City of RAMSEY

Project Financing Tools

OVERVIEW

The City of Ramsey has a number of financial tools available for economic development projects. Below is an overview of common economic development tools.

LOANS

PRIMARY FINANCING

1. Private Primary Lender and/or Owner Equity
2. Industrial Revenue Bonds (IRB)

Typically, projects are funded in large part by a private primary lender and with some level of owner equity. Certain manufacturing projects are eligible for complete funding via Industrial Revenue Bonds (IRB). IRBs are have a tax exempt status—which results in a lower interest rate for the borrower.

SBA FINANCING

3. Small Business Administration (SBA) Loans
4. Small Business Administration (SBA) Loan Guarantees

SBA 504 Loans provide long-term, below-market, subordinated financing for up to 40% of project costs. SBA Loan Guarantees provide a private lender with a repayment guarantee up to 85% on its loan for an eligible project.

GAP FINANCING

5. Ramsey Revolving Loan Fund (RLF)
6. Minnesota Investment Fund (MIF)

The City's RLF and the State's MIF programs are used to fill the financial "gap" of a particular project. A financial gap occurs when private financing and/or owner equity cannot fund an entire project. Commonly, these programs are used to purchase equipment; however, other eligible uses exist. Interest rates are typically below market.

GRANTS/ INCENTIVES

PROPERTY TAX PROGRAMS

7. Tax Abatement
8. Tax Increment Financing (TIF)

Tax abatement and TIF are local tax programs typically used for development or land acquisition costs. In general, both programs work by capturing property taxes generated by a particular parcel then dedicating said tax revenue for a specific project cost.

STATE PROGRAMS

9. Minnesota Job Creation Fund, 5% capital rebate (JCF)
10. Minnesota Investment Fund (MIF)

The JCF and MIF (grant form) provides financial incentives to new and expanding businesses that meet certain job creation and capital investment targets. Companies deemed eligible to participate may receive up to $1 million for creating or retaining high-paying jobs and for constructing or renovating facilities.

DISCLAIMER: eligibility for financing tools based on merit of individual projects, compliance with specific program requirements and in many cases requires individual application, review, and approval from the Ramsey EDA, Ramsey City Council, SBA, or MN DEED. Typically, projects require owner equity and/or private financing. Most programs require specific job creation goals and annual reporting. Applicants must pass a business, and sometimes personal, credit underwriting process from a third party and meet State Business Subsidy rules, including "but-for" test.

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INDUSTRIAL REVENUE BONDS

This program works by providing below market rate interest terms for long term financing of the construction or purchase of a manufacturing facility. A business is able to utilize the tax-exempt status of a local unit of government to "pass-through" the sale of bonds.

DETAILS

- The purchase, construction, extension and improvement of manufacturing facilities. This tool may be used as primary financing on a particular project—up to 100% of costs.

- An industrial development "revenue" bond does not require a public vote and does not have the general credit of the city as a guarantee.

- Since revenue bonds are merely a "pass through" (as the bonds are sold on the basis of the company's credit), there is one primary reason for Industrial Revenue Bonds: the interest received by the bondholders may be exempt from federal and state income taxes, if the project is eligible. This results in a lower interest payment for the business taking out a loan.

- The amount available each year changes, depending on State/ Federal allocations. Commonly, projects costing several million dollars are eligible.

- Due to currently low private sector interest rates available to businesses, and the fact that issuing bonds results in a large up-front fixed cost to the borrower, this program has not been used frequently in the past 7-10 years.

- More information on this tool can be found by contacting the City of Ramsey or State of Minnesota Department of Employment and Economic Development.

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SMALL BUSINESS ADMINISTRATION 504 LOANS (page 1/2)

The SBA 504 Loan Program aims to provide long-term, below-market, subordinated financing. This program is widely used by the small business sector. Important elements of the program include the following:

Program Purpose: To provide long-term, below-market, subordinated financing through the 504 Loan Program for established small businesses to expand their operations.

	Private Lender	Development Company/SBA
Financing:	Typically 50% of project costs	Up to 40% of project costs, between $50,000 and $4,000,000 (up to $4.5 million in certain situations)
Interest Rates:	Negotiated with borrower	Below market, fixed for the term of the loan
Loan Terms:	Minimum of 10 years for real estate; minimum of 7 years for M & E	20 years for real estate; 10 years for machinery and equipment
Collateral:	First lien on real estate and equipment	Second lien on real estate and equipment
Fees:	Negotiated separately with borrower	Fees of about 3% of the SBA 504 amount, plus attorney's fees, financed in the debenture.

Eligible Businesses: Existing, for-profit, "user" businesses with net worth of not more than $15 million and net profits after taxes averaging less than $5 million.

Eligible Costs: Land acquisition, construction or rehabilitation of a building, development costs, and acquisition of long-lived machinery and equipment.

Job Creation Requirements: Development corporation must maintain a portfolio averaging at least one new job for every $65,000 of SBA 504 funds.

504 Funding Mechanism: The development corporation issues debentures bought by private, institutional purchasers. These debentures carry a 100% guaranteed payback from the U.S. Small Business Administration. The Corporation lends the proceeds from its debenture sales to authorized small businesses.

SMALL BUSINESS ADMINISTRATION 504 LOANS (page 2/2)

Approval Process: The application is reviewed by the Corporations Board of Directors and the SBA; a decision is typically made within 30 days of submission of a completed application. Depending on project needs, additional loans may be made in conjunction with the SBA 504 financing.

What SBA 504 Program Offers To <u>Lenders</u>:

- Low collateral risk
- No interest rate risk
- Increase borrower's repayment capacity
- Lower credit risk

What The SBA 504 Program Offers To <u>Borrowers</u>:

- Longer than conventional term
- Reasonable cost
- Lower than conventional payment
- Low down payment
- Insulation against rate risk

CMDC BUSINESS FINANCING

www.cmdcbusinessloans.com

Sba 504 Program <u>Highlights</u>:

- Fixed asset financing
- Subordinate financing
- Fixed rate financing
- Takeout financing
- Long Term: 10 or 20 years
- For-profit, "user" businesses
- Low down payment
- Credit worthy borrowers

<u>Typical</u> SBA 504 Deal:

Private Lender	50% (1st mortgage)
SBA 504	40% (2nd mortgage)
Local injection (equity)	<u>10%</u>
Total project costs:	100%

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SBA 7 (a) GUARANTEED LOAN PROGRAM

This program works by providing a SBA administered loan guarantee to a private lender; which results in reducing risk for a private lender and making a project more attractive to fund and move forward.

Program Purpose: To aid small businesses having difficulty obtaining conventional bank loans. The SBA guarantees a commercial lender up to 85% repayment on its loans to eligible businesses. Equity requirements, rates, and terms will be set by the lender. Business must be for-profit and have a positive net worth.

Eligible Costs: Working capital, machinery and equipment, leasehold improvements, land and building acquisition, construction and renovation of buildings, purchase of businesses, and refinancing of existing short-term debt.

Amount Available: SBA's 7(a) Loan Program has a maximum loan amount of $5 million dollars. SBA's maximum exposure is $3.75 million. Thus, if a business receives an SBA guaranteed loan for $5 million, the maximum guaranty to the lender will be $3.75 million or 75 percent. For those applicants that meet the SBA's credit and eligibility standards, the Agency can guaranty up to 85 percent of loans of $150,000 and less, and up to 75 percent of loans above $150,000.

Terms: Equity--depends on the net worth of the business. 30% to 50% equity may be required for start-up businesses. Interest--Maximum rate for loans under seven years is 2 ¼ % over prime; maximum is 2 ¾ % over prime for loans seven years or longer. Term--varies with the useful life of the assets being financed.

Collateral: Generally, first lien on assets being financed. Additional security is determined by lender on a project-by-project basis.

Fees: SBA will charge a guaranty fee of 2% of the guaranteed portion of the loan.

Approval Process: Loan application must first be approved by a commercial lender. After completion of the packaging work, the lender then submits the package to the SBA for approval. After SBA approval the lender disburses the proceeds to the business. The entire process takes about 4 to 8 weeks

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RAMSEY REVOLVING LOAN FUND (RLF)

This program works by providing below market gap financing to new and expanding businesses. The Ramsey Revolving Loan Fund (a.k.a. Growth Fund) is designed to work with other forms of financing available in the marketplace. Key elements of the Ramsey Revolving Loan Fund include the following:

PROGRAM PURPOSE:
To create new and retain the highest quality jobs possible with a focus on industrial and technology related companies; to increase the local tax base and improve the economic vitality for all Ramsey residents.

ELIGIBILITY:
Business and industries excluding passive investment and real estate development projects. Loans for fixed assets including land, buildings, machinery, equipment and leasehold improvements. All projects must have a private financing match. Owner equity must be 10% or greater. Wage and job goals must be established for projects receiving financing in the amount of $25,000 or more.

MAXIMUM AVAILABLE:
$250,000 lending limit to any borrower unless expanded by the EDA. Realistically, the fund is limited to its fund balance at any given time.

OTHER FUNDS REQUIRED:
At least 50% of total project costs must be privately financed through owner equity and other lending sources. Most applications approved for funding have at least 70% private financing.

INTEREST RATE & TERMS:
Negotiated rate. Real estate a maximum of 15 years; machinery and equipment a maximum of 10 years.

APPROVAL:
30 to 60 days from receipt of all information required for a complete application. Reviewed and approved by the Ramsey Economic Development Authority; and the Ramsey City Council.

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MINNESOTA INVESTMENT FUND (MIF)

This program works by providing below market gap financing to new and expanding businesses. The MIF Fund is designed to work with other financing tools in the marketplace. Key elements of the Minnesota Investment Fund include the following:

PROGRAM PURPOSE
To create new and retain the highest quality jobs possible on a state wide basis with a focus on industrial manufacturing and technology related industries; to increase the local and state tax base and improve the economic vitality for all Minnesota citizens.

AWARDS, $500,000 max

	Low Interest Loan	Forgivable Loan (grant)
$13.00 per hour base	$16,000 per job	$4,000 per job
$18.00 per hour base	$24,000 per job	$5,000 per job

DETAILS

- Cities apply on behalf of local businesses. Loans for land, buildings, equipment and training are eligible. Funds may also be used for infrastructure improvements necessary to support businesses located or intending to locate in Minnesota.
- All projects must meet minimum criteria for private investment; number of jobs created or retained, and wages thresholds.
- Most not be sued for working capital, retail business and new industrial park development.
- At least 50% of total project costs must be privately financed through owner equity and other lending sources. Most applications selected for funding have at least 70% private financing.
- Negotiated rate. Real estate a maximum of 20 years; machinery and equipment a maximum of 10 years. $500,000 maximum.
- Negotiated. Personal guarantees may be required.
- Department of Employment and Economic Development, Ramsey EDA and Ramsey City Council.

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TAX INCREMENT FINANCING (TIF)

Tax increment financing works by capturing an increment of local property taxes generated from a new project; then redirecting said tax increment and applying to eligible project costs. Often times, project costs include land/building acquisition and development improvements. Requires a TIF agreement.

DETAILS

- A TIF authority, typically a city, a county, or an entity created by a city or county, captures the increase in the net tax capacity resulting from new development within a designated geographic area called a TIF district.

- The TIF authority uses tax increments, which are the property taxes on the captured increase in net tax capacity, to pay for TIF-eligible costs of the new development that generated the increase in the net tax capacity. Property taxes generated by the new development are used to offset/reimburse development costs.

- Examples of TIF-eligible costs:
  --Land and building acquisition
  --Demolition of structurally substandard buildings
  --Site preparation, installation of utilities, road improvements
  --Construction of low- or moderate-income housing

  Costs eligible to be paid from tax increment vary depending on the type of TIF district created and the year in which the district was created.

- Up-front costs of TIF-subsidized development can be financed with the proceeds of general obligation bonds, revenue bonds, or inter-fund loans. Debt service on those obligations is paid with tax increment generated by one or more TIF districts.

- An alternative to upfront TIF (bonding), is known as pay-as-you-go financing (PAYGO). Under PAYGO, the property owner or developer pays the development costs up front and is reimbursed if, and when, the TIF district generates tax increment. Under this method, the risk of insufficient tax increment to reimburse all of the TIF-eligible costs rests with the property owner or developer, rather than with the TIF authority.

- Use of TIF requires passing the “but-for” test. Meaning, but for TIF assistance, a particular project would not move forward. Use of TIF requires Ramsey EDA and City Council approval.

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TAX ABATEMENT

Tax abatement works by capturing and redirecting local property taxes and applying them to eligible project costs. The portion of the local property taxes collected can be any combination of City, County or School District property taxes; and does not limit the captured portion of taxes to the increment created with a new project (like TIF). Often times, project costs include land/building acquisition and development improvements. Requires an abatement agreement.

DETAILS

- Unlike tax increment, tax abatement can be used to capture taxes on land and existing buildings as well as new improvements. The captured taxes must be used to offset the costs agreed to under an abatement agreement. Tax abatement does require Ramsey EDA and City Council approval.

- The benefits gained must equal or exceed the cost to the political subdivision, and the project must be in the public interest because it does one of the following: (1) Increases or preserves the tax base (2) Provides employment opportunities (3) Provides or helps acquire or construct public facilities (4) Helps redevelop or renew blighted areas (5) Helps provide access to services, or (5) Finances or provides for public infrastructure.

- Up to 100% of the respective jurisdiction's taxes on land and building can be captured through abatement for up to 10 years. Abatements cannot be back-to-back and cannot overlap tax increment districts. Public infrastructure financed need not be on or adjacent to the property from which the tax abatement dollars were derived.

- Similar to tax increment, tax abatement law provides for borrowing against anticipated future taxes through the issuance of bonds, including general obligation bonds. If multiple jurisdictions are abating, one entity can bond against the aggregate amount of taxes pledged by the other jurisdictions. The total principal amount that can be borrowed is limited to the estimated sum of abatements to be collected in the years authorized for abatement.

- Law does limit the use of bond proceeds themselves to benefiting public improvements, acquiring and conveying land or other property, reimbursing an owner for improvements made to the property, and paying costs of bond issuance.

- Section 469 refers to the capturing or deferral of property taxes due as "tax abatement." Under Minnesota law, taxes due on real property subject to tax abatement must still be paid when due. If tax abatement is in place, the appropriate portion of the taxes can be captured and applied to project costs. A participating city, county, and school district need to act separately on their own portion of the property's tax to capture them through abatement.