

The City of Milledgeville Underwriting Policy
for an Economic Development Revolving Loan Fund
Adopted by Resolution dated August 8, 2017

GOALS

The goal of the local Revolving Loan Fund (RLF) Program is to expand economic opportunities for persons of low and moderate income within The City of Milledgeville by providing flexible and expedient funding at the local level.

OBJECTIVE

The objective of the City’s RLF is to provide loan funds to local small businesses from public resources, as well as create public-private partnerships with local commercial banks and other private sector lenders and investors. To be considered for RLF funds, potential projects must meet one of two national objectives: 1) Benefit low and moderate income persons; and/or 2) Prevent or eliminate slum and blight.

SCOPE

This Program is designed to assist small service, commercial, and industrial businesses in The City of Milledgeville by providing “gap” financing. Provisions of assistance to private, for-profit entities must be contingent upon firm commitments of financial participation from other sources such as private financial institutions, or the private entity themselves. This financial assistance must meet the overall program objectives and must result in the creation or retention of permanent jobs of which 51% must be for low and moderate income persons.

ELIGIBLE ACTIVITIES

The Housing and Community Development Act of 1974, Section 105 (a)(17), describes activities as:

(a)-Activities assisted under this title may include only –

(17) – Provisions of assistance to private, for-profit entities, when the assistance is appropriate to carry out an economic development project (that shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods) that....

1. Creates or retains jobs for low and moderate income persons;
2. Prevents or eliminates slum and blight;
3. Meets urgent needs;
4. Creates or retains businesses owned by community residents;
5. Assists businesses that provided goods or services needed by, and affordable to low and moderate income residents or;
6. Provides technical assistance to promote any of the activities under subparagraphs 1-5.

INELIGIBLE BORROWERS

Ineligible borrowers include:

1. Passive income companies
2. Lending and investment institutions
3. Unregulated media such as newspapers and magazines
4. Speculative ventures
5. Charitable organizations
6. Employees of the local government (Reference Conflict of Interest Clause)

INELIGIBLE ACTIVITIES

Ineligible activities include, but are not limited to:

1. Creation of a job that would cost more than \$50,000 in RLF funds per job
2. Reimbursement of project costs prior to submission of RLF application
3. Refinancing of permanent debt (a business' use of interim financing is allowed)
4. Payment of delinquent taxes or debt
5. Product development costs
6. General government expenses
7. Political activities

DEFINITIONS

- **Fixed Asset** – Permanent business properties such as land, buildings, machinery, and equipment.
- **Gap Financing** – The portion of funds supplied by the City of Milledgeville through the RLF that allows a business to remain in operation, expand operations, or “start up” that would not take place without this financial assistance.
- **Job** – Permanent, full-time employment for a period of not less than 365 days. Part-time jobs must be converted to full-time equivalents, i.e. two part-time jobs equal one full-time job.
- **Job Retained** – A job that would be lost if the financial assistance from the city was not provided. The business applying for the funds must prove to the satisfaction of the Project Review Committee of the RLF that these funds are necessary.
- **New Job Created** – A job that was not in existence and represents a new budgeted position that will be filled within six months. The job must be tangible and the applicant must commit that this job will be filled after the loan from the City.
- **Project Review Committee (PRC)** – Public and private citizens, who are professionals in the area of finance appointed by The City of Milledgeville Board of Commissioners to review all applications for RLF funds. There should be at least five persons on the committee, and they may consist of City Finance Officers, Bank Loan Officers, Accountants, Relators, Lawyers, etc. The Committee should encourage female and/or minority representation, and in general, represent the demographic make up of the City.
- **Low and Moderate Income** – Income levels as published by HUD for the State CDBG and CHIP Programs. The levels are usually calculated at 80% of a County's median income adjusted for family size. The most recent data for such determinations may be obtained from DCA at: <http://www.huduser.org/datasets/il/il08/index.html>. (Applicants should note that jobs paying minimum wage do not necessarily qualify as low and moderate income jobs.) Individual family income levels at the time of application for employment determine qualifications.
- **Market Analysis** – Objective process whereby the need, market potential, and expected return on investment are determined for a particular product and/or service.
- **Pro Forma** – Estimation of anticipated expenditure, revenues, and cash flow for a given period of time.
- **Start-Up** – A start-up venture is the creation of a new business that was not previously in existence.
- **Working Capital** – Funds available and necessary for normal business operations.

- **Slum or Blight on a “spot basis”** – Acquisitions, clearance, relocation, historic preservation and building rehabilitation activities which eliminate specific conditions of blight or physical decay on a spot basis that may not be located in a slum or blighted area. The blight or physical decay must be documented by the unit of local government to meet local or state definitions of blight and physical decay (a sample resolution declaring slum or blight can be obtained from DCA). Under this standard, the activity is limited to the extent necessary to eliminate specific conditions detrimental to the public health and safety.
- **Slum(s) or Blight on an “area basis: -**
 - o a) The area, delineated by a unit of local government, meets a definition of blighted, deteriorated or slum area under state or local law;
 - o b) Throughout the area there is a substantial number of deteriorating buildings or the public improvement are in a general state of deterioration;
 - o c) The assisted activities address one or more of the conditions which contributed to the deterioration of the area; and
 - o d) The local government keeps records sufficient to document its finding that a project meets the National Objective of elimination of prevention of slums and blight.

REMOVAL OF SLUM OR BLIGHT ELIGIBILITY AND REQUIREMENTS:

For the removal of slum or blight properties no more than \$15,000.00 can be requested.

1. Applicants must provide a financial statement or previous year tax return and a quote showing the cost of removal.
2. Interest rate will be at 3% with a repayment schedule of no more than two years.
3. Applicant must list the City of Milledgeville as lien holder on said property until loan is repaid.

ELIGIBILITY

The Economic Development Revolving Loan Fund for The City of Milledgeville, Georgia is limited to businesses located within The City of Milledgeville. Highest consideration will be given to those businesses which demonstrate that they will create and/or retain the highest number of jobs for low and moderate income persons for the least amount of public expenditure.

In order to qualify for this Program, a business **must generally have a net worth of less than six million dollars and a net profit after taxes of less than two million dollars annually. No loans will be considered if the proposed jobs retained or created are less than the ration of one job per \$50,000 of loan funds.** At least 51% of the jobs created or retained must be for low and moderate income persons.

APPLICANT REQUIREMENTS

1. Applications will be provided by The City of Milledgeville to all small businesses interested in this Program.
2. Established businesses shall provide a profit and loss statement for the past three years and a cash flow pro forma of at least three years to indicate future needs of the business.
3. Personal financial statements for the past three years are required.

4. A market analysis/business plan should be made for each small business making an application to the RLF. The market analysis should include the following:
 - a. Business or product definition such as the mix of goods, merchandise, and/or services to be produced or sold.
 - b. Market description including primary and secondary trade areas, potential customer categories, major competitors, and marketing strategies.
 - c. A “Needs Assessment” based on statistical data and evaluation of such factors as data supporting this need and an evaluation of success potential.
 - d. Projection of return on investment based on the information gathered and analyzed for the product and/or service.
5. Applicant must fully address the purpose of the loan and the time schedule for implementation if funded.
6. The goal of this Program is the creation/retention of jobs for low and moderate income persons. Therefore, each applicant must commit to the number of low and moderate income jobs that will be created/retained through this financial assistance.
7. Description and documentation of ownership of collateral and its certified market value to be used for the loan. In some cases, the City may require an appraisal to be conducted.
8. List of credit references, and how they can be contacted.
9. Funds awarded under this Program must begin to be utilized within sixty days of award.
10. These Underwriting Policies will be provided by the City to all businesses requesting a copy. A list of all persons receiving a copy will be maintained in the City RLF file in order of date of receipt. This process results in a “first come, first served” method of service. When a minimum of \$50,000 in cash is on hand, the prospective applicant at the top of the list of Underwriting Policy Recipients will be notified by the RLF Committee by Certified Mail, Return Receipt Requested, that they have two weeks from the date of receipt of the Certified Mail in which to submit an application to the RLF Committee. The applicant will have thirty calendar days from the date of any written request to the application by the City to submit additional information needed to complete the application process. Applicants failing to respond to the notice or request for additional information may, at the discretion of the RLF Committee, be removed from or placed at the bottom of the list.

Depending on the type of activity to be undertaken with the loan funds, various federal state and local laws may apply. Applicants will be made aware of these during the application process.

The City of Milledgeville and the Project Review Committee reserve the right to request and require further information that they deem necessary to make a decision as to whether or not to approve an application under this Program.

It should be noted that if new construction is a part of the overall project, special conditions may apply. Site improvements may also necessitate special considerations.

TERMS AND CONDITIONS

All applicants for the Economic Development Revolving Loan Fund from The City of Milledgeville are required to obtain 50% of the funds for the project from a private lending institution (A lending institution is any person, firm or corporation that will lend the necessary funds for private investment required for this program).

As part of the application process, each applicant is required to provide a letter of commitment from the lending institution acknowledging their agreement to finance 50% of the asset or working capital. This letter must include the following terms: interest rate, term of loan, collateral, and any other requirements stated as part of the loan. The letter must be signed by the lending institution or a person authorized to make such a commitment for that lending institution. All applicants must prove to the satisfaction of the Project Review Committee that they can cover all debt services.

Fixed Asset Loans will be made at an interest rate of one-half (1/2) of the Wall Street Journal prime rate less one, and not lower than 2% nor higher than 10%, or as applicable are set by the City. The life of the loan is not to exceed the life of the asset. Applicants for fixed asset loans are also eligible for one year deferral on the principal, followed by a five to ten-year payback of the loan. The length of the loan will be determined by the Project Review Committee.

Working Capital Loans will be made at an interest rate of one-half (1/2) of Wall Street Journal prime rate less one, and not lower than 2% nor higher than 10%, or as applicable set by the City. Eligible applicants for a working capital loan may also be eligible for a one year deferral on the principal followed by a five-year payback on the principal and interest. A five-year payback is the maximum for a working capital loan.

Applicants that cannot meet the 50% financing requirements from the private sector may participate in the RLF Program provided they inject equity equivalent to 25% of the funds requested from this Program. The remaining 75% may be loaned from the RLF at 5% interest with a payback not exceeding the life of the asset held as collateral, for a maximum of seven years, also known as an **“equity injection loan”**. An applicant eligible for an equity injection loan may also be eligible for a one year deferral on repayment of the principal.

All loans will be screened and approved after review of each of the following in order of approval:

1. Project Review Committee (also referred to as the Loan Review Committee) of the RLF.
2. Mayor and Council of The City of Milledgeville, which have the final authorization to approve a project for funding.

The City of Milledgeville and the Project Review Committee for the Economic Development Revolving Loan Fund reserve the right to request and require further information. Upon receipt of a complete application, every effort will be made to respond to the applicant within thirty days of the date of receipt of the application. If the application is denied, the RLF Committee will respond, in writing, with the reason(s) for denying the application.

The City of Milledgeville will not discriminate due to race, creed, color, age, sex, or national origin in approving loan applications under this Program.

RECAPTURED FUNDS

All funds “recaptured” by The City of Milledgeville from this Program shall be held in a separate account and used only for future economic development projects. The accounting and administrative system used to account for the RLF shall at a minimum conform to the guidelines contained in the DCA publication Guidelines for Administration of Local Revolving Loan Funds and any Revolving Loan Fund Regulations promulgated by the Department of Community Affairs. An accounting of the RLF shall also be included in the City’s Annual Audit.