

WATERTOWN ECONOMIC DEVELOPMENT AUTHORITY REVOLVING LOAN FUND PROGRAM

PURPOSE

The purpose of this document is to establish guidelines for the application and administration of the City of Watertown Economic Development Revolving Loan Fund Program (the “RLF Program”).

POLICY STATEMENT

The City of Watertown recognizes the need to stimulate private sector investment in facilities and equipment in order to create/retain jobs for local residents and to upgrade facilities to maintain competitiveness and/or boost productivity. The RLF Program is established to provide affordable loans for expansion and/or rehabilitation of commercial and industrial businesses in order to maintain and enhance the economic viability within Watertown.

PROJECT ELIGIBILITY

Loan proceeds obtained through the RLF Program can be used for:

1. Fixed asset financing such as land acquisition, building construction, machinery and equipment, expansion of existing facilities, renovation and modernization of buildings, or public infrastructure needed for economic development expansions.
2. Eligible businesses must be within the city limits of Watertown and in a commercial or industrial zoning district, as defined by the City’s approved Land Use Map.

RLF Program loan proceeds cannot be used for:

1. Construction and/or renovation of residential units.
2. Acquisition, installation or repair of furnishings or trade fixtures.
3. Payment of accrued obligations or for refinancing of existing debt; except for the refinancing of an existing RLF Program loan that has ballooned.
4. Speculative investment purposes.

LOAN AMOUNT

1. The minimum loan request considered is \$5,000 and the maximum loan request considered is \$25,000.

2. The interest rate for any loan shall be fixed for the term of the loan. The interest rate will be determined at the time of approval by the EDA equal to the Wall Street Journal Prime Rate.
3. Depending on the proposed use of the loan funds, the repayment schedule shall not exceed the following maximum amortization schedules:
 - a. 10 years - purchase of land and/or purchase, construction or renovations of building
 - b. 5 year - machinery and equipment;
4. Repayment will normally commence the first day of the month after closing of the loan and be due the first day of each month for the duration of the loan. Monthly loan payments will be automatically deducted from the applicant's authorized checking account using the Watertown direct payment program. Repayment authorization form(s) will be completed at closing of the loan.

REGULATIONS FOR IMPROVEMENTS

All building construction or renovation is to be in conformance with the current adopted Uniform Building Code and other City Codes and policies. Repairs may include, but are not limited to, the following systems and portions of real property:

- a. Mechanical - including heating and plumbing
- b. Electrical
- c. Structural - including the facade of the structure, the roof, and energy related improvements

LOAN SECURITY

1. All loans must be secured with either a mortgage on real estate or UCC-1 financing statement.
 - a. Mortgages considered must be on real property being improved, or real property in which the applicant has an interest and meets the requirements and restrictions of the RLF Program so long as the owner thereof commits to grant the City a mortgage thereon securing the applicant's obligation to the City.
 - b. A loan cannot exceed ninety percent (90%) of the current year assessed valuation of the mortgaged property less the outstanding balance of any prior mortgage.
2. Applicant must demonstrate to the City that he or she possesses the financial means to repay the loan(s).

3. The applicant must demonstrate that the mortgaged property is insured for its full insurable value. If the mortgaged property is the property being purchased or improved with the loan proceeds, the applicant must also demonstrate that the property is insured for its full insurable value after any improvements are made.
4. A personal guarantee from owners with more than a 20% stake in the businesses of which the RLF program is benefiting is required.

TIMING OF PROJECT EXPENSES

Building construction may not commence until all required permits are secured. All costs incurred by the loan applicant before the loan application has been approved, and any costs associated with the loan application or execution of the loan documents as required by the City, are not eligible expenditures.

PROCEDURAL GUIDELINES FOR APPLICATION AND APPROVAL

1. Any interested applicant should meet with the Watertown City Administrator to obtain information about the RLF Program and to discuss the proposed project and obtain application forms.
2. A completed application form, together with a processing fee equal to 1% of the loan amount must be submitted to the City of Watertown two weeks prior to review and consideration of the application by the Watertown Economic Development Authority. The fee will be used to cover City expenses for processing the application and is nonrefundable. An additional fee of 1% of the loan amount requested will be charged and payable at loan closing if the applicant fails to provide complete project information within thirty (30) days after the original application is submitted.
3. The application is reviewed by City Staff to determine if it conforms to the requirements of this Program, and all other City Codes, policies, ordinances and regulations.
4. City staff will request an Owners & Encumbrance Report upon the property to be mortgaged to help determine whether the RLF program requirements are met.
5. City Staff will review each application and the project information supplied in terms of its proposed activities in relation to their impact on the Watertown economic community. City Staff will make a recommendation concerning funding of the proposed project to the Watertown Economic Development Authority for final consideration of the application.
6. The Watertown Economic Development Authority will evaluate the project application in terms of the following:
 - a. Project Design - Evaluation of project design will include review of proposed activities, timelines and capacity to implement.
 - b. Financial Feasibility - Availability of funds, private involvement, financial packaging

and cost effectiveness.

- c. Loan applicant to provide information that shows they are able to pay up to 20% of the total project cost from a source other than RLF Program loan proceeds.
 - d. The applicant will have to show sufficient cash flow to cover proposed debt service. To be determined by taking the EBITDA divided by the total debt payments of the applicant (including the new RLF program payment). The ratio must be 1.20 or greater.
 - e. Net Worth Test: Applicant (and/or its principal) must show a positive net worth.
 - f. Credit: Applicant and/or guarantors cannot have unpaid tax liens, unpaid judgements, or unpaid collection items. The personal credit score cannot be less than 620.
 - g. Letter of commitment from applicable business pledging to complete project during proposed project duration if loan application is approved.
 - h. Letter of commitment from applicable business pledging to remain in the eligible geographic area during the duration of the loan period or be subject to acceleration and/or immediate loan balance repayment.
 - i. Letter of commitment from regulated financial institution stating terms and conditions of their participation in project, if any.
 - j. Project compliance with all City Codes and policies.
7. All applications failing to meet the minimum threshold standards, but that are able to show sufficient documentation of ability to cover the expected debt service, may be reviewed on a case by case basis by the Watertown Economic Development Authority.
 8. The Watertown Economic Development Authority reserves the right to waive certain requirements of this Program and may request additional information and documentation as deemed necessary.
 9. The Watertown Economic Development Authority must review and approve all applications prior to the disbursement of loan proceeds.

LOAN CLOSING

1. RLF Program loan documents will be executed by the applicant at closing, which may include any or all of the following as determined by the Watertown Economic Development Authority and City Staff:
 - a. Promissory Note; and
 - b. Mortgage on real property; and
 - c. Assignment of Leases and Rents; and
 - d. Security Agreement and/or Financing Statement; and
 - e. Personal Guaranty; and
 - f. Direct Payment Authorization Form.
2. Additional fees must be paid by the applicant at closing, which may include any or all of the following:
 - a. Mortgage Registry Tax charged by County; and

- b. Additional administrative or appraisal fees, closing costs, search fees, attorney fees, etc.

ONGOING REPORTING

1. Six months after the closing of the loan, the applicant is required to submit a summary of how the EDA's revolving loan funds were used, jobs created as applicable, etc.

2. Failure to report may be considered a default on the loan, subject to the provisions provided in the RLF Program.

DEFAULT AND REMEDY PROVISIONS

1. Each of the following would be considered a default upon a RLF Program loan (a "Default"):
 - a. Any required payment is not paid within 30 days of the date due;
 - b. Any other indebtedness of the borrower to the EDA is not paid when due;
 - c. Failure to pay real estate taxes or insurance upon the mortgaged property;
 - d. The property given as security for the loan, or any interest in said property is sold or transferred without the EDA's prior written consent (other than sales from inventory in the ordinary course of business, if applicable);
 - e. The borrower, its principal, or guarantor becomes a debtor in a bankruptcy proceeding or the subject of a similar state court proceeding, becomes the subject of a receivership, or makes an assignment for the benefit of creditors;
 - f. Failure to provide ongoing reporting as required in the RLF Program;
 - g. Any other defaults set forth in any of the loan documents.

2. The EDA will comply with any notice provisions to be provided to the borrower upon the occurrence of a Default as set forth in the loan documents. If a Default occurs, the loan may be accelerated with all principal and interest being due and payable in full. The EDA's remedies to a Default will also include the right to set off foreclosure of the mortgaged property and any other collection proceedings available pursuant to the loan documents or applicable law. Loans in default may be subject to penalties equal to ten percent (10%) of the past due balance. If the EDA determines collection proceedings are necessary, including but not limited to foreclosure, the borrower will be provided with written notice identifying the public meeting where the loan will be considered and action determined.

Established: September 2015