August 11, 1986
BN/hdm/9388A

Introduced by: Paul Barden

Proposed No.: 86-445

MOTION NO. 6612

A MOTION approving the Economic Development Revolving Loan Fund Program Guidelines and providing for the expenditure of Community Development Block Grant (CDBG) Funds for same.

WHEREAS, Motion 6012 establishes economic development as a priority activity of the King County council, and

WHEREAS, economic development results in new jobs, new private investment, an expanded tax base and a general increase in the wealth of King County residents, and

WHEREAS, economic development activities shall be undertaken with regard for the natural beauty and high quality of environment in King County, and

WHEREAS, the Community Development Block Grant (CDBG) Program is an important source of funds for activities which benefit lower income residents of King County, and

WHEREAS, Ordinance No. 7422 as amended authorizes $165,637 of CDBG funds to capitalize an Economic Development Revolving Loan Fund, project number C86684, and

WHEREAS, Ordinance No. 7422 requires the King County executive to submit a motion recommending Economic Development Loan Fund program objectives, staff role, implementation plan, time frame, organizational requirements, and loan eligibility criteria prior to the King County council approving expenditures;

WHEREAS, the King County Council Economic Development Committee finds this program of interest and wishes to review each project;

NOW, THEREFORE, BE IT MOVED by the Council of King County:

A. The Economic Development Revolving Loan Fund Program Guidelines are approved, as attached.

B. Budgeted Community Development Block Grant funds may be expended for eligible economic development projects as defined in the attached Economic Development Revolving Loan Fund Program Guidelines.

C. Each proposed Revolving Loan Fund proposal shall be reviewed and approved by the King County Council Economic Development Committee.

PASSED this 8th day of September, 1986.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Gary Grant
VICE Chair

ATTEST:

Dorothy M. Owens
Clerk of the Council

ECONOMIC DEVELOPMENT REVOLVING LOAN FUND

Program Guidelines

6612

I. OVERVIEW

The 1986 King County Budget as amended, authorized $165,637 of Community Development Block Grant (CDBG) funds to capitalize an Economic Development Revolving Loan Fund (RLF). The RLF will be used by King County to participate with private and public lenders to fund economic development projects throughout the County. The objective of the RLF Program is to fund projects whih create jobs, leverage private investment, and expand the tax base.

The RLF will be a Countywide lending tool excluding the City of Seattle. Principal and interest payments will return to the RLF and will be used to fund additional economic development projects. Because the RLF is funded with CDBG funds, each project must fill a majority (51%) of new jobs with lower income people. Existing staff within the Housing and Community Development Division (H&CD) will administer the RLF.

National and local studies have clearly demonstrated that the majority of all new jobs are created by small local companies. These studies conclude that economic development efforts are best focused on encouraging the formation and expansion of small businesses. Therefore, the RLF will primarily participate in the funding of projects for small businesses.

The RLF will only help fund financially sound projects and will complement, not supplant, other financing sources. RLF staff will assist businesses to determine whether or not the proposed project is eligible for conventional or public financing. The RLF will only help fund projects when conventional and/or public lenders cannot fund the entire project due to the constraints of traditional underwriting criteria. As such, the RLF will be a lender of last resort and will provide the gap financing needed for the entire investment to occur.

The RLF Program was created to attract and stimulate private sector investment which would not occur without RLF participation. The RLF is intended to put a project "over-the-top", to fill a gap, to make feasible under conventional financing terms.

A financing gap often exists due to the financial requirements of a project, not the financial deficiencies of a borrower, developer or owner-user. In fact, the RLF will only fund strong developers and borrowers to ensure that the projects will be completed, jobs will be created, and the RLF loan is repaid.

A major criterion for RLF participation is that the funding gap affecting the project is clearly established and identified.

II. ELIGIBLE APPLICANTS

There are two kinds of eligible applicants for RLF funds.

A. For-profit owner users and developers

Industrial and commercial businesses are eligible to apply for RLF funds. Manufacturing, warehousing, retail, and service businesses are all examples of eligible applicants. Eligible forms of business organization include corporations, general partnerships, limited partnerships, and proprietorships.

B. Special purpose units of local government

Public water and sewer districts are eligible to apply for RLF funds for infrastructure improvements only.

III. ELIGIBLE PROJECT ACTIVITIES

RLF funds can be loaned for the following project activities:

Land acquisition

Building purchase, rehabilitation, or construction

Machinery/equipment purchase

Utility - water/sewer improvements (off-site)

Working capital (when secured by fixed assets)

Debt service guarantee

Interim financing

Associated development costs including: design, appraisal, interim construction interest, leasing fees, permits, sales tax, title insurance, RLF processing fees, and construction contingency not to exceed 10% for new construction and 20% for rehabilitation.

Refinancing of existing debt is not an eligible activity.

IV. PROJECT SELCTION CRITERIA

A. Economic Development Requirements

1. Job Creation: Generally, each project must create one permanent job for each $10,000 of RLF funds borrowed. Job creation must occur within two years from project completion. A loan for job retention will only be considered if a business can document three of the following four conditions:

- o layoffs will occur during the next twelve months without financial assistance;
- o prospects for a turnaround of profitability are good;
- o the economic fabric of the community would be significantly damaged through the projected loss of jobs; and
- o the business has a record of providing jobs for which lower income persons are eligible.

Because CDBG is the source of RLF funds, the majority of jobs (51%) resulting from each loan must benefit lower income people. We will assist borrowers to identify and demonstrate which jobs meet this criterion. H&CD staff will work with borrowers and the Private Industry Council in the attempt to meet their manpower needs. Staff will annually monitor each loan to determine the jobs created by each borrower.

2. Leveraged Investment: Generally, every project must leverage two dollars of private/public investment for each one dollar of RLF borrowed. This means that the maximum funding participation by the RLF is 33% of each project.

B. Financial Requirements

1. Equity: Equity can consist of cash or unimproved land (at cost or appraised value). Business must contribute the following equity percentages of total project costs:

   - o Existing business: 10%
   - o Start up business: 25%
   - o Developers: Not less than 10%. Actual amount determined by a reasonable and prevailing return to developer's equity. The reasonableness of return to equity will be determined on a case-by-case basis, considering such factors as the distress of the project, the distress of the area, the local economy, the national economy and other current economic/financial conditions.

   Generally, the RLF will not fund businesses with a debt/equity ratio greater than 5:1 including proposed project costs.

2. RLF Loan Amount: Generally, RLF loans will be limited to $50,000. The minimum RLF loan will be $10,000.

3. Repayment Ability: No project will be considered unless the applicant demonstrates that cash flow is sufficient to cover debt service including the RLF loan and other business expenses. Principal and/or interest payments may be deferred and accrued for developer projects for a start-up period if the cash flow projections warrent this adjustment.

4. Collateral: All RLF loans must be fully collaterized. The business must be willing to offer all business and personal collateral and guarantees which are reasonably available to secure the financing. The type of collateral and guarantees will vary with each project and depend on what is being financed. The private/public lender(s) and the RLF staff will review collateral and guarantee requirements with each borrower as part of packaging the RLF loan. The RLF loan will subordinate its lien position to other lenders so long as adequate security is maintained by the County.

5. Management: In order to qualify for an RLF loan, borrowers must demonstrate previous management experience at a comparable level in the same industry. For developers, we will look specifically at their previous experience in construction, financing, and leasing as appropriate.

6. Term: The term of RLF loans will be as follows:

   o Businesses: 20 years fully amortized

   o Developers: Term will match the term of senior lender with a 30-year amortization

   Generally, we prefer the terms of senior lenders to be not less than ten years.

7. Rate: The interest rate charged on RLF loans will be based upon the rate on long term U.S. Treasury Bonds. The minimum rate will be 3% plus the RLF servicing fee. Interest rates will be fixed and negotiated on a case-by-case basis according to the borrower's ability to repay the debt.

8. Financial Information: Businesses must agree to provide financial statements and forecasts to RLF staff for analysis. The RLF staff will keep this information confidential.

C. Other Requirements

1. All borrowers of RLF funds must comply with King County's Affirmative Action Ordinance No. 4528.

2. All borrowers of RLF Funds who will construct projects must comply with Davis-Bacon Wage Standards (CDBG requirement).

D. Unique Economic Development Opportunities

It is important for the RLF to be flexible enough to respond to unique economic development opportunities as they occur. A project will not have to meet all of the economic development and/or financial requirements if it can demonstrate any of the following:

- o unusually high job creation;
- o special benefit to a distressed community;
- o participation in a regional coordinated investment strategy (perhaps multi-jurisdictional); and
- o other unique economic development opportunities.

In all cases, however, a project must demonstrate principal benefit to lower income people.

King County also reserves the right to decline RLF funding for projects which meet the economic development and financial criteria but have some significant negative effect on the County.

V. ORGANIZATIONAL STRUCTURE

A. Staff

The King County Prosecuting Attorney has determined that a separate public corporation need not be established to administer the RLF because we will loan Federal, not County funds. Under this program, H&CD economic development professionals (EDP's) will staff the RLF. They will be responsible for marketing, structuring, packaging, and servicing RLF loans.

B. Loan Approval Process

A loan committee will review and recommend RLF loans to the King County Council Economic Development Committee for approval. The loan committee will consist of the Division's three EDps and its economic development consultant from the National Development Council. The loan committee will also have the benefit of using the conventional or public lender(s) analysis in making loan recommendations. Loans will be considered on a first-come, first-served basis.

C. Time Frames

The RLF will have funds to lend beginning July 1, 1986, when the County's CDBG Program begins, provided the King County Council has approved the project selection criteria and RLF Program procesures.

We estimate that an anverage loan will take two to three months from development to approval.

D. Fees

We will charge a loan processing fee of 1.5 percent for each approved loan. This is within industry standards for publicly operated loan funds. We will also charge a loan servicing fee of one-half of one percent on the unpaid balance of the loan.