs created by the loan. If that is not possible or the Board judges that such an accommodation is too costly, then steps to recover the loan will be authorized. Actions taken by the City's Attorney against the collateral, including personal collateral, will be tempered by the judgment of the Board's part as to the likely financial gain, such action and the cost of such action. The Board will pursue, on behalf of the City and by all means, its interest in collateral if the liquid monetary benefit of such action is larger than the cost of such action.