

**SMALL BUSINESS  
REVOLVING LOAN FUND  
PROGRAM**



**ADMINISTRATIVE GUIDELINES**

**City of Algona, Iowa**

*Adopted March 20, 2023*

## **Small Business Revolving Loan Fund Program**

Originally Approved by the City of Algona City Council

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## Small Business Revolving Loan Fund Program

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## CITY OF ALGONA SMALL BUSINESS REVOLVING LOAN FUND (RLF) PROGRAM

### INTRODUCTION

In 1994, the City of Algona established an Urban Renewal Area (URA). Within the plan for the URA were provisions allowing the City to use tax increment financing (TIF) for economic development purposes. Simultaneous to the creation of the URA the Algona Area Economic Development Corporation (AAEDC) began plans for an industrial park on Oak Street from Putnam to Finn Drive. At the request of AAEDC the City of Algona financed the installation of all infrastructure to the park. Financing for the project was an internal loan from the City's General Fund. Repayment of the loan was from TIF revenues.

As TIF revenues were received the City earmarked these funds for future projects. Doing so allowed the City to finance the infrastructure to the Snap-On Drive Industrial Park in 2000 and 2001. In September 2000, it was realized that Kossuth County had certified additional TIF revenues for the FY 00/01. This allowed the City to finance all debt for the Snap-On Drive Industrial Park up front. The residual funds have been earmarked for the creation of this revolving loan fund.

Additional capitalization will include funds from the Algona Municipal Utilities (AMU) Revolving Loan Fund. This fund was created by the board of directors for AMU by contributing \$10,000 per year to the fund. The City of Algona approves, with consultation with AMU, all loans from this fund and distributes the proceeds on behalf of AMU. In 1996, the City received funds from AMU and loaned AAEDC \$75,000 to finance the land purchase of the original industrial park. Repayment is \$7,500/year for 10 years. In 2000, AAEDC was loaned \$277,000 from funds the City received from the AMU Revolving Loan Fund to finance the construction of a spec building. Of this amount \$200,000 was AMU's annual contribution for the next 20 years. AMU has since established a new RLF program. As a result, a new agreement between the City of Algona and AMU eliminates future payments to this fund by AMU.

Original capitalization for the Revolving Loan Fund will be \$680,000. Of this amount \$350,000 will come from the City of Algona's TIF fund and \$330,000 from the outstanding and cash balances of the AMU Revolving Loan Fund. As part of the RLF program 15% of the original capitalization is earmarked for retail projects within the City of Algona.

In 2019, these administrative rules were updated which, among the various changes, increased the maximum loan amount from \$10,000 to \$15,000.

In March 2023 the administrative rules were amended again by changing the name of the retail portion of the fund from the "Retail RLF" to the "Small Business" program. In addition, the maximum loan amount was increased to \$20,000 and eligible use of funds was expanded to include façade improvements to promoting historic preservation/restoration and for business startup expenses.

These Small Business Revolving Loan Fund Administrative Guidelines define the policies for the retail portion of the Revolving Loan Fund and shall govern the loan fund program.

## GOALS AND ELIGIBLE ACTIVITIES

The goals and eligible activities under the Small Business Revolving Loan Fund (RLF) program are as follows:

1. To enable the City to provide economic assistance to existing and new retail businesses for the purpose of expansion or remodeling.
2. To provide financial assistance for projects which:
  - a. encourage new business start-ups;
  - b. to encourage unique or essential business concerns;
  - c. promote retention and expansion of existing businesses;
  - d. facilitate succession of existing businesses; and
  - e. relocate an out-of-state businesses to Algona, Iowa.
3. To provide financial assistance to support:
  - a. acquisition, construction, reconstruction of retail and commercial buildings, structures, and other real property;
  - b. acquisition of equipment and machinery;
  - c. improvements to and reuse of vacant or abandoned properties;
  - d. modernization of equipment or machinery; and
  - e. product development.
4. To provide financial assistance for improvements to bring properties into compliance with City of Algona's Code of Ordinances and for activities that are consistent with the Comprehensive Plan prepared by the City of Algona, and which enhance and maintain the efficient use of land, resources, and infrastructure of the City. No significant negative land use or environmental impacts will occur as a result of the project.
5. To encourage and help facilitate building and facade improvements which support the restoration, maintenance of historic architectural integrity; preserve or restore architectural features; use materials & colors that match the building or district identity; and to improve and maintain interest and appeal at street level.
6. To diversify the local economy and to increase the property tax base of the City.

## **SMALL BUSINESS RLF REVIEW COMMITTEE**

The Algona City Council will appoint a Small Business RLF Review Committee (“RLF Committee”), of community leaders, to review all RLF loan applications and make recommendations to the City Council. The RLF Committee members should be chosen, in part, because of their experience with lending, business development, and/or economic and community development projects.

The RLF Committee will perform necessary credit analysis and due diligence in order to make a written recommendation to the Algona City Council, which has final authority regarding all actions of the RLF. The RLF Committee will meet on an as needed basis under the terms of the application procedures defined in these guidelines.

### **Committee Membership**

- The RLF Committee will have a minimum of three (3) and a maximum of five (5) members. Up to one (1) member of the RLF Committee may be a member of the City Council.
- Committee members shall be appointed by the Mayor with the consent of the City Council.
- Committee members shall serve on a volunteer basis.
- Members of the RLF Committee will serve indefinite terms.
- The City Council has the right to replace members of the RLF Committee in the event of resignation or other necessary circumstances.

If a member of the RLF Committee has a financial interest in the project being reviewed, he/she will abstain from the loan review discussion and voting on a recommendation to the City Council.

## **GENERAL GUIDELINES**

Assistance under this program is limited to loans. Assistance will be directed only towards projects which are exclusively within the boundaries of the City of Algona.

A loan’s repayment terms, interest rate, and any other conditions will be determined on a case-by-case basis. RLF Committee shall make recommendations regarding the conditions of a loan.

### **Minimum/Maximum Loan Amount**

- The minimum loan amount is \$5,000.
- The maximum loan amount is \$20,000.

### **Loan Interest Rate**

The interest rate on the loan shall be one half (1/2) of the prime interest, as published by the Wall Street Journal the date of loan closing, not to exceed 2.5%. The Committee may recommend an alternative interest rate.

**Loan Terms**

- The minimum loan term is one (1) year (12 months).
- The maximum loan term is five (5) years (60 months) but shall not exceed the expected life of the asset(s) being used as collateral.
- No penalty shall be assessed for prepayment or early retirement of the debt.

**Repayment**

- In general, principal and interest will be repaid in equal installments for the term of the loan. Principal and interest will be due and payable monthly payments made by ACH and will be returned to the RLF program. The Committee may consider alternative payment schedules (e.g. quarterly).
- If the project fails to comply with the terms of the contract, or fails to use the loan for only those purposes set forth, the City may terminate the contract in whole, in part, or accelerate payment of all principal and accrued interest and penalties, and may immediately declare same due and payable at any time before the date of completion.
- Deferment of the initial principal and interest payments may be deferred of loan principal and interest payments for up to one (1) year may be considered on a project-by-project basis.
- Loans may be renegotiated; however, re-negotiation is not an inherent right of the borrower.

**Administrative Fees and Closing Costs**

The City may charge loan recipients for loan closing costs, attorney's fees, filing fees, etc. as necessary to complete and loan documentation. These expenses may be paid for directly by the loan recipient or reduced from the total loan amount.

**Eligible Activities**

- In order to be eligible for financing under this program, an applicant's proposed use of funds must meet at least one of the listed eligible activities under the "Goals and Eligible Activities" section of these guidelines.
- The City may consider allowing a second RLF funding commitment under this program if the funding is for match for a grant program.

**Supplemental Financing**

- Projects will be reviewed and eligible only if financial assistance is necessary and appropriate to accomplish the project.
- There must be evidence of adequate private equity; evidence that loans proposed for project are consistent with terms generally accepted by

conventional financial institutions for the type of property involved; and evidence that the project is feasible and can be a “going concern” in the foreseeable future.

- Multi-year funding commitments for a project will not be allowed under the RLF program. It is intended that only one loan of RLF proceeds will be made to a borrower. The City will consider a subsequent loan upon repayment of an RLF loan for a successfully completed project.

## **APPLICATION PROCESS**

All businesses requesting Small Business RLF assistance will be required to complete the City's standard Small Business RLF loan application.

### **Project Description**

The following information is required and shall be addressed in either the application prepared by the business for other funding programs, or provided as supplemental information for the RLF program:

- Provide a project description, project schedule, business plan, market study, and demonstrate that the proposed project is feasible.
- If the project includes building façade (exterior) improvements, drawings/plans of the proposed improvements or changes.
- Provide a need for financial assistance, sources of funding, project budget, identify financing sources (owner's equity, private loans, other public funds, and RLF, etc.), and provide documentation of commitment that funds (other than the RLF request) are firmly committed or can reasonably be expected. Identify the amount of RLF requested and designated use of the RLF.
- If an existing business, provide audited profit and loss statements and balance sheets for the past three (3) years of operation.
- If a new business, provide individual federal tax returns of principal owners of 20% or more for the past three (3) years; provide a projected profit and loss statements and balance sheets for at least three (3) years into the future; business plan/market study; credit reports and resumes of principal owners.
- If the loan funds are to facilitate ownership of a business, provide a business succession plan the process and terms of the agreement.



### Project Timeline and Reports

The following information should be addressed in either the application prepared by the business for other funding programs, or provided as supplemental information for the RLF program:

- The project may begin upon loan approval and must be completed within twelve (12) months; or another time frame if approved. The project may begin upon loan approval, not the receipt date of the loan, which is on a reimbursement basis of documented expenses. The applicant shall identify the projected start and end dates on the application. As a condition of or upon approval, the City may require a pre-inspection of the property.

At the close of the project, the City reserves the right to request a final expenditure report and final project performance report to the City within thirty (30) days of project or completion or contract expiration, whichever comes first. A representative of the City may initiate an inspection of the property to assure project completion.

- The date of the first payment of principal and interest will not exceed one (1) year beyond the initial date of the loan approval; and the term of the loan shall be five (5) years but shall not exceed the life of the fixed asset.

### Review and Approval/Denial

As needed, the City Administrator, or their designee, shall call a meeting of the City Small Business Revolving Loan Fund Committee to consider applications and vote whether to recommend project funding to the City Council. The City Small Business Revolving Loan Fund Committee will review the application on a continuous first-come basis to better accommodate new or existing businesses in need of financial assistance.

The City reserves the right to use external reviewers to advise on the financial documents, project viability, etc. The City also reserves the right to request applicants to verify that the project principals are current on real property taxes, all mortgage payments, and State and Federal tax obligations; and reserves the right to request a credit reference report on the applicant(s) if other financial documents do not adequately reveal the credit worthiness of the applicant.

The City Council will consider the recommendation of the Small Business Revolving Loan Fund Committee, to be presented in the form of a Resolution, and either approve or deny RLF assistance. *The Algona City Council has ultimate authority regarding all actions of the Small Business RLF program.*

The City Administrator, or their designee, will also prepare the Loan Agreement, Personal Guaranty, aa Promissory Note to the successful applicant(s) for required signatures, and any other required documents. These documents shall set forth the complete terms and conditions of the loan and the security to be provided.

**LOAN SECURITY / COLLATERAL**

- The City prefers to assume a first position to the banks and other lending financial institutions involved in the proposed project. In the event the City is not able to assume a first position, the City will negotiate for other loan aspects.
- The applicant will be required to submit letters of equity and letters of commitment from the financing lenders with the application, indicating source, amount of loan, rate, term, and annual payment of supplemental financing.
- Revolving Loan Fund loans will be secured by mortgages or security agreements against fixed assets, equipment, land, buildings, assets of the business, assets of the business owners or corporate officers, an acceptable guarantor, or a combination of these means. Where valuation of fixed assets is not adequate or current, collateral value will be established by an appraisal to be paid for by the applicant.
- Each applicant receiving a Revolving Loan Fund loan will be required to sign a Loan Agreement, a Promissory Note, and other documents as required by the City which may include but not limited to a Personal Guaranty, Real Estate Mortgage, Security Agreement, and Financial Statement. Failure of an RLF recipient to abide by the provisions of the Loan Agreement or Promissory Note may result in legal action.
- The City reserves the right to file a Financial Statement with the Secretary of State if the applicant secures the loan with personal property, and to file a mortgage against the real estate. If appropriate, the City reserves the right to record documents with Kossuth County, as may be appropriate.

## **COLLECTION AND LIQUIDATION POLICIES AND PROCEDURES**

### **Collection Policy and Procedures**

Prompt payment of loan installments when due shall be required based on the terms stated in the individual contracts and documents. No deviation from the terms of the loan agreement will be allowed. Requests for relief and review of existing contracts should be directed towards the City Administrator.

The City of Algona reserves the right to review any project that requests relief or review, or any project that exhibits faltering performance or management which may lead to liquidation or penalty proceedings. The areas of review or assistance include but are not limited to the financial review of business statements, review of management procedures, etc.

Upon completion of the review, the City Administrator will prepare a recommendation to the City Council. The liquidation of assets securing the loan will not be resorted to if the City believes there is any reasonable probability that the loan may be repaid by the borrower or a guarantor within a reasonable period. If liquidation proceedings are enacted, all property acquired by the City of Algona through liquidation will be disposed of as provided by law or at public auction and the proceeds returned to the RLF program.

### **Liquidation Policy and Procedures**

Should the existence of any one of the following conditions be made known to the City Administrator, the City Administrator will notify the Small Business Revolving Loan Fund Committee or City Council for further review and recommendations:

- The borrower is in default in the payment of one or more installments or defaulted in the performance of conditions contained in the loan agreement.
- Foreclosure or other procedure has been instituted which may jeopardize the interests of the RLF program.
- The borrower has filed a voluntary petition or an involuntary petition has been filed against the borrower pursuant to current bankruptcy acts.
- A receivership or other judicial action has taken place for the purpose of liquidating the borrower's assets.
- The borrower makes an assignment for the benefit of creditors which could result in the liquidation of secured or unsecured assets.
- The borrower is in default or has discontinued or abandoned the business and has not submitted an acceptable plan of remittance on the loan balance.
- The loan application falsified or misrepresented information or failed to disclose pertinent information of any party cited by borrower in the application.
- The borrower relocates the business or a substantial portion of the business out of the corporate limits of the City of Algona, Iowa.

**TERMINATION OF CONTRACT**

If the project fails to comply with the terms of the loan agreement/contract, or fails to use the RLF loan for only those purposes set forth, the City may terminate the contract In whole, in part, or accelerate payment of all principal and accrued interest and penalties, and may immediately declare same due and payable at any time before the date of completion.

The City shall promptly notify the borrower in writing of the termination and the reasons for the termination, together with the effective date. Payments made to the borrower or recoveries by the City under contracts terminated shall be in accord with the legal rights and liabilities of the parties. Payments, penalties and recoveries may include, but are not limited to, payments allowed for costs determined to be in compliance with the terms of the contract up to the date of termination. The borrower shall return to the City all unencumbered funds. Further, any costs previously paid by the RLF which are subsequently determined to be unallowable through an audit and closeout procedures may be recaptured through legal proceedings.

## **FINANCIAL MANAGEMENT**

### **Internal Financial Management**

The City of Algona will process all the financial components of the RLF program. For the City, the RLF program will be included in the General Fund with its own program fund for the Commercial & Industrial RLF and Small Business RLF funds. Each recipient approved for an RLF loan will have a separate loan number (the RLF account number will be the same).

The City will disperse all loan proceeds to the borrower on a cost reimbursement basis, will record all loan disbursements and repayments to the RLF program, and will record interest earned by the RLF on a quarterly basis. Upon an Applicant's request, the City may elect to disburse RLF funds upfront. In such an instance, the total final cost of the project shall be verified upon project completion with paid receipts. If the total project cost is less than the upfront RLF funding, the Applicant shall pay the City back the difference to be applied to the principal of the loan.

In the event the City incurs costs for external professional services (i.e., auditing, attorney fees, etc.), payment for those costs would be derived from the interest earned by the RLF in City accounts. If the external costs were to exceed the availability of the interim investment proceeds, funds from the RLF pool would be considered, before funds from the City of Algona would be considered.

The RLF program will be included in the annual City audit.

### **Record Retention**

Financial records, supporting documents, project performance reports, statistical records and all other pertinent records of the loan program will be retained by the City. All records will be retained for a minimum of five (5) years beyond the loan, or longer if any litigation or an audit is begun, or if a claim is initiated involving the records. In these instances, the records will be retained until the litigation, audit or claim has been resolved.

### **Interest Earned**

The RLF proceeds will be invested by the City Clerk following adopted investment policies approved by the City Council. The investment policy of the City is to proffer these investments to local banks whenever possible, and to maximize the investment of cash in a secure manner.

The City will follow this policy with the RLF program and will include the proceeds from the loan program in the secured investment pool to maximize investment yields. The interest earned from the investments of the City will be credited to the source of the invested moneys.

## **AMENDMENTS TO ADMINISTRATIVE GUIDELINES**

When the City Administrator or the City Council determines that the RLF program is no longer appropriate for the needs of the City of Algona, the following methods will be used to amend these administrative guidelines.

### **Minor Operational Changes**

The City Administrator, after conferring with the Small Business RLF Committee, will review and incorporate changes to administer the RLF program.

### **Major Operational Changes**

The City Administrator will review the RLF program and local needs, confer with the General Manager of AMU and the Small Business RLF Committee, and propose recommendations to the City Council to approve or deny the changes.



## Small Business Revolving Loan Fund Application

### 1. Applicant Information

Name of Business: \_\_\_\_\_

Address: \_\_\_\_\_

Contact Name: \_\_\_\_\_ Title: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ Email: \_\_\_\_\_

Business Structure

- Cooperative       C-Corporation       S-Corporation       Not-for-Profit
- Partnership       Sole Proprietorship       Limited Liability Corporation

Is this a new business?

- Yes       No      Date Established: \_\_\_\_\_

### 2. Provide the following information on any person or company with 20% or greater ownership interest:

Name/Title	Address	% Ownership

**3. Provide a description and history of the business:**

**4. Describe in detail the proposed “project” being undertaken:** (e.g. expansion, remodeling, relocation, equipment, etc.) – *if this is a façade loan, please provide architectural drawings with this application.*

**5. What date will the Project begin? \_\_\_\_\_ Completion date: \_\_\_\_\_**

**6. Terms of Proposed Financing**

	<b>\$ Amount</b>	<b>Type</b>	<b>Rate</b>	<b>Term</b>
Retail Revolving Loan Fund				
Conventional Financing				
Other -				
Other -				



## 7. Source and Use of Project Funds

<b>SUMMARY OF PROJECT COSTS AND PROPOSED FINANCING SOURCES</b>			
<b><u>USE</u></b>		<b><u>SOURCE</u></b>	
<b>ACTIVITY</b>	<b>\$ AMOUNT</b>	<b>\$ AMOUNT</b>	<b>PROVIDED BY</b>
A. Land Acquisition			
B. Site Preparation			
C. Building Acquisition			
D. Building Construction			
E. Building Remodeling			
F. Machinery & Equipment			
G. Furniture & Fixtures			
H. Other			
I. Administration			
<b>TOTAL</b>			<i>← two columns must equal</i>

**8. Required Attachments** (check off each one submitted)

All Applicants:

- Completed, original signed application
- Documentation of other project funding commitments (cash, banks, other lenders, grants, etc.)
- Copies of bids, quotes, estimates or other cost documentation for project activities

For Existing Businesses:

- Profit & Loss Statements and Balance Sheets for the past three years of operation

For New Businesses or Businesses that have been operating for less than three years:

- Business plan/market study
- Projected profit and loss statements and balance sheets for at least three years into the future
- Resumes of business owners/principals
- Credit report of business owners
- Tax returns of owners with a 20% or greater ownership interest

**9. General Certifications**

The undersigned certifies that he/she is an Officer of the applicant business applying for financing assistance from the Retail Revolving Loan Fund, that he/she is familiar with the records of the borrowers and contents of this application, and that he/she is authorized to submit and sign this application. All information contained in this application, including all attachments, is to the best knowledge of the undersigned, true and accurate and presents fairly the condition of the applicant. The undersigned understands that all information submitted to the City of Algona relating to this application may be considered public information and that its confidentiality is not guaranteed.

The undersigned hereby give permission to the City of Algona and its subsidiaries to research the company's history, make credit checks, contact the company's financial institution, and perform other related activities necessary for the reasonable evaluation of this application.

\_\_\_\_\_  
Applicant Name (typed)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date