

**CITY OF MELROSE EMERGENCY REVOLVING LOAN FUND (ERLF) POLICY  
FOR  
ECONOMIC DEVELOPMENT RELATED TO COVID-19 IMPACTS  
04.10.2020**

**PURPOSE**

It is the purpose of this policy to establish guidelines for using the City's existing Revolving Loan Fund to help businesses impacted by COVID-19. The emergency use of the Revolving Loan Fund (ERLF) is intended to provide gap financing to eligible creditworthy businesses negatively impacted by COVID-19.

The original source of the fund was from the Melrose Public Utilities Commission who committed Demand Side Management Set-aside Funds for use as a Revolving Loan Fund. Interest income earned on Revolving Loan Fund loans to businesses as well as the principal payments shall revolve in the Fund for future use.

**POLICY STATEMENT**

The City recognizes the need to help small businesses impacted by COVID-19 which will strengthen and diversify the economy of the City over the long term. The Revolving Loan Fund Program will strive to give consideration to assist all affected businesses within the City, including the business ventures of minority and low and moderate income persons/businesses.

**PROGRAM INFORMATION**

All ERLF loans made are for the purpose of working capital and intended to replace cash flow used for operating costs that existed at the time of the peacetime emergency declaration made through Executive Order 20-01. Such costs may include current payroll obligations (i.e. may not include employees who have been laid off), lease or mortgage payments, inventory, and other working capital expenditures. All loans bear 0% interest. Loans may not be used to refinance any debt existing at the time of the peacetime emergency declaration.

**PROJECT ELIGIBILITY**

Emergency Revolving Loan Funds can be used as working capital loans and may be used to pay fixed debts, payroll, accounts payable, and other bills that could have been paid had the disaster not occurred. The loans are not intended to replace lost sales or profits or for expansion. Funds cannot be used for housing, equity position or to pay down long-term debt.

**ELIGIBILITY NOTES**

All applicants must be Minnesota businesses that have been operating long enough to demonstrate financial viability. Applicants must demonstrate that they were directly and adversely affected by the COVID-19 related peacetime emergency Executive Orders 20-04 and 20-08 and related Executive Orders and Stay at Home Orders. All applicants are encouraged to apply for an SBA Economic Injury Disaster Loan.

All businesses within the City that have been negatively impacted by COVID-19 are eligible to apply for Revolving Loan Fund assistance. Priority may be given to businesses who are unable to get funds from other state and federal programs.

## **LOAN AMOUNT AND SECURITY**

An applicant must demonstrate the financial means to repay the loan as determined by the Revolving Loan Fund Committee. The maximum loan amount shall be \$10,000. Additional criteria include:

- An application fee is required.
- 0% Interest Rate
- Financing terms will not exceed 4 years.
- Personal guarantees of all owners are required for all loan
- The bank may charge a small origination fee
- Up to \$10,000 may be requested. Payment will only be made for actual expenses that are due but are not able to be paid because of loss of income related to COVID-19. Receipts itemizing the use of the funds are due to the City within 6 months of the date of the loan.
- The program will initially fund up to \$100,000 in loans, said amount may increase upon approval by MADA and the City Council.

## **PROCEDURES**

An applicant considering the use of Revolving Loan Fund assistance should contact the City's Community and Economic Director. The applicant should provide the Director with the application form. In addition, the following information may be requested:

- a) most recent federal tax return filed by the business
- b) Income statements and balance sheets for the past year or current within 90 days, if the business has been in business less than 1 year

The Community/Economic Development Director will answer any applicant questions and help provide guidance on the application process. The Application shall be submitted to the Emergency Revolving Loan Fund Committee for review. The Committee will evaluate the proposal from a financial perspective providing for reasonable assurance that the loan will be repaid. The Committee will also make a determination that the proposed project is consistent with this policy.

### **Emergency Revolving Loan Fund Committee**

The Emergency Revolving Loan Fund Committee shall consist of:

- a) City Administrator
- b) Community/Economic Development Director
- c) Representative from the Central Minnesota Credit Union
- d) Representative from the Freeport State Bank

The Committee will:

- a) approve the application; or
- b) request additional information; or
- c) deny the application.

### **Priorities**

Funds will be awarded to businesses affected by COVID-19. Preference will be given to businesses that require an immediate influx of cash to remain viable. Preference will also be given to retail establishments and Main Street businesses, some of which were required to close

due to Executive Order 20-04 and 20-08. The timing and order of application submittal will also be a factor as available funds are limited.

### **Approval Documents**

If approved by the Committee, the City and the applicant will sign appropriate documents to

- a) enter into the appropriate loan agreement,
- b) personal guarantee; and
- c) promissory note

When all the documentation and agreements are in place, the City will then disburse the Revolving Loan Funds to the borrower.

### **6 Month Check-In**

Within 6 months of the date that the loan agreement is signed, receipts need to be provided for all expenses paid from the funds. If other funding programs are approved (state, federal or other), this needs to be disclosed. This does not require the payback of the MADA funds; however, MADA ERLF funds will not pay for expenses that were also paid by other programs.

### **Causes for Immediate Payback**

There are a few instances where immediate payback is required for all or part of the funds:

- a) Duplication of funding for the same expenses from more than one program, such as the paycheck protection program paying for employee wages and reimbursement from the City fund for the same expenses shall require immediate payback to the City for the duplicated reimbursement.
- b) Sale of the business or property where the business is located, except when specifically approved by MADA to not require immediate repayment.