



# ECONOMIC DEVELOPMENT AUTHORITY INFORMATIONAL ITEM

Date: 3/22/21

Item No.: 5 b.

Department Approval

Executive Director Approval

*Janice Gundlach*

*Randy Trueman*

Item Description: Discussion of a draft Roseville business loan program with Metropolitan Consortium of Community Developers

At the January 11, 2021 Roseville Economic Development Authority (REDA) meeting the board was provided information on an existing business loan program that is targeted to energy improvements that is offered by Center for Energy and Environment. The Roseville Economic Development Authority (REDA) works with Metropolitan Consortium of Community Developers (MCCD) through the Open to Business program to provide small business and entrepreneurs with free consulting, paid for by Ramsey County. Because of this existing relationship, staff has engaged in conversations with MCCD for developing a program based on their experience working with small businesses throughout the metro area. Additionally, MCCD has experience administering loan programs to small businesses.

*Business Assistance Program*

MCCD is proposing a 50/50 partnership with the REDA for businesses located or looking to locate in the City of Roseville. The maximum loan amount would be \$100,000 split by MCCD and REDA. The funds can be used for building improvements, start-up or equipment purchase. The applicant would have a minimum of 10% cash into the project costs. The proposed program would be a blended rate of an MCCD interest rate of 7% and a REDA interest rate of 2%, which would equate to a 4.5% interest rate for the business to pay. MCCD would collect the interest and principle payments and keep the REDA's 2% interest as their administration fee for the program. The loan fees would be a 1% origination fee and a minimum \$100 due at closing. The draft MCCD/REDA loan program would require collateral, such as the real estate of the business, business equipment, the business owner's personal home, or a personal guarantee that would be based on underwriting.

**BUDGET IMPLICATIONS**

In 2020, the REDA budgeted \$48,575 for creation of a business loan program. Then, in 2021 the REDA budgeted \$98,575, bringing the total to \$147,150 currently available for use and creation of a business assistance program.

**STAFF RECOMMENDATION**

Receive information and discuss the draft Roseville Business Assistance Program as outlined in Attachment A. Based upon direction, staff will bring forward the program for future adoption.

**REQUESTED EDA ACTION**

Receive information and discuss the draft Roseville Business Assistance Program as outlined in Attachment A. Based upon direction, staff will bring forward the program for future adoption.

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34 Prepared by: Jeanne Kelsey, Housing & Economic Program Manager, 651-791-7086

35 Attachments A: Roseville Business Assistance Program

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## MCCD/Open to Business and City of Roseville Loan Program

### 2% Roseville Loan Fund

The Roseville 2% Loan fund is a program that is intended for businesses who are located or looking to locate in the City of Roseville. The funds can be used for building improvements, start-up or equipment purchase. An applicant would have to have a minimum of 10% of the overall project cost. Another financing organization (bank or CDFI) would have to come up with a 50/50 split of the remaining project cost, up to \$50,000. The terms of the loan are set for by the partner and fees may vary. The cost for the city's portion is 1% origination fee and a minimum \$100 due at closing.

Money is transferred to partner organization before closing from the city.

Principal is sent back to city and interest is kept by the partner.

Collateral: Shared position with City and partner

Blended interest approach,

A blend of the Partner's interest rate on their portion and 2% interest rate from the city on their portion. This would result in a blended lower rate.

Example: MCCD \$50,000 @ 7%. City of Roseville \$50,000 @ 2%. This would equal a total blended interest rate of

$$\$50,000 \times .07 = \$3,500$$

$$\$50,000 \times .02 = \$1,000$$

$$\$3,500 + \$1,000 = \$4,500, \text{ or } 4.5\% \text{ Interest rate}$$

City's Interest rate of 2% is the approximate cost to service the loan.

Cash Equity will be required for projects TBD by partner organization. Typical equity requirements are 10%-25% of total project cost. Find any assets to latch onto as collateral.

Equity in owned building could have equity built into the project. Additional cash equity may not be required based on current market value of building

#### Terms and Conditions:

- Applicant repayment of loan is a must
- Applicant must have acceptable credit score and financial profile to pass underwriting and loan committee.
  - o Require Cashflow to be stronger. 1.15% cashflow ratio strength.
  - o Will look pass collateral shortfall.
- Contractors or other payees from loan funds must be businesses that are certified and in good standing with state of Minnesota and/or licensed by the city. Permitting and code compliance is required.

- Must conform to all state and local building and business codes
- Must be for future expense (No Work can begin or materials delivered prior to permitting)

Who is Eligible:

- All businesses located or looking to locate in the City of Roseville (proof of movement into city limits is required)
- The applicant may be individual owners, partnership or corporations
- Business that benefit low-to-moderate income persons by creating jobs or improving services
- New startups or existing businesses

Eligible Uses:

- Permanent improvement to the building or lot
  - o Lighting
  - o Windows
  - o Walls, ceilings, floors
  - o Roofs
  - o Plumbing
  - o Electrical
  - o Mechanical systems or HVAC
  - o Cosmetic improvements
  - o Signage
  - o Etc.
- Start-up Cost
- Equipment Purchase
- Building Purchase
- Business Purchase

Ineligible Uses:

- Non-profits (The City would have to find another partner to pursue these opportunities)
- We do not finance losses
- We do not finance salaries
- Businesses not located in the City of Roseville

Total Roseville Allotment Amount: \$147,150

Loan Size: Up to \$50,000 to an individual borrower/business

Owner Equity: minimum 10% of total project cost or TBD by underwriter based on overall project risk.

Loan term: Up to 60 months (5 Years), loan maturity is maximum five years, however amortization could be up to ten years on real estate projects. A balloon payment/refinancing will be required at the end of five years. If lease improvement, term should not exceed the lease term.

Interest Rate: 2%, plus rate from partner to get a blended rate

Underwriting: Normal partner Guidelines

Approval: M CCD Economic Development Director and Loan Program Manager, final approval by loan committee.

Collateral: City of Roseville and partner organization are in a shared position.