SIX COUNTY ECONOMIC DEVELOPMENT DISTRICT

REVOLVING LOAN FUND PLAN

MARCH 2019

This plan has been reviewed for consistency with the currently adopted CEDS for the Six County Economic Development District. It has been found to consistent with and complimentary to the current CEDS.

A. PURPOSE OF THE REVOLVING LOAN FUND PROGRAM

The purpose of the Revolving Loan Fund program (RLF) is to provide financial assistance on a competitive basis to qualifying projects, in eligible areas served by the Six County Economic Development District (SCEDD). An RLF loan should:

1. Increase employment opportunities
2. Promote economic and physical revitalization of commercial and industrial areas
3. Attract private sector investment in redevelopment efforts
4. Attract other federal resources for economic redevelopment
5. Increase the tax base
6. Demonstrate need for program financing
7. Demonstrate ability to repay program financing
8. Demonstrate the probability of success
9. Demonstrate the support of the county in which the project is located
10. Satisfy the project eligibility and award criteria as determined by the EDA approved RLF plan

B. PRUDENT LENDING PRACTICES

1. SCEDD will administer the fund in accordance with “Prudent Lending Practices” as defined in 13 C.F.R. § 307.8.

C. SUBORDINATED MORTGAGE TOOL

The RLF will be designed as a subordinated mortgage instrument. A subordinated mortgage:

1. Leverages more private sector dollars (equity and loans)
2. Collateralizes the loaned dollars - the SCEDD takes collateral
3. Provides collateral cushion to the lead lender

4. Commands recapture of program funds which will be used on future qualifying projects

5. Reduces the amount of RLF investment in any one project

6. Provides flexible terms

7. Reduce overall cost of financing

Instruments such as linked deposit, interest buy downs, or loan guarantees are more complex in structure and management than subordinated mortgages and do not necessarily provide the full complement of benefits (i.e., loan guarantees are usually provided at market interest rates because the financing comes directly from the private lender, and the loan fund merely guarantees payments of defaults). However, the loan fund may be used for direct loans, linked deposit, interest buy downs, or loan guarantees if necessary, as determined on a case-by-case basis to maximize the benefit of the fund and address the financial gap of each project.

"Economic Development" means many things to many communities. The SCEDD has set forth minimum project requirements (leverage, site control, financial information, etc.) that are necessary for successful loans. It should be noted that loan fund monies are limited, so the SCEDD will give preference to projects which 1) have demonstrated that funds are not available elsewhere in a federal loan program which might be appropriate or in the private sector and 2) exceed the minimum requirements set forth in the program guidelines. The district's goal of providing flexibility to meet needs, both in timing and program guidelines, will be balanced with a prudent investment of loan fund monies in truly worthy projects.

D. STRUCTURE OF THE PROGRAM: PERMANENT TAKE-OUT FINANCING

The preference will be to operate the RLF as a permanent take-out financing program. Therefore, the RLF monies normally will not be used for construction financing. This will eliminate the need to perform costly monitoring. The RLF can finance directly the acquisition of land, buildings, and/or machinery which, when acquired, will make a project operational.

The benefits of operating the loan fund as permanent take out financing are:

1. Minimize risk by using experienced construction lenders who will assure timely completion of the project and monitor costs (and potential overruns) carefully

2. Eliminate need for posting of a bond as assurance of completion which is costly and difficult to secure

3. Save district staff and overhead and provide timely construction monitoring by using interim lenders

E. THE RLF AS A GAP FINANCING TOOL

Projects funded with the RLF must have a gap. Types of gaps that can be addressed are:

1. Financing gap - the private sector can maximally raise only a portion of the debt and equity funds necessary to complete the project.

2. Rate of Return (ROR) gap - the private sector can raise sufficient debt and equity to complete the project, but the returns to the developer/user are inadequate to motivate an "economic person" to proceed with the project.

3. Locational gap - when a cost differential can be documented between sites because of such factors as land cost, distance to market, off site costs, etc. This locational gap must be judged in relationship to the public benefit and avoid undue enrichment of the business.

F. COMPETITIVE AWARD CRITERIA AND ELIGIBILITY

All projects must demonstrate that they are economically viable. Loan fund monies will be used to supplement equity and other financing directly related to qualifying projects. Funds can be used for asset acquisition or, with restrictions, working capital.

It should also be noted that eligibility of an activity may have little relation to its fundability. To evaluate the latter, the district will emphasize overall project feasibility, private sector commitments, job impacts, and other factors which are outlined below. Loans will be consistent with the Economic Development District's Revolving Loan Fund Plan.

Project requests can be for expansion of existing business or for assistance to start-up operations. Each of these types of activities requires specific guidelines, as the nature of the financing is different for each. For example, owner - user proposals which accomplish business expansion will be strongly favored over start-ups, which will be scrutinized closely for viability. Asset acquisition will be favored over working capital acquisition. Projects which are purely speculative in nature will not be considered. Spec-type developer projects will also come under scrutiny, and only those on behalf of major, experienced, financially sound developers will be considered. The following guidelines will be the minimum criteria for eligibility under the subordinated mortgage category:

1. APPLICATION DEADLINE
   Applications are accepted year- round

2. ALLOWED BORROWERS
   Owner-user businesses

Developers
For-profit companies
Non-profit entities
Public entities

3. TYPE OF BUSINESS
Industrial
Commercial
Manufacturing
Retail/commercial
Service

4. USE OF PROCEEDS
Fixed assets including
Land and buildings
Leasehold improvements
Working capital if:

Projects involve plant expansion where construction and acquisition are occurring. A private lender must provide part of the financing. Invoices must be provided verifying actual expenditures.

No refinancing of non-RLF business debt will be allowed, unless it saves or creates jobs.

5. LEVERAGE
Maximum RLF participation 40%. Project leverage means total investment directly related to and contemporary to the project.

6. MAXIMUM AMOUNT
$250,000 RLF dollars per project
Targeted minimum $20,000 RLF participation

7. RATE OF INTEREST
Determined on a case-by-case basis. The Loan Administration Board may make loans to eligible borrowers at interest rates and under conditions determined by the Board to be appropriate in achieving the goals of the RLF. The minimum interest rate the Board will apply is four percent (4%). The maximum interest rate charged will be what is allowed under Utah State law. In no event shall the interest rate be less than the lower of four percent or 75 percent of the prime interest rate listed in the Wall Street Journal at the time of the loan application. Should the prime interest rate listed in the Wall Street Journal exceed 14 percent, the minimum RLF interest rate is not required to be raised above 10 percent if doing so compromises the ability of the Board to implement its financing strategy.

8. TERM OF LOAN
For equipment assets: up to 5-10 years
For working capital: up to 3-5 years
For real estate assets: up to 20 years

9. EQUITY
Minimum of 10% is required. For this Plan, equity is defined as Cash from working capital balances in existing business if that cash is not otherwise committed. Cash from owners, including deposit accounts and mortgages, where funds are not obligated elsewhere. Land, if purchased for the project and appraised value shows enough unencumbered equity. Equipment, if purchased for the project, is not pledged or committed against a loan, and appraised value shows adequate equity. UC filings will be made against the equipment by Six County

10. COLLATERAL
Loans will be secured by all available assets. Fixed assets will be obtained as collateral whenever possible. Generally, second lien position will be expected. Collateral value as established by appraisal (real estate and used equipment) or cost verification must be adequate to secure the loan.

11. PERSONAL GUARANTEES
Required.

12. JOB CREATION CRITERIA
Emphasis on job creating and retaining projects. 51% of the jobs to be created must fit low and moderate income category. Low and moderate income impact will be strongly favored.

13. FIRMNESS OF PROJECT
Construction estimates firm
Lender commitment firm
Equity commitments available
No major impediments
Competitive bids for equipment

Certain additional criteria and priorities for successful applications should be noted.

14. PORTFOLIO STANDARDS AND TARGETS
Job Cost Ratio: for every 65,000 in RLF loan proceeds, 1 FTE job will be created for at least a 12-month period.

Created Job Types: jobs created should be at least 50% semiskilled, light manufacturing, industrial, certificated fields, or licensed.

Loan Portfolio Targets: the following targets will guide loan decisions that affect the entire portfolio of outstanding loan types. The RLF will not participate in any financing or refinancing of existing debt of an existing business.

10% for start-up companies
40% for working capital loans
50% for land, plant, equipment for expansion purposes

The district will not look favorably upon projects that have no participating private lender in the project. Confidence of the private sector lenders to underwrite the project is essential. It is understood, however, that some applicants will not meet the objectives of having a participating private lender.

Other sources of public/private financing such as SBA 504 etc., should be a "first step" to obtain financing for project completion.

Business bail-outs and turn-arounds will not be considered!

In a separate exhibit, minimum project submission material is listed. The borrower's historical financial statements, project pro-formas, cost estimates, a justification statement, copies of competitive bids, turn down letters from other lenders, evidence of leverage, and tenant commitments are the key documents for evaluation.

G. ISSUING A PERMANENT TAKEOUT

Within 30 days of approval by the SCEDD Loan Administration Board of a project that requires construction financing, the RLF will issue a commitment which will be forwarded to a lender for issuance of interim financing. The commitment should not exceed a 12-month period. Any exception to the 12- month requirement will be considered on a case-by-case basis.

The interim or construction lender provides the project financing between the issuance of a permanent commitment and completion of a project. The interim lender assumes full responsibility for insuring the project's completion. Since repayment of an interim lender's loan by the permanent lender is contingent upon this assurance, the interim lender very carefully monitors construction costs and disbursements and sees that projects conform to specifications. By using the interim lender, the RLF is relieved of the responsibility for completion of the project. The first mortgage lender or the borrower's bank of account is the logical interim lender. The interim loan will be made at conventional market rates of interest. The cost of interim financing is an eligible program cost and may be included in the RLF amount as long as the rate is specified at the outset and is legal and reasonable.

H. LOAN CLOSING

The program loan closing takes place after the project is completed and the interim lender can certify to the completion by providing the necessary certificate of occupancy and/or other required documents evidencing completion.

At the closing, all the legal documents are executed which at a minimum must include the following:

1. Loan application
2. Loan agreement
3. Minutes of the Loan Administration Board approving the RLF loan
4. Promissory note
5. Security agreement(s)
6. Deed of trust or mortgage (as applicable)
7. Agreement of prior lien holder (as applicable)
8. Agreement from a private lender that they will participate with the Six County EDD RLF program with the respective loan application

Loan documents will include language that protects and hold the Federal government harmless from and against all liabilities that the Federal government incur as a result of providing an RLF loan to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.

Loan documents will inform and bind prospective borrowers, consultants, or contractors that they must comply with the Federal statutory and regulatory rules affecting RLF funds. Borrowers will be required to submit documents that show payments made for land, equipment, and or buildings approved in the loan (i.e. a borrower may be required to provide evidence, such as an invoice, that it has ordered an asset prior to receiving loan funds to ensure that funds are ordered only when actually needed and that they will be used as agreed in the loan agreement). Loans documents will include loan call stipulations for instances of non-compliance.

I. MONITORING AND PERFORMANCE ASSESSMENT

RLF staff and county economic development officials or designated partners will perform at least an annual audit of each loan to make sure that all businesses that have received money continue to be in compliance with all covenants, agreements, certifications, and other program requirements. We will collect the employment information to ensure that employment goals continue to be met. The collecting of this data will be allowed through contractual arrangements, prior to the money being loaned, through the Owner/Developer Commitment Letter. A copy of the audit information will be kept on file with the SCEDD.

The Board will review the Revolving Loan Fund Plan at least every 5 years to assess procedures, policies and implementation. The Board will update its Plan as necessary in accordance with changing economic conditions in the Region; however, at a minimum, an RLF Recipient must submit an updated Plan to EDA every five years.

J. PERPETUATING THE REVOLVING LOAN FUND

The RLF will be recapitalized through the repayment of principal and interest. Methods will be used to ensure that RLF funds are repaid as quickly as possible so additional loans can be made. The goal of this RLF is to make sure funds are loaned as often as possible and that the money is kept busy creating jobs. Money repaid to the RLF will be invested in interest-bearing accounts until reused for new loans.

K. LOAN ADMINISTRATION BOARD

The RLF will be administered through the Six County Economic Development District and the Six County Loan Administration Board. The board will consist of seven members as follows:

1. The RLF coordinators from each county
2. One elected official
3. One private industry member
4. The Chairman of the Six County Economic Development District

Five members of this board shall constitute a quorum. A simple majority vote of the members present at any meeting where a quorum exists shall be required for action. This board will be responsible to the SCEDD and will be required to submit periodic reports. This board shall also make recommendations to the SCEDD for rules and procedures governing their operation.

Conflict of Interest: Board members and any RLF staff will complete an annual disclosure statement that identifies any conflicts of interest. If a conflict does exist, the board member or staff will recuse themselves from any involvement with regards to the loan application, review, and decision-making process.

L. DEFAULTS AND WRITE-OFFS

Defaults: For any loan that is in arrears up to 90 days, the respective county economic development office will visit with the loan recipient to evaluate the business' finances and condition. Late penalties will apply as outlined in the promissory note. A written plan will outline how the business will return to a regular payment schedule. The loan recipient will sign the plan as an additional loan commitment and obligation. Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower:

A. Fails to do anything required by this Note and other Loan Documents
B. Defaults on any other loan with Lender

C. Does not preserve or account to Lender's satisfaction for any of the Collateral or its proceeds
D. Does not disclose, or anyone acting on their behalf does not disclose, any material fact to Lender or
E. Makes, or anyone acting on their behalf makes, a materially false or misleading representation to Lender or
F. Defaults on any loan or agreement with another creditor, if Lender believes the default may materially affect Borrower's ability to pay this Note
G. Fails to pay any taxes when due
H. Becomes the subject of a proceeding under any bankruptcy or insolvency law;
I. Has a receiver or liquidator appointed for any part of their business or property
J. Makes an assignment for the benefit of creditors
K. Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower's ability to pay this Note
L. Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lender's prior written consent, except for ownership changes of up to 5 percent beginning six months after the Loan closes
M. Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay this Note

LENDER'S RIGHTS IF THERE IS A DEFAULT: Without notice or demand and without giving up any of its rights, Lender may:

A. Require immediate payment of all amounts owing under this Note
B. Collect all amounts owing from any Borrower or Guarantor
C. File suit and obtain judgment which shall include Lender's reasonable costs and attorney's fees
D. Take possession of any Collateral
E. Sell, lease, or otherwise dispose of, any Collateral at public or private sale, with or without advertisement

Write-offs: If after 6 months of a loan being in arrears, the Loan Administration Board will meet to obtain an update to the loan status by the respective economic development office. A financial analysis of the recipient will be completed to evaluate the financial position at the 6-month mark. The recipient will be given 90 days to correct the late payments. If after the 90 days has expired with no correction, collections and legal efforts will be made to close the loan. The Loan Administration Board will vote on the actions to be taken by the respective economic development office.

M. ADMINISTRATIVE PROCEDURES

Accounting: RLF funds will be accounted for in separate accounts and independent of any other Six County EDD funds and programs. The Plan will follow Generally Accepted Accounting Principles.

Administrative Costs: All costs associated with administering the Plan will come from interest earned from loaned funds. Administrative costs will be accounted for on standard financial statements for the Plan on an annual basis.

The Board and staff will file a report with EDA as required. The Board acknowledges that EDA requires the Board to file an Income and Expense statement with its semi-annual report if 50% or more of RLF income is used for administrative costs in a six-month period.

4. The Board acknowledges that EDA RLF funds are subject to an annual audit requirement and the full value of the RLF (outstanding loans and available cash) must be shown every year on the Recipient's Schedule of Federal Expenditures. If the dollar amount of the RLF qualifies the RLF as a major federal program, the Recipient must ensure that the auditor performs the required federal audit procedures.