

KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION (EDC)
JOINT OPERATIONS BOARD (OB)
FINANCE COMMITTEE
MINUTES
November 8, 2011
EDC Board Room, Willmar

Present: Matt Behm, Nick Dalton, Bruce Peterson, Kevin Rueckert and Russ Weeks

Excused: Les Nelson

Absent: Brian Borgerding and Randy Zinda

Staff: Jean Spaulding, Assistant Director

Secretarial: Nancy Birkeland, Legal & Administrative Assistants, Inc. (LAA)

Chairperson Nick Dalton called the meeting to order at approximately 12:01 p.m.

MINUTES—

IT WAS MOVED BY Bruce Peterson, SECONDED BY Russ Weeks, to approve the minutes of the October 11, 2011 meeting as emailed. MOTION CARRIED.

UNFINISHED BUSINESS

Revolving Loan Fund increased lending ability. Jean Spaulding provided information on the United States Department of Agriculture Rural Development Intermediary Relending Program (IRP) (see copy attached). The EDC would need to apply for IRP funds and obtain matching funds. The IRP would be used as gap financing similar to the EDC's other loan programs. The committee discussed potential borrowers under the IRP and asked about cultural businesses. Spaulding informed the committee the EDC assisted the Federal Reserve Bank in coordinating two focus groups, one with local service providers that deal with Latino businesses and one with Latino business owners, to gather information on how they access capital and what challenges or barriers they face in rural communities. A future meeting may be held with Somali business owners. Followup information from the meeting is expected. The committee recommended capitalizing a local loan fund before applying for the IRP.

IT WAS MOVED BY Russ Weeks, seconded by Kevin Rueckert, to recommend to the Kandiyohi County and City of Willmar Economic Development Commission (EDC) Joint Operations Board that the EDC formally request the city of Willmar transfer the interest earned on the Willmar Fabrication Minnesota Investment Fund loan to the EDC for revolving loan fund purposes. MOTION CARRIED.

NEW BUSINESS

Minnesota Capital Access Program. Spaulding provided information on the Capital Access Program through the Minnesota Department of Employment and Economic Development (DEED) that is available to lenders.

Other. Spaulding reported on the Governor's Job Summit hosted by DEED. This region was the only region that did not host an informational meeting with the Governor's office prior to the Job Summit. The committee discussed the needs they see in the area of lending and working with small businesses.

Spaulding provided information on the Small Business Development Center (SBDC) (see copy attached), which is seeking funding and has requested \$10,000 from Kandiyohi County. At present, the SBDC has 24 clients in Kandiyohi County. The committee members present do not refer customers to the SBDC, but they do make many referrals to the local SCORE office. It was recommended Kandiyohi County's lending community be contacted as to their use of the SBDC and possibly the lending community would be the most appropriate funding venue for the SBDC. Spaulding recommended to the SBDC director that the EDC would like to work more closely and, possibly in the future, be considered an authorized SBDC consultant. Dalton will contact the SBDC director to make a presentation to the Kandiyohi County Banker's Association.

Spaulding informed the committee of the EDC's Marketing and Public Relations facts & stats campaign.

ADJOURNMENT—There being no further business, the meeting was adjourned at approximately 1:09 p.m.

NEXT MEETING—The next committee meeting is **noon, Tuesday, December 13, 2011** at the EDC Office, 333 Litchfield Avenue SW, Suite 100, Willmar.

Minnesota's Proposed Finance Programs Funded by SSBCI

| Program | Description | Participants or Contractors | Type of Assistance | Amount of Assistance | Eligibility/Threshold Requirements | Historic Performance | Projected Activity | Allocation Amount |
|---------------------------------------|--|--|--|--|---|---|--|-------------------|
| Capital Access Program | To encourage loans from private lending institutions to businesses, particularly small and medium sized businesses, to foster economic development | SSBCI lending institutions - banks, credit unions and CDFI's | Portfolio Insurance | State contribution to reserve account will match lender and business premium charges. Charges paid must be no less than 2% nor more than 7% of loan. | Lender/borrower must contribute 2-7% of loan to the guaranty fund; contributions made to the fund must be equal; terms, rates and collateral are negotiated between lender & borrower; loans made for industrial, commercial, ag & retail are eligible | Total of 303 loans enrolled in program with state participation; \$795,000 state funds deposited. \$14.3 million in loans; Total bank claims, \$553,000 | SSBCI funds will recapitalize exiting state program | \$3 million |
| Emerging Entrepreneur Fund | To provide debt financing of underserved communities, including minority-owned and women-owned businesses and low and moderate-income communities | SSBCI lending institutions - banks, credit unions and CDFI's | Loan participation | Maximum: 50% of project of \$150,000, whichever is less. | Loans made for industrial, commercial, ag & retail sectors are eligible; loans made for wide variety of uses, except refinancing; maximum interest rate tied to prime; terms negotiable | Based on existing Urban Initiative Program operating only in Twin Cities; historically has made \$880,000 in loan per year | Anticipate will exceed historic loan activity; average total loan amount of \$40,000 | \$5.1 million |
| Small Business Loan Guarantee Program | Provides loan guarantees through SSBCI qualified lenders | SSBCI eligible lenders including banks, credit unions and CDFI's | Loan guarantee accounts | Provides guarantee up to 80% of loan not exceeding \$500,000. Guarantee % may vary over time based on experience | Assistance to be provided through SSBCI eligible lenders. For-profit businesses expanding operations in Minnesota. Working capital eligible; Retail businesses are not eligible; Participating lenders to pay .25 percent of each loan amount to reserve fund. | New initiative. Guarantees provided to eligible SSBCI business loans. | Program projects supporting up to 250 businesses with average transaction of \$90,000. Total loan guarantee value estimated at \$18 million. | \$3.6 million |
| Q.E.D. Loan Guarantee Program | Provides partial guarantee of loans made to eligible businesses by Qualified Economic Development lenders - see HF 611 | Qualified Economic Development lenders | Loan guarantees for subordinated loans | Guarantee of 70% for loan not to exceed \$1.5 million; total guarantees may not exceed 5X funds in new loan guarantee trust fund | Fixed assets and working capital would be eligible. Q.E.D. program to support origination and sale of loans on secondary market. Banks must be providing 50% of total amount loaned to business. Guarantee applies only to portion of loan made by Q.E.D. lender | New initiative that supports small business loan guarantee program created by MIN Legislature in 2011. | Program projects supporting 40 businesses with an average loan of \$400,000. Total guarantee value estimated to be \$11.2 million | \$2.3 million |
| Early Stage Fund | To stimulate investment in innovative businesses by extending capital to community based equity funds | Angel & venture fund management companies | Fund of funds investments with subsequent investments in individual businesses | Up to \$100K to support local angel funds. | Local angel funds organized as LLC with 20-25 members investing a total of \$1 million. Projected average business investment of \$25,000 for intermediate and long-term capital. Angel investments will generally target early stage, startup businesses in rural or distressed areas. | New initiative; use of funds modeled after activities of national fund managers | \$1 million allocated to create up to 5 MN based angel funds. Projected 45 businesses to receive average of \$22,000 | \$1 million |



Intermediary Relending Program (IRP)

Committed to the future of rural communities.

PURPOSE

- USDA – Rural Development will make loans to Intermediaries to establish revolving loan programs for the purpose of providing loans to ultimate recipients for business facilities and community development in rural areas.
- The Intermediary can use IRP financial assistance and other capital to establish a revolving loan fund.
- Financial assistance from the Intermediary to the ultimate recipient must be for community development projects, the establishment of new businesses and/or the expansion of existing businesses and the creation of employment opportunities or saving existing jobs.

APPLICATION FILING AND PROCESSING

- Intermediary applications can be submitted to the Minnesota USDA Rural Development State Director in St. Paul.
- Applications received will be reviewed and ranked quarterly by the USDA Washington, D.C. office and funded in the order of priority ranking.

IRP APPLICATION PRIORITY RANKING

Priority points are awarded base on several criteria, including the following:

- Other loan and grant funds available
- Intermediary funds available
- Median household income of area served
- Unemployment rate of the area served
- Low income families in the area served
- Equity from the intermediary (most important)
- Experience
- Administrative ability
- Community representation

FOR MORE INFORMATION

- David Gaffaney at 651-602-7814 or david.gaffaney@mn.usda.gov (state office)
- Cheryl Seanoa at 651-602-7813 or cheryl.seanoa@mn.usda.gov (state office)
- Paul Dornfeld at 763-689-3354 or paul.dornfeld@mn.usda.gov (Cambridge office)
- Butch Koehmstedt at 218-681-2843 or francis.koehmstedt@mn.usda.gov (Thief River Falls office)
- Naomi Lenz at 507-437-8247 or Naomi.lenz@mn.usda.gov (Austin office)
- Tom Leach at 218-829-5965 or Thomas.leach@mn.usda.gov (Baxter office)
- Paul Pierson at 507-372-7783 or paul.pierson@mn.usda.gov (Worthington office)
- John Strand at 320-763-3191 or john.strand@mn.usda.gov (Alexandria office)

www.rurdev.usda.gov/mn

| | Intermediaries | Ultimate Recipients |
|---------------------------------|---|--|
| Benefits of IRP | <ul style="list-style-type: none"> ▪ Creates revolving loan fund which enhances rural development and creates / saves jobs ▪ Local control/availability of funds ▪ Interest income, service fees, financing charges collected may be used for: <ol style="list-style-type: none"> 1) Cost of administering IRP 2) Technical assistance to borrowers 3) Absorption of bad debts with IRP 4) Repayment of IRP loan | <ul style="list-style-type: none"> ▪ More favorable rates may be obtained ▪ Local source of credit for eligible small businesses or community projects ▪ Other lenders may be more willing to become involved if IRP funding is also available |
| Eligible Areas | Any area of the country | Rural community under 25,000 |
| Eligible Applicants | <ul style="list-style-type: none"> ▪ Private non-profit corporations, public agencies, state or local governments, Indian groups, and certain cooperatives ▪ Must have: <ol style="list-style-type: none"> 1) Legal authority to carry out proposed loan, give security, and repay loan 2) Proven record of successfully assisting rural businesses per loan making and servicing, acceptable delinquency rate 3) Staff expertise and sufficient capital 4) At least 51% of membership is U.S. citizens or legally admitted 5) No delinquent debt to Federal govt. by itself or any of its principals | <ul style="list-style-type: none"> ▪ Individuals, public or private organizations or other legal entities with authority to incur debt and carry out loan purpose. ▪ Citizens of the U.S. or legally admitted; organizations need at least 51% U.S. citizens ▪ Unable to finance the proposed project from its own resources or other programs at reasonable rates and terms ▪ Hold no legal or financial interest or influence in the Intermediary ▪ No delinquent debt to federal govt. |
| Eligible Loan Purposes | <p>Revolving loan fund to Ultimate Recipients that fund economic development activities through:</p> <ul style="list-style-type: none"> ▪ Community projects ▪ Small businesses | <ul style="list-style-type: none"> ▪ Community development projects ▪ Establishing new businesses ▪ Expansion of existing businesses ▪ Creation of job opportunities ▪ Saving existing jobs |
| Ineligible Loan Purposes | <ul style="list-style-type: none"> ▪ Intermediary's own administrative expenses ▪ Some charitable institutions, churches, organizations affiliated with or sponsored by churches ▪ Fraternal organizations | <ul style="list-style-type: none"> ▪ Agricultural production ▪ Transfer of ownership unless it keeps the business from closing or provides expanded job opportunities ▪ Community antenna television services or facilities ▪ Golf courses, race tracks, gambling |
| Maximum Loan Amount | <ul style="list-style-type: none"> ▪ Initial loan cannot exceed \$2 million (Subject to fiscal year funding limitations) ▪ Subsequent loans may be considered but will not exceed \$1 million ▪ Total IRP debt will not exceed \$15 million | <ul style="list-style-type: none"> ▪ Must not exceed the lesser of: <ol style="list-style-type: none"> 1) \$250,000 or 2) 75% of total cost of project ▪ No more than 25% of IRP loan may be used for loans >\$150,000 |
| Interest Rate | 1 percent per annum over term of the loan | <ul style="list-style-type: none"> ▪ Negotiated between Intermediary and Ultimate Recipient in accordance with Intermediary's approved work plan |
| Equity Requirements | Cash equity = 25% receives most priority points | Adequate to complete project |
| Repayment Terms | 30 years maximum | Determined by the Intermediary |
| Fees and Costs | Typical legal, accounting, and loan closing costs | Customary for loan processing |
| Collateral | <ul style="list-style-type: none"> ▪ Separate/apart from security for other loans ▪ Adequate to assure full repayment ▪ Normally a lien on IRP fund and its assets | <ul style="list-style-type: none"> ▪ Negotiated between Intermediary and Ultimate Recipient ▪ Adequate to protect interests of Intermediary and the Government |
| Environmental Impact | <ul style="list-style-type: none"> ▪ Develop plans to minimize the potential to adversely impact the environment ▪ Furnish information and assistance as the Agency needs to make its environmental determinations | <ul style="list-style-type: none"> ▪ Develop plans to minimize the potential to adversely impact the environment ▪ Furnish information and assistance as the Agency needs to make its environmental determination |

Gwen Kresbach

*Late Bloomers
Floral*

Kandiyohi

County

I looked at my business partner and we said together "We made it" the morning of September 12, 2011 when we turned the key on our business to open for the first time. Why did we make it? The one and only answer is SBDC. We attended a two-hour seminar sponsored by SBDC which put the business in motion. Our SBDC consultant was extremely knowledgeable and forthcoming with suggestions, resource tools and support. She was extremely knowledgeable in putting together our projections and extremely patient when we kept asking questions and making changes. Thank you for all you do and especially for first-time business owners--hats off to a great organization and fantastic resource people.

ECONOMIC IMPACT

SOUTHWEST SMALL BUSINESS DEVELOPMENT CENTER

The SBDC in Southwest Minnesota touches more than 700 entrepreneurs each year. In 2010, SBDC services included one-on-one business consulting for 292 clients and sponsored/co-sponsored seminars for 455 attendees.

SBDC clients invest in our region. The SBDC helped clients obtain **\$28.2 million** in financing in 2009 and 2010.

SBDC clients create new businesses. More than **45%** of all pre-venture clients start new businesses. Between 2009 and 2010, during an economic slowdown, SBDC clients started **47 businesses**.

SBDC clients stay in business in southwest Minnesota.

84% of SBDC clients are still in operation five years later. Census data reports that the national average of business survival after five years is 40 - 50%.

SBDC professional business consultants serve the 18 counties of southwest Minnesota. With the Regional Center in Marshall, a Satellite office in Hutchinson and numerous additional outreach offices available for use by the SBDC network, the SBDC works to ensure that services are broadly available throughout the region.

The SBDC in southwest Minnesota generates more revenue than it costs. Due to increased economic activity, SBDC clients generate **\$7.97** in new tax revenue for each \$1 spent on the program.

The SBDC leverages Federal, State, local and private resources. For the SBDC to receive Federal and State funding, it must first raise an equal or greater amount of funding from non-Federal sources.

Paula Bredberg, VP Business Banking, Bremer Bank

I refer many of my clients and prospective clients to the SBDC. Clients that have utilized the SBDC definitely come to a financing meeting much more prepared for asking for the financing they need and also more prepared to answer questions posed by the bank. I would recommend the SBDC for any client that is looking for bank financing and options available to them.