
AGENDA

**ECONOMIC DEVELOPMENT AUTHORITY OF PARK RAPIDS
TUESDAY, JULY 28, 2020, 5:30 PM
PARK RAPIDS CITY COUNCIL CHAMBERS
Park Rapids, Minnesota**

1. ROLL CALL

2. APPROVE MINUTES:

A. Minutes from May 11, 2020..... 1-4

3. BUSINESS:

A. EDA Revolving Loan Fund..... 5-13

4. ADJOURNMENT

1 **ECONOMIC DEVELOPMENT**
AUTHORITY OF PARK RAPIDS
TUESDAY, MAY 11, 2020, 1:00 PM
2 **Meeting convened immediately after the**
3 **Special City Council Meeting Scheduled at 1:00 p.m.**
4 **VIA TELEPHONE**
Park Rapids City Council Chambers
Park Rapids, Minnesota

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7 Pursuant to Minnesota Statutes 13D.021, Subdivision 1(1), the City of Park Rapids has
8 determined that in-person meetings of the Economic Development Authority are not
9 prudent during the COVID-19 health pandemic/peacetime emergency declared by the
10 Governor's Executive Order No. 20-01 under Minnesota Statutes Chapter 12. As such
11 the following Economic Development Authority meeting during such state of emergency
12 was held by telephone, and the presence of the Boardmembers and the public at the
13 meeting was not feasible.

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16 **1. CALL TO ORDER/ROLL CALL:** The meeting was called to order by Chair
17 Ryan Leckner (in person) at 1:10 p.m. Board of Commissioners Present: Tom Conway,
18 Erika Randall, Liz Stone, and Robert Wills (by phone). Absent: None. Staff Present:
19 Administrator Ryan Mathisrud (in person), and Clerk Margie Vik (by phone). Others
20 Present: Attorney Robert Scott and Robin Fish from the Enterprise (by phone).

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23 **2. APPROVE MINUTES:**

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25 **A. Minutes from March 24, 2020:** A motion was made by Stone,
26 seconded by Randall, and unanimously carried to approve the Economic
27 Development Authority of Park Rapids Meeting minutes from March 24th, 2020.

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29 **B. Minutes from April 7, 2020:** A motion was made by Wills,
30 seconded by Stone, and unanimously carried to approve the Economic
31 Development Authority of Park Rapids Meeting minutes from April 7th, 2020.

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34 **3. BUSINESS:**

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36 **A. Armory Square Closing:** Mathisrud stated we have two items to
37 discuss today. After seven years of discussion, the EDA is finally in the position of
38 working to execute the closing documents for the armory. The purpose of this special
39 meeting is to meet the deadlines of the state, which is this afternoon. We're looking
40 forward to getting that final package in to them. We'll meet later to execute the
41 documents to close on the project, which is scheduled for May 18th. Robert Scott is
42 going to provide a brief summary on the closing documents.

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1 Robert Scott stated we have been working very hard to bring this transaction to a
2 point where we are ready to proceed to closing. You have a draft resolution for the EDA
3 Board to consider, which would approve a series of closing documents that are
4 enumerated in paragraph one of the draft resolution. I would thank the EDA Board for
5 meeting on short notice. It was necessary to give us the chance of meeting the state's
6 disbursement deadline for May 18th. We still have some documents to submit, including
7 those that are referenced in this draft resolution. Our intent to as soon as they are
8 approved and executed that we would send them into the state today in hopes that they
9 can get them approved and disburse the grant funds to the city on May 18th, which
10 would allow closing to occur in a sequence of transactions right after that.

11 Scott stated the documents that this resolution would approve are a
12 supplemental escrow agreement by and between the EDA, the title company and the
13 seller of the Armory Square Management Company. That agreement basically serves to
14 supplement what was already included in the purchase agreement the EDA entered into
15 with the seller. It's really a mechanical description of how the closing will occur. It was
16 worked out that way with the state, both Minnesota Management and Budget (MMB)
17 and the Department of Employment and Economic Development (DEED), and it was
18 designed this way to follow the conundrum where the city was required under the
19 purchase agreement to pay the purchase price, which was equal to the grant proceeds
20 of \$2.5 million and would be entitled to reimbursement of that amount from the state.
21 We worked this out so the city would not have to front the \$2.5 million and then go to
22 the state and ask for reimbursement.

23 Scott stated given that making such an expenditure, even with assurance that the
24 grant was coming right after, would be a hardship for the city. We worked out an
25 agreement where the seller would forward all of the closing documents including the
26 deed conveying Tract B of the armory building to the escrow agent. At that point we
27 would submit all of those documents to the state so that the state knows that the city
28 has taken all steps to secure the ownership interest and would be paying the full
29 purchase price into escrow. At that point the state agreed that they would be satisfied
30 and they would disburse the grant so the grant funds could be used in the closing and
31 not have to be fronted by the city. This was an important procedural mechanism just to
32 allow the closing to occur without the city having to make some extraordinary
33 arrangements to front those costs.

34 Scott stated the settlement statement is simply a statement of the breakdown
35 and credits and expenses on each side. I do want to make a couple of observations and
36 point out a couple of details in this statement. The statement shows a remaining
37 balance that will be paid to Armory Square Management Company. The remaining
38 balance going to the seller was about \$151,000.00. Of that amount, most if not all of
39 that will actually be paid to the EDA to compensate them for the out of pocket expenses
40 the EDA incurred throughout the seven years this transaction has been in the works.
41 They include legal fees, some to our office, some to Kutak Rock in Minneapolis, and
42 some other attorneys working on this at various points. There were also some architect
43 fees in that number as well. We are still trying to finalize that exact number. We worked
44 at our end to update that number and there is an uncertainty of about \$4,500.00. We
45 have already given notice that we're to be reimbursed about \$155,000.00 with that
46 \$4,500.00 added to that. The precise amount on the settlement statement will be

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1 subject to final calculations, but just note that it could change up to the full amount. We
2 will be working to try to recover that amount in the closing. I would ask that the EDA
3 approve this resolution without making that a requirement, so that we do not miss our
4 deadline and have to wait another couple of weeks to close while we determine about
5 the remainder of the \$4,500.00 of the reimbursable expenses.

6 Randall questioned are you asking that we not make the \$4,500.00 a
7 requirement and make the other amount a requirement? Scott stated I think that to boil
8 it down the settlement statement does not reflect that number anywhere on it and that's
9 a requirement because those costs are not reimbursable by the grant. This gets into a
10 little bit of the second action item #2, where we enumerated the specific transactions
11 and the flow of funds memo. The payment of the city's reimbursable expenses will
12 happen, technically outside of the closing structure so that the final disbursements to
13 the seller will not happen until that payment is made, so the city will be paid expenses
14 back. What I'm telling the EDA is that we will recover at least \$150,000.00 of that that
15 we have already given notice of. I will work with the seller and try to get the full amount
16 that we calculated as of today. My request is that the EDA just not approve these
17 documents and get the second approval of the whole memo without making that an
18 absolute necessity. We will expend all of our due diligence to try and do that.

19 Randall questioned I want to make sure, I'm hearing that there still is assurances
20 that we are going to be paid that as of this final transaction of getting this thing closed.
21 Scott stated there is assurance that you are going to be paid at least \$155,000.00 of the
22 out of pocket expenses. I will work and do my best to get the amount by which we
23 exceeded that number in the last couple of weeks here as well.

24 Scott stated the final document is more of a formality that you would be
25 approving with this resolution is the bond declaration. When the state funds a project
26 like this it requires that a declaration be recorded against the property, which basically
27 insures that it will be put to public use for the purposes for which the grant was issued,
28 in this case for the operation of the Upper Mississippi Arts and Events Center. The city
29 has plans to do that by entering into a lease agreement with MMCDC. That has been
30 the plan for this project from the beginning. That is the reason the state is making a \$2.5
31 million investment in this project. To accept that money the city is required to record that
32 declaration. Ordinarily that agreement would have been recorded before the city could
33 have gotten the grant funds. In this case because we have worked out this unique
34 mechanism for the city to get their funds available at closing the city agree to approve
35 that declaration now and direct that the city administrator see that it gets executed and
36 recorded against the property promptly after closing.

37 Scott stated with that, I would recommend that the EDA approve the resolution
38 that's been put together. I think this is a momentous step and this will allow the city to
39 submit the final documents to the state this afternoon in the hopes of closing on May
40 18th. If we do not make that date, which is a possibility because we cannot control the
41 state's review, if it does take too long and we do not get the grant disbursement on May
42 18th, it should be all set up for June 2nd, which is the fallback date. The state disburses
43 grant funds every other Monday. We were shooting for May 18th and that's why we had
44 this special meeting. I recommend that the Council approve this resolution. I'm happy to
45 answer any additional questions.

1 Leckner requested comments or questions. I'd like to thank you for the work you
2 have put into this in getting this all put together in such a good manner. We appreciate
3 it. Scott stated thank you. It's been a fun project to work on and it's very rewarding to
4 see it appear to be in the final stages here. We're really looking forward to closing.

5 **A motion was made by Randall, seconded by Conway, and unanimously**
6 **carried, by roll call, to approve Resolution #2020-01 A Resolution by the Chair**
7 **and Board of Commissioners of the Economic Development Authority of the City**
8 **of Park Rapids, MN, Approving the Armory Square Closing Documents, that**
9 **includes the Supplemental Escrow Agreement between ASMC, the PREDA, and**
10 **Leer Title Services, the Settlement Statement (HUD-1), and the General Obligation**
11 **Bond Declaration.**

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13 Mathisrud stated the second item for your approval is the flow of funds
14 memorandum that would receive a breakdown for. At this point what you see on the
15 document is the transfer that reimburses the city's EDA grant funds and the transfer that
16 recovers our legal and other fees. We need a motion to approve the wiring instructions
17 and the flow of funds memo.

18 Scott stated the transfer in the amount of \$155,996.23 is the amount we were
19 discussing in the previous action item. That represents the city's out of pocket
20 expenses. That's the figure that has grown by about \$4,500.00 up to today. We will do
21 our best to finalize that amount and recoup all of those costs. But that's the final number
22 and it's subject to change. Once that number is finalized it could have an impact on the
23 final transfer, which is the base of the payment of the balance to the seller's company
24 Echo Point Design and Development. For the most part these numbers are dictated by
25 the settlement statement that the EDA has approved and this is how we are structuring
26 it to make sure that everyone with secured interest gets paid off and title is cleared
27 before it is given to the EDA at the closing. I'd be happy to answer any questions on
28 that, but we'd be looking for a motion to approve it.

29 **A motion was made by Randall, seconded by Wills, and unanimously**
30 **carried, by roll call, to approve the Escrow Wiring Instructions and Flow of Funds**
31 **Memorandum for the Armory Square Project Closing.**

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34 **4. ADJOURNMENT:** A motion was made by Stone, seconded by Randall,
35 and unanimously carried to adjourn the meeting at 1:30 p.m.

ATTEST:

Chair Ryan Leckner

Margie M. Vik
City Clerk

City of Park Rapids

Revolving Loan Fund Policy

Applicable to funds formerly under MIF program

Approved by City Council on _____

The Revolving Loan Fund (RLF) is administered by the City of Park Rapids and consists of a several pools of economic development funds originating from past State or Federal assistance, including funds from the Minnesota Investment Fund (MIF) and the Urban Development Action Grant (UDAG). In June, 2020, Park Rapids utilized a Onetime Exception offered by DEED for the city's MIF dollars. 20% of the MIF funds were returned to the state, and the city kept 80%, \$441,671.10. These dollars are now free of MIF restrictions and use guidelines.

This RLF along with other incentives and business subsidies comprise a package of tools at the disposal of the Park Rapids Economic Development Authority to advance the economic growth of the community.

This policy governs the use of the city's RLF.

Purpose

The purpose of these guidelines is to establish policies and procedures for the regulation and coordination of the City's economic developments funds. These policies shall be used as a guide for evaluating loan applications and the administration of the portfolio.

Objectives

The objectives of the Revolving Loan Fund are:

1. To create or retain permanent livable-wage jobs in the City by expanding the existing business base and attracting new businesses to the community.
2. To leverage private and other public investment to promote economic growth.
3. To encourage successful redevelopment in the City's priority development sites.
4. To increase the local tax base through building a diverse industry mix.
5. To enhance the quality of life within the community.
6. Promote accessibility to capital funds to help businesses develop, expand, or remain in the community.
7. Promote diversity within the local economy and growth in the tax base of the City
8. Increase the potential employment opportunities and employment retention for the residents of our community.

Guiding Principals

Through its economic development policy the City of Park Rapids is committed to the following principals:

- Retaining, expanding and attracting businesses that provide well-paying jobs, sustain investment and bring new wealth to the community.
- Maintaining a top-tier workforce through coordination among community institutions including: development organizations, employment agencies, colleges and universities, and the business community.
- Ensuring growth area continues to receive infrastructure improvements necessary to attract major new business investment.
- Strengthening the ability of older commercial and industrial areas to support additional business activity.
- Nurturing small and start-up businesses.
- Promoting the development of technology-based products and services.
- Promoting high quality and environmentally-friendly design in expansion and renovation of facilities.
- Fostering the successful redevelopment of vacant and underutilized commercial and industrial properties.
- Addressing identified housing needs of the community.

Eligible Businesses or Projects

All businesses or individuals are eligible to apply for RLF funds; however, special preferences will be given, but not limited to, businesses and projects that:

1. are manufacturing or technology oriented;
2. are non-competitive with an existing business;
3. have high growth potential;
4. are an existing business expansion; or
5. will enhance Park Rapid's quality of place and its competitive advantage.

In addition, non-profit organizations and some public entities may be eligible.

ELIGIBLE PURPOSES

Eligible Purposes:

1. Acquisition of physical assets (i.e. equipment, machinery, inventory, software, etc.).
2. Acquisition and/or development of land.
3. Construction, conversion, enlargement, relocation, repairs, remodeling or modernization of buildings, plants, machinery, and/or equipment.
4. Demolition with an acceptable redevelopment plan.
5. Working capital.
6. Initial start-up operating costs and initial working capital.
7. Technical assistance for private business enterprises.
8. Small business expansion.
9. Purchase of an existing business.
10. Business incubators.
11. Medical facilities.
12. Training/Educational facilities.

13. Tourism.
14. Interim/Bridge financing.
15. Housing, with the purpose of attracting and retaining workforce talent (does not include housing rehabilitation or renovations).

Eligible Businesses/Applicants:

1. For profit commercial, service, retail, and manufacturing businesses.
2. Private non-profit businesses/organizations
3. Governmental units and tribal authorities. No more than 20% of RLF total assets shall be lent out to such entities.

Lending Area

Generally, the applicants must be located in the City limits of Park Rapids, within an orderly annexation area, or will file a request for annexation as part of the project. Consideration may be given to businesses in the greater Park Rapids area given the economic impact is deemed significant.

Undesirable Loans

The RLF is generally not established to accommodate the following:

1. Loans with inadequate equity investment.
2. Loans considered bankable by traditional lending institutions at reasonable terms.
3. Applicants seeking solely a lower interest rate.
4. Refinance of existing debt from other lenders.
5. Loans to business with local competition.
6. Loans to facilitate a purchase of an existing business without a positive economic impact to the community.

Ineligible Purposes/Projects/Businesses

1. Agriculture (some "agriculture" projects may qualify, depending on the value-added characteristics).
2. Area-wide planning.
3. Debt refinance without a strong case it is necessary as part of a significant expansion or may prevent business closure and is deemed an appropriate credit risk.
4. Activities determined to be for investment purposes only.
5. Illegal activities and legalized activities that in the opinion of the Loan Committee adversely affect the RLF interests.

Use of Loan Funds

Acceptable uses of RLF funds include, but are not limited to :

- Purchase of equipment and other fixed assets.
- Purchase of real estate for business expansion
- Construction/ renovations of business facility
- Working capital needs
- Start-up expenses for new venture

Loan Amounts

The City intends to make loans in the range of \$5,000 to \$150,000. The RLF may not exceed the maximum of \$150,000 in outstanding principal to any one borrower. Also governing the size of the loan is the City's desire to contribute no more than 25 percent of the total project costs, and may not hold more than 40% of the RLF's portfolio value on average. It is the intention of this RLF to leverage all other private and public financing sources to the maximum extent possible.

Terms

Typical loan terms will be based on the life of the assets being financed and borrowers' cash flow needs. Generally, loans that are amortized greater than five years will balloon, allowing for possibly refinance by traditional lenders, restructure, and interest rate adjustments.

Interest Rate

Determined by market conditions, the desirability of application (the extent to which it meets public objectives), and other lender rates. Typically, the rates will be 1 to 3% below market rate.

The interest rate will typically be tied to the Wall Street Prime Rate or slightly below market rate quoted by the traditional lender involved in the project. The Loan Committee may use their discretion given the strength of the applicant and the economic impact the project may have. The Loan Committee may opt to adjust the interest rate at a fixed point in the term of the loan to encourage the borrower to pay off or refinance the loan.

Collateral

The loan shall be secured by adequate and appropriate collateral sufficient to protect the assets of the RLF. The RLF will make no unsecured loans; however, it will accept unconventional forms of security, including personal guarantees and may include liens on personal assets. Loans will typically be in a junior collateral position to the major source of project financing.

Equity Contribution

To assure some level of borrower commitment, new businesses will typically be required to provide a minimum of 10% equity investment into the total project costs. The amount of equity required of established businesses will be determined individually dependent upon perceived risk and management ability of the owner. Some in-kind equity may be allowed.

Other Terms

- Applicants must provide either a commitment letter from a participating lender stating loan terms and identifying the financing gap or a bank denial letter listing the requested loan terms.
- Personal guarantees will be required and assignments of life insurance may be requested.
- All loan applicants are required to pay all related closing costs and fees at the time of closing including, but not limited to, a 1% origination fee.
- Borrower must abide by the terms of the Business Subsidy Agreement and/or Loan Agreement, Security Agreement, Promissory Note, and any other instrument signed at the time of closing and any amendments thereto.

Other Funding Options

The City may choose on occasion to assist businesses through Loan Guarantees or Participation Loans under the same general terms as stated above. In addition, the city may choose to utilize funds to complete infrastructure investments critical to economic and business growth. The infrastructure investment must, however, have clear plan for repayment.

Administrative Procedures

Application Process and Required Documentation

The City of Park Rapids has contracted with Headwaters Regional Development Commission (HRDC) to administer the revolving loan fund. HRDC RLF Staff will work with city staff throughout the loan process and keep each other apprised of potential projects. HRDC RLF Staff will provide a brief review of any loan inquiry to city staff/City Administrator prior to providing a loan application to a potential applicant.

The following documentation is typically required to complete the RLF loan application process. The RLF staff or Loan Committee may request additional documentation as necessary. The applicant(s) will authorize RLF staff to perform routine credit checks.

1. Loan application
2. Business plan
3. Personal Financial Statements (for all owners and guarantors)
4. 2 years of owner and/or guarantor tax returns
5. 2 years of business tax returns and Financial Statements
6. Résumé of owner and business manager
7. 3 years of projected Income Statements
8. Copies of Purchase Agreements and quotes/estimates for asset acquisitions or construction
9. Collateral Listing
10. Copies of leases, franchise agreements, or other contracts affecting the business.
11. Copies of Articles of Incorporation, Bylaws, and minutes showing authorization for loan and denoting the authorized signatories of the corporation (if applicable).
12. Letter of Commitment from participating lender, noting the terms, conditions, covenants and/or requirements of their portion of the financing, as well as any other stipulations that may pertain to the RLF financing (if applicable); or, bank denial letter listing the requested terms.
13. Copies of appraisals obtained on assets being acquired or used as collateral.
14. Proof of liability and property insurance.
15. Proof of life insurance, if applicable

Processing, Administration, and Servicing

All applications shall be submitted to RLF staff at Headwaters Regional Development Commission (HRDC), who will check the application for eligibility and completeness. HRDC RLF Staff will also verify that funds are available in the RLF; if sufficient funds are not available to meet the request, the applicant will be notified and afforded the opportunity to modify the loan request and/or make other arrangements for the composite financing package. Once it is

determined that funds are available and the loan application is complete, HRDC RLF Staff will proceed with underwriting.

HRDC RLF Staff will perform the necessary due diligence and confer with the Loan Committee as needed during the underwriting process. All information of a personal or financial nature contained in the loan application package will be handled securely and discretely.

Upon completion of the underwriting process, HRDC RLF Staff will make a recommendation to the Loan Committee for a final decision. The Loan Committee may include guidance on additional requirements or contingencies for approval. The Loan Committee will meet as needed and will strive to make a timely decision. The Loan Committee will make an approval or denial recommendation to the City of Park Rapids City Council. The City Council has the sole power to approve or deny a loan application.

Upon approval of a loan request, HRDC RLF Staff will issue a commitment letter to the applicant, which the applicant must sign and return within the stated period of days. Failure to accept the commitment letter will render the loan decision null and void.

Upon acceptance of the commitment letter, HRDC RLF Staff will consult with contracted legal counsel to prepare the necessary loan closing documents, including but not limited to: Promissory Note, Loan Agreement, Mortgage, and UCC Financing Statement. Borrower must abide by the terms set forth in those documents and any amendments. Loan closings will be coordinated with other lenders whenever possible. Loan documents will be signed by authorized City of Park Rapids staff and/or board members.

Generally, loan disbursements will be made at closing or as soon as possible thereafter, or when proper use of funds have been verified. Other loan disbursement arrangements may also be applicable, such as advancing partial funds in stages; borrowers will work directly with HRDC RLF Staff during this process.

During the life of the loan, any loan modification requests should be submitted to HRDC RLF Staff. HRDC RLF Staff will review the servicing requests and prepare a recommendation to the Loan Committee. The Loan Committee will make a recommendation to the City Council, which will approve or deny the servicing action.

HRDC RLF Staff will create a copy of the loan file to be maintained by HRDC. All original documentation will be sent to city staff and should be kept in a fireproof cabinet. All supporting documents and analysis should be retained in the file, including, but not limited to:

1. Original loan application and all supporting document.
2. Fully executed loan documents.
3. Temporary payment modifications (payment reductions, not to exceed 50% of the payment amount, not to exceed one year).
4. Payment deferrals of up to six months.
5. Loan extensions not to exceed two years.
6. Modifications to collateral as long as the loan remains 100% collateralized.
7. Subordination requests as long as the loan remains 100% collateralized.

8. Partial release of collateral as long as the loan remains 100% collateralized.

Loan Committee

The Loan Committee will be made up of representatives of the Park Rapids community, including three local bankers, one local business owner, and a member of the city council. The City Administrator will be invited to join the meetings and will not be a voting member.

Other Funding/Structure Options

To simplify the financing structure of a project, the Loan Committee may choose to fund through a loan participation with other lenders. If more than one gap lender is involved in the financing, one lender will become the lead lender to facilitate the administration of the loan; the other lender(s) will become the participant(s). Participation loans shall adhere to the same general terms of these policies.

Payments

Payments will be set up as automatic "ACH" payments whenever possible. Administration and servicing of RLF loans will be performed by HRDC RLF Staff. Loan payments will be made to City of Park Rapids Revolving Loan Fund.

HRDC RLF Staff will work with City of Park Rapids staff to monitor payment status of borrowers. HRDC RLF Staff will contact the borrower if the loan is 15 days past the payment due date and the borrower has not made contact.

Fees and Costs

All costs associated with processing the application, preparing the necessary documents, recording and perfecting the appropriate liens, etc., shall be the responsibility of the applicant and shall be paid at the time of loan closing. In addition, a one-time origination fee of \$100.00 shall be charged to each loan at loan closing.

Required Borrower Reports

HRDC RLF Staff will collect periodic reporting from borrowers per their loan agreement requirements and maintain such documents in a working file.

Conflicts of Interest

Loan Committee members must disclose any potential conflicts of interest with existing borrowers or applicants and such details shall be clearly documented.

Loan Committee members who have a fiduciary interest in a borrower or applicant under discussion will be expected to abstain from voting on matters related to that business. At the option of other members, he/she may be asked to provide input.

Revolving Loan Fund Accounting

City of Park Rapids staff will be responsible for accurate accounting of revolving loan funds. Unrestricted (former MIF) funds and UDAG funds will not be co-mingled and will be accounted for separately. Loan payments will be applied to the respective fund and staff will track principal and interest in order to monitor fund growth and cash available to lend.

Statement of Non-Discrimination

In accordance with Federal Law, discrimination on the basis of race, color, national origin, age, disability, religion, sex, familial status, and sexual orientation is prohibited.

RLF Administration

TO BE DEVELOPED YET: