

CITY OF MT. VERNON
Community Development Assistance Program
RECAPTURE STRATEGY
(Amended October 1, 2007)

I. BACKGROUND:

Over the past several years, the City of Mt. Vernon has been successful in receiving funding assistance through the Community Development Assistance Program (CDAP) as administered by the Illinois Department of Commerce and Economic Opportunity (DCEO). The CDAP funds were awarded to the City in the form of grants that were passed on to specific businesses in the form of low interest loans for new investments and expansions, which resulted in the creation of new jobs and retention of existing jobs as well as enhance future investment opportunities within the community. The loan funds are being “recaptured” by (paid back to) the City and placed in the “Revolving Loan Fund” (RLF), which is used specifically for eligible projects, as outlined within this document, the City’s Recapture Strategy.

In accordance with the most current requirements issued by the Illinois Department of Commerce and Economic Opportunity (DCEO), the City of Mt. Vernon has revised its “Recapture Strategy”. The following statement therefore shall govern the City’s future use of all principal and interest payments received from CDAP grants awarded in the past as well as future CDAP grants.

II. REVOLVING LOAN FUND (RLF) GOALS AND OBJECTIVES:

The following are stated goals and objectives that will serve to guide the City Administration in the use of recaptured CDAP funds:

- A. Stimulate economic growth in the City of Mt. Vernon by assisting with the retention and growth of the existing industrial and commercial base, providing needed equity to new startup businesses, encouraging the development of minority and female owned businesses and providing an incentive for established businesses to relocate or expand in Mt. Vernon.
- B. Assist new or existing Mt. Vernon businesses to create and retain jobs.
- C. Ensure that jobs created or retained by business applicants benefit a minimum of 51% low-to-moderate income households in the area.
- D. Increase the City’s property tax and sales tax base.
- E. Provide businesses with the opportunity to expand.
- F. Encourage and leverage loans to businesses by area private financial institutions.
- G. Ensure the provision of an adequate range of public facilities, services and basic infrastructure to support the orderly and efficient growth and development of Mt. Vernon.

III. REVOLVING LOAN FUND (RLF) ALLOCATION STRATEGY:

In order to achieve the above stated RLF objectives, the City of Mt. Vernon will use the following “strategies” for the future allocation and targeting of RLF funds:

- A. The provision of below-market, fixed-rate loans to complement equity investments, conventional private sector financing and/or other forms of public sector financing to aid in the realization of commercial and industrial projects which would otherwise be less likely to materialize without such assistance provided by the City. Furthermore, such projects receiving assistance from the RLF must create or retain local employment opportunities principally for individuals of low to moderate-income status and meet any other relevant criteria described elsewhere in this Recapture Strategy Statement.
- B. The provision of financial support, in combination with other public and/or private sector financial resources, to ensure the provision of adequate public infrastructure improvements which are considered by the City to be essential for the realization of private sector investments and the creation (or retention) of local employment opportunities which principally benefit low moderate income residents.
- C. The provision of “administrative support services” for the proper management of the City’s Revolving Loan Funds including costs associated with but not necessarily limited to: intake and processing of RLF applications; review and analysis of eligible RLF proposals; related environmental review and public notice expenses; expenses associated with formal City Council approval of RLF requests; subsequent legal fees associated with the preparation of closing documents including the loan agreement, security agreement and UCC filings, etc.; and subsequent costs related to the administration of the program including collection of loans.
- D. The provision of financial support, in combination with other public and/or private sector financial resources, to ensure the provision of adequate public facilities which are considered by the City to be supportive of the realization of private sector investments.

IV. PROVISIONS GOVERNING THE REVOLVING LOAN FUND (RLF):

A. Eligible Borrowers:

The RLF will consider applications which will assist in the retention, expansion or establishment of the community’s industrial base and assist in the retention, expansion or establishment of new businesses within the geographic location as described in Section IV (B). As such, commercial enterprises (i.e. retail establishments, service businesses, offices, etc.), industrial related firms and nonprofit organizations are eligible to apply for and receive financial assistance through the RLF. In order to be eligible for a loan, the business must be credit worthy and must comply with the requirements of the program and agree to enter into a loan agreement specifying the terms and conditions of the loan.

B. Geographic Location:

The “geographic area”, in which the City’s RLF funds will be targeted, will primarily be confined to areas located within the corporate limits of the City of Mt. Vernon. However, the City does have the flexibility to extend such assistance outside the corporate limits within 1-½ miles of the corporate limits or for projects which are determined to principally benefit residents of Mt. Vernon. However, the business will be required to annex if contiguous to City limits or enter into a pre-annexation agreement if not contiguous.

C. Eligible Uses of RLF Proceeds:

Proceeds from a loan extended through the RLF are to be used for CDAP eligible activities. These activities include:

1. Purchase of land, buildings, equipment and machinery and other fixed assets.
2. Cost of site improvements, including construction of new facilities or additions, and infrastructure extension costs.
3. Renovations and improvements to existing facilities and leasehold improvements.
4. Inventory and working capital expenses including employee salaries, general operation expenses, and advertising / marketing expenses, except that amounts loaned for such inventory and working capital expenses shall not exceed \$450,000.

D. Ineligible Activities:

RLF funds shall not be used for:

1. Refinancing or consolidation of existing debt.
2. Paying off a business's creditors.
3. Paying off personal debt of or salaries to principal officers.
4. Residential projects and projects of a speculative nature.

E. Loan Application Requirements:

Prospective borrowers desiring to obtain loan funds must comply with the following:

1. Must have the ability to repay the loan and be considered an acceptable risk as determined by the City Council and Loan Review Committee.
2. Must agree to provide current financial data of business and personal financial statements of principal owners.
3. Must agree to enter into a written loan agreement defining the terms and conditions precedent to said loan. The loan agreement shall include but not be limited to: amount of loan; interest rate; repayment schedule; default provisions; use of loan proceeds; jobs to be created/retained, etc.
4. The proposed project must be in conformance with the City Planning and Zoning laws as enacted by the City Council.
5. The prospective borrower shall agree to make every effort to fill jobs to be created with unemployed or underemployed residents from within the community.
6. A business with a prior outstanding loan from the City RLF will not be eligible for an additional loan unless the business can document that the terms and conditions of the prior loan agreement are currently being fulfilled including the business being current on their existing loan repayments.

V. LOAN TERMS AND FINANCIAL POLICIES:

The RLF Program is designed to provide partial financing to assist businesses desiring to locate, or to purchase or expand existing facilities within the City of Mt. Vernon. The program is intended to serve as “seed money” that is to leverage additional capital from other sources in support of the project. The City in administering the program will insure that the following guidelines and financial policies will be adhered to:

- A. **Loan Limits:** Each RLF loan has a minimum limit of \$5,000 and a maximum limit of \$450,000. However, if the jobs created or retained are manufacturing jobs or warehousing and distribution jobs, the maximum limit will be \$1,050,000. “Manufacturing” and “warehousing and distribution” shall be as defined within “Addendum – Definitions” attached to and incorporated herein. With all applicants, the City shall take under consideration the amount of recaptured funds on hand and pledged for other projects in making a final decision on each loan application.
- B. **Leverage Requirements:** The City’s portion of the project may not exceed 50% of the total project costs. Estimated project costs shall be documented and submitted with the application. Financial statements from applicants and loan commitment letters from participating lenders are required to be submitted.
- C. **Job to Loan Ratio:** Borrowers must demonstrate and insure that at least one (1) full time equivalent (FTE) job will be created or retained for every \$15,000 in loan funds approved through the RLF Program. *For loans less than \$15,000, at least one (1) FTE job must be created or retained..* Furthermore, 51% of the jobs created or retained must benefit low-to-moderate income households. Each FTE job consists of a minimum of 1950 hours worked per year. Jobs to be created must be created within either one (1) year or two (2) years from date of loan closing, as recommended by the Revolving Loan Committee. Jobs to be retained must be certified by the date of the loan closing. In order to be eligible for a loan, the business must create and/or retain a minimum of *one (1) FTE job.*

After the initial job requirement is met, employment levels by the borrower must be maintained at a level of one (1) FTE job, *or percentage thereof*, for every \$15,000 in outstanding principal balance of the loan as of the date of review. To monitor this requirement, the City will require an Annual Employer Job Retention Certification form to be completed by the borrower each year after the initial job requirement has been met.

Failure of the borrower to meet the initial job requirement or to maintain the annual required employment level or to complete and submit the required documentation shall constitute a default of the loan by the borrower.

- D. **Interest Rates:** Loans will be made at interest rates of not less than 3%, nor more than 10%, except that if the jobs created or retained are manufacturing jobs or warehousing and distribution jobs, loans may be made at interest rates of not less than 2.75% nor more than 10%. The exact rate is to be based upon the size and scope of the project, impact on the local economy, the term of the loan being sought, the risk associated with the loan and current market rates.

If the borrower fails to meet the initial job requirement or fails to maintain the annual required employment level or fails to complete and submit the required documentation, then the City may increase the initial interest rate, subject to the approval of the City Council; provided that if the interest rate is increased the monthly payment will be increased so as not to extend the term of the loan beyond the original maturity date.

E. Terms and Repayment Schedule: The term of the loan to be made will coincide with the proposed use of the funding for which the loan proceeds are approved and the amount of the loan approved. Generally, the following terms will apply:

Purpose	Maximum Term
Infrastructure (water, sewer, roads)	15 years
Land and/or building acquisition	20 years
New construction, building rehab or renovations	20 years
Purchase of machinery and/or equipment	10 years
Leasehold improvements	7 years (not to exceed lease term, including renewal provisions)
Purchase of inventory	7 years
Working capital	7 years

Loans may be subject to the above amortization periods but become due (balloon) within a shorter term than those periods specified above.

F. Collateral and Security Requirements: In considering approval of loans the RLF Committee and the City Council shall consider the following requirements to secure repayment.

1. The City will negotiate a collateral position with the applicant and can accept a subordinate position on assets that are either owned and /or purchased by the borrower if all of the collateral has been pledged for other indebtedness.
2. The City may take a senior position on other collateral that the participating lender does not require and /or a subordinate position on identical collateral required by the bank or primary lender.
3. If other funds are provided for the project through public agencies (i.e. SBA, DCEO, IDFA) the City will negotiate collateral positions with the agencies providing funding support.
4. The City may require personal guarantees in the amount of the loan.
5. The City may also require other collateral as deemed necessary.

G. Disbursement of Loan Proceeds: The City will only disburse loan funds when the following conditions have been met:

1. Loan has been approved by City Council.
2. All documents including the loan agreement and required exhibits have been executed and submitted prior to the loan closing.
3. Evidence has been submitted that the applicant has secured additional funding or a letter(s) of commitment from the other funding source(s) has been provided.
4. All local permits and releases pertinent to the project have been secured.
5. If required, contractors and vendors have submitted executed lien waivers for work performed and services provided.
6. Appropriate certifications of jobs to be retained have been received .

- H. **Cost and Expenses:** The City Council may require the borrower to pay all or a portion of the costs and expenses associated with the preparation, filing, and recording of the loan documents and costs related to title policies and other loan costs. Such fees shall be determined and agreed upon prior to the loan closing.

VI. RLF MANAGEMENT PLAN / ADMINISTRATIVE PROCEDURES:

- A. **Loan Review Committee:** The City Council shall establish a Loan Review Committee for the purpose of reviewing and making recommendations on all applications received for loan assistance through the RLF Program. The RLF Committee shall be comprised of five (5) voting members including the City Manager and four (4) members appointed by the Mayor with the advice and consent of the City Council. Two (2) of the members to be appointed are to be experienced area financial institution commercial lenders and the remaining two (2) members shall have appropriate business and/or professional backgrounds. The Mayor will appoint the Chairman of the Committee who will not be the City Manager or a City Staff representative. The Committee shall further include the City's Finance Director who will serve in a non-voting ex-officio capacity.
- B. **Confidential Financial Data:** Except as may otherwise be requested or consented to by the borrower, financial records of a borrower and other confidential data shall be accessible only to members of the RLF Committee and the City Attorney. The Committee shall exercise reasonable diligence to prevent disclosure of confidential financial records and data. However, the Committee may review all such records and data and prepare a summary report for use by the Committee and by the City and its agents.
- C. **Recommendations:** The RLF Committee will submit to the City Council their recommendations on all loan requests and subsequent interest rate modifications submitted for their consideration. The Committee cannot extend any commitment for loan participation or change in interest rates without first receiving City Council approval.
- D. **Loan Application Procedures and Requirements:** Prospective borrowers must adhere to the following procedures when requesting assistance through the RLF Program:
1. The prospective borrower must complete the formal application for assistance and file it with the Finance Director together with the information and supporting documents required on Information Checklist.
 2. Upon receipt of the application and all required financial documents (i.e. financial statements, projections, business plan, etc.) the Finance Director shall notify the RLF committee who will schedule a meeting to review the loan request. The Committee will attempt to meet within fifteen (15) business days of receipt of a complete and acceptable application. The Committee may request additional documentation from the applicant in order to make a thorough and complete review of the application.
 3. Recommendations of the RLF Committee will be presented to the City Manager who will distribute the information to the City Council members for their consideration at a regular or special meeting in open session. The recommendations will include supporting information deemed necessary by the City Manager. All application information and documentation including company and personal financial statements will be kept confidential and not available for general public review.

4. The City Council shall act on all recommendations made to them by the RLF Committee.

E. Guidelines for Loan Approval: In considering approval of requests for loan funds through the RLF Program, preference will be given to loans which address the following criteria:

1. Overall conformance of the proposed project in addressing the stated objectives, requirements, and financial policies of the RLF Program.
2. Credit worthiness of the project and fiscal capabilities of the prospective borrower in relation to the amount of funds requested.
3. Anticipated benefits and impact of the proposed project in addressing development goals and plans of the City.
4. The likelihood and number of new employment opportunities to be created and/or jobs to be retained by the borrower.
5. The amount of other funds to be leveraged by the borrower and status of such funding commitments.
6. The number of jobs to be created or retained that will be filled by unemployed or underemployed persons meeting the Section 8 income requirements as updated periodically by HUD.
7. The quality of the security to be pledged as collateral on the City loan in the event of a default.
8. The availability of recaptured funds maintained by the City.
9. Management capabilities of the borrower, including past management and business experience.

F. Marketing of RLF Program: The City Council will make a concerted effort to market the RLF Program by:

1. Providing RLF information to the City's existing businesses, upon request.
2. Including RLF information in the City's marketing package.
3. Providing RLF information to the local Economic Development Commission and the Chamber of Commerce to include in their area marketing information.
4. Providing area-lending institutions with information about the RLF for them to inform potential borrowers of fund availability.
5. Providing RLF information to the local chapter of NAACP, and women's entrepreneurial associations.

G. Loan Servicing and Management:

The loan documents, including commitment agreements, liens, title policies, security recordings, transfer tax declarations, amortization schedules and security releases, etc. shall be obtained and completed by the City Attorney.

The City's Finance Director shall monitor repayments of the loan, monitor Employee Income Certification – Job Creation reports required to be provided annually until the initial employment commitment is met as described in Section V (C), monitor Annual Employer Job Retention Certification Forms, monitor other special conditions required by the loan and submit semi-annual reports on the status of the RLF to the Department of Commerce and Economic Opportunity.

Assistance provided from the RLF will result in at least 51 percent benefit to low-to-moderate income households and these benefits will be documented by the Employee Income Certification forms found in the RLF handbook.

Violations and breaches of the loan agreement that cannot be resolved or satisfied by the RLF Committee shall be reported to the City Council who can elect to pursue legal action.

- H. RLF Program Status Reports:** The City shall submit to DCEO the required reports on a semi-annual basis stipulating the status of loans made, funds expended, and other data as may be required.
- I. Delinquent Loans:** When a RLF payment becomes ten (10) days past due, the Finance Director or his designee will place a telephone call to the borrower and request payment. Each RLF payment that becomes fifteen (15) days past due will be subject to a late payment fee of 5% of the monthly payment. If loan repayment is still delinquent after thirty (30) days, the Finance Director will mail the borrower a letter demanding immediate payment. After forty-five (45) days delinquency, the City Council may authorize legal action to be taken to remedy the delinquent situation. All legal rights may be exercised by the City to reclaim funds. Legal counsel will be consulted during collection, foreclosure, and liquidation proceedings initiated, if warranted.

VII. GENERAL PROGRAM STATEMENTS / ASSURANCES:

- A. Benefit to Low-to-Moderate Income Persons:** The City, in keeping with the State mandated guidelines, will insure that at least 51% of the recaptured funds will benefit low-to-moderate income households as defined by DCEO standards.
- B. Revisions and Amendments to Program Guidelines:** The RLF Program guidelines may be amended upon approval of City Council and shall be submitted to DCEO for approval.
- C. Program Administrative Costs:** Recaptured CDAP funds can be used for planning, administrative and management fees and expenses provided they are deemed eligible by DCEO requirements. The City will insure that no more than 10% of the total funds recaptured in a single year are utilized for such purposes. Such administrative expenses will be documented via receipts, bills and invoices.
- D. Compliance with State and Federal Requirements:** The City shall insure that all borrowers of funds extended through the RLF Program comply with all appropriate state and federal guidelines (i.e. Title VI of the Civil Rights Act of 1964; the Davis Bacon Wage Act; Contract Work Hours and Safety Standards Act; National Environmental Policy Act of 1969; and the Flood Disaster Policy Act of 1973).
- E. Environmental Review and Prevailing Wage:** The grantee shall assure that environmental reviews are completed for each project and, if applicable, the grantee shall insure that all State and Federal prevailing wage requirements are met.

F. Percentage of Loan Funds: A minimum leverage ratio of \$1 non-CDAP funds to \$1 CDAP RLF funds must be obtained for each project. RLF funds may not comprise more than 50% of the project.

ADDENDUM – DEFINITIONS

MANUFACTURING is defined as the material staging and production of tangible personal property by procedures commonly regarded as manufacturing, processing, fabrication or assembling which changes some existing material into new shapes, new qualities, or new combinations. It is not necessary that such procedures result in a finished consumer product. Procedures commonly regarded as manufacturing, processing, fabrication or assembling are those so regarded by the general public. The use of otherwise qualifying property in any industrial, commercial or business activity which may be distinguished from manufacturing, processing, fabrication or assembling will not be considered manufacturing. For example, a building constructed to house the administrative services division of a manufacturing company is not manufacturing. By way of future example, otherwise qualifying property used in the following operations will not be considered manufacturing because the activities described are generally not considered manufacturing operations:

- A) Agricultural activities such as cultivating the soil; raising or harvesting crops; the production of seed or seedlings; and the development of hybrid seeds, plants, or shoots are not manufacturing operations. The raising or breeding of livestock, poultry, fish or any other animals, as well as commercial fishing or beekeeping is not manufacturing.
- B) Manufacturing operations do not include mining; quarrying; logging; drilling for oil, gas or water, or any other operations which result in the extraction or procurement of a natural resource. However, the refining or processing of such natural resources into a product of a different form or a product which has different qualities is manufacturing.
- C) Persons engaged in the construction, reconstruction, alteration, remodeling, or improvement of real estate are not considered engaged in manufacturing operations.
- D) Manufacturing operations do not include research and development of new products or production techniques.
- E) Manufacturing operations do not include the use of machinery or equipment in managerial or other non-production, non-operational activities including disposal of waste, scrap or residue, inventory control, production scheduling, work routing, purchasing, receiving, accounting, fiscal management, general communications, plant security, or personnel recruitment, selection or training.

WAREHOUSING AND DISTRIBUTION is defined to only include industries having facilities situated within the geographic area primarily engaged in the receipt, storage and distribution of goods, products, materials, and merchandise which will be processed, sold or otherwise disposed of off the premises, and support activities directly related to said warehousing and distribution. Warehousing does not include the retail sale of goods nor personal storage facilities for individuals.