

JOBS LOAN PROGRAM GUIDELINES

A. GOALS AND OBJECTIVES

Funding that is received will be set up as a revolving loan fund that will contribute financial assistance to a number of small, diversified businesses in Middletown to enable them to meet their stabilization/expansion needs while enabling them to create and/or retain permanent, full-time, and semi-skilled jobs for low/moderate income residents. Businesses must 1) create or retain jobs and 2) stimulate investment. Companies planning to relocate to the City of Middletown will also be considered under this program. To the extent possible, it is the intention of the City and this program to increase employment opportunities for Middletown residents.

This JOBS Loan Program Revolving Loan Fund (RLF) will address the expansion of existing industry, diversification of the area's economy, attraction of new businesses and overall creation and retention of jobs. In implementing these goals, the City of Middletown will strive to accomplish the following:

o EMPLOYMENT/JOBS

In concert with the City's goal to increase total employment in the City by 3,000 jobs by the year 2000, best efforts will be focused on attracting, retaining, or expanding businesses in the following segments:

Manufacturing
High Technology
Research and Development
Wholesale and Retail
Service and Other

Facilitate job expansion through the development of existing industrial space and expansion into future industrial sites and through the development of existing commercial space and expansion into future commercial sites.

Retrain the current unemployed in the City of Middletown while reducing the unemployment rate and meeting the objectives established in this plan.

During the last several years, Middletown has experienced the loss of manufacturing jobs as a direct result of companies closing, relocating or simply downsizing. The Middletown Labor Market Review indicates that Middletown has lost nearly 2000 jobs from September 1989 to September 1992. Olin Skis, North & Judd, EIS and TELCO are among these companies. Equally affected has been the retail industry within the last ten years, noting the loss of Shapiro's, Kabachnick, Wrubel's, Bob's Warehouse and Sears in our downtown area alone.

If the RLF can provide financial assistance to small businesses which can create jobs, it will be replacing lost jobs in existing industries while utilizing the skills of the displaced defense industry workers, etc. In addition, by providing a source of funding for job creation, the RLF will be an

additional incentive to new businesses seeking to locate to Middletown.

The purpose of the RLF will be to assist businesses which will create and/or retain jobs, provide employment to the large number of unemployed workers in the City and stimulate additional investment (additional financing, equity, cash, etc.)

B. THE AREA'S FINANCING PROBLEMS

The "credit crunch condition" that developed in the early 90's coupled with the stricter overview of the FDIC has made it almost impossible for small businesses to receive critical financial assistance.

The area's financial institutions have focused on larger, well-established companies and those with excellent prospects for growth, rather than small businesses who generate the majority of private sector jobs. The RLF will address the financing needs of the small business which cannot obtain any or all of the financing needed from financial institutions or other sources.

C. TARGETING CRITERIA

The program will assist new or expanding targeted businesses with growth potential while contributing to the diversification of the City's economic base. Eligible businesses may be classified as manufacturing, research and development, service or retail/wholesale industries. Best efforts will be focused on new and expanding firms in the fields of manufacturing, high technology and research and development. Since leading economists predict that advanced light manufacturing and research and development firms will reawaken the slumping New England economy, it is wise to focus on these areas of business.

Activities to be financed by the RLF will focus on expansion and modernization of plant and equipment, and increased working capital needs. Start-up costs which can be economically justified in terms of new jobs and industrial diversification will also be considered.

D. STANDARDS FOR THE RLF PORTFOLIO

Although individual loans may vary depending on the economic benefits to be derived by each, the following are the standards to be achieved by the initial RLF loan portfolio as a whole. These standards may be revised by the City, subject to the funding agency's approval, if the area's needs change in the future.

1. Jobs/Cost Ratio - Using CDBG dollars, the job/cost ratio for the RLF portfolio will be at a minimum one job for each \$10,000 of RLF investment.

The initial RLF portfolio should create 39 new jobs at a minimum. However, based on the experience of others using similar programs, it is expected that 200 to 300 new jobs may be created.

2. Long-Term Unemployed - The Department of Planning, Conservation & Development will work with RLF applicants to provide employment opportunities to the long-term unemployed by coordinating efforts with local agencies. Arrangements for hiring unemployed workers will be made utilizing the sources described in Section G. 3. "Linking Jobs to the Long-Term Unemployed".
3. Jobs Criteria - Although the need for jobs will be reviewed on a case-by-case basis, the focus of the

RLF will be placed on providing and/or retaining semi-skilled jobs for low/moderate income residents, while keeping in mind the need for diversification of the City's economic base.

The applicant must advertise the availability of newly created jobs in local newspapers in addition to sending out a notice of job availability to the City's Welfare Office.

To insure job creation/retention commitments are being met, a quarterly tracking system and quarterly site visits will be implemented by the JOBS Loan Program Staff (Staff).

4. Ratio of Private Sector Investment of RLF Funds - Leveraging will be no less than 1:1 (at least one dollar of private investment to each dollar of RLF funds). Private financing may include banks, investment companies, and/or investment by the borrower. It may not include the local match or other funds that are part of the RLF project.
5. GAP Financing or Last Resort "Necessary" Financing - The RLF will only provide business loans to companies that cannot obtain all or a portion thereof of the financing which is necessary to complete what is proposed in the JOBS loan application. HUD requires that the funding provided to for-profit companies be necessary and not merely a substitution of funding available through the private sector.
6. Activities Criteria - Activities to be financed by the RLF will focus on expansion and modernization of plant and equipment and increased working capital needs. Start-ups which can be economically justified in terms of new jobs and industrial diversification will also be considered.
7. Other Standards - The City of Middletown is an affirmative action employer and lender, and the RLF will be administered in accordance with equal employment opportunity standards.

E. FINANCING POLICIES

The following are the financing policies and techniques that will be used to address the financial problems of the area and to achieve the goals of the RLF.

1. Utilizing nearly \$400,000 available for this program, the total number of loans to be made in the initial round will be approximately 10;
2. The average size loan will be \$20,000 and the maximum amount of RLF funds that can be loaned to a single borrower will be \$50,000;
3. The anticipated proportion of RLF funds to be used for fixed assets and working capital loans respectively will be 50:50;
4. Standard terms for the repayment of loans include: 5-year straight amortization schedule or 10-year amortization schedule with a balloon at the 60th payment; the rate charged will be 80 percent of prime; private investment leveraged by RLF financing will be no less than 1:1; one job will be created and/or retained by the applicant for each \$10,000 lent using CDBG dollars; and the business must be located

in, or be in the process of locating to, the City of Middletown.

5. Special financing techniques will include the Economic Development Committee's option to appropriately and prudently structure loans and grants to meet the needs of recipients including when greater than 25 jobs are created or the extension of the loan's amortization to a 10-year payment schedule with a balloon at the 60th payment. When additional financing is necessary, the use of Small Business Administration funds and/or other State and Federal financing vehicles can be used in conjunction with the RLF.
6. The grantee intends to secure loans made by the RLF through standard collateral: mortgage on property subject to principal lender; security interest on equipment subject to principal lender; and personal guarantees.
7. The RLF will not operate any loan guarantee program.
8. Interest payments on RLF loans or any profit earned from these loans will be returned to the RLF for relending.
9. The RLF will charge a loan origination fee of one percent at closing which will be utilized to pay any fees related to the loan (i.e. recording fees, UCC filings, etc.). Fee income will go directly into a fund, separate from the RLF, which will be utilized only for the payment of such fees. Any profit earned from this fund will be returned to the RLF for relending at the close of each fiscal year.

F. TIME SCHEDULE FOR LOAN CLOSINGS

Loans will be closed within three (3) months of the approval.

G. RELATED ACTIVITIES

In addition to making loans, Staff will provide loan packaging assistance and referral services.

1. Technical and Management Assistance

Debt financing is only one of the tools necessary for business development. Marketing and management assistance are also imperative to the overall success of an applicant's proposal, and therefore, Staff will refer business applicants to the organizations who can provide invaluable support in these areas:

- **Middlesex County Chamber of Commerce Business Resource Center**
The Chamber provides business development counseling.
- **The Community Economic Development Fund**
The CEDF program provides support to encourage community-based economic development strategic planning; business counseling to small businesses and entrepreneurs which increases their ability to operate their businesses successfully, access financing and benefit their neighborhoods and

providing micro loans (\$35,000 and under) to small business borrowers.

- **Connecticut Small Business Development Center**

The Connecticut Small Business Development Center is a statewide organization in partnership with Central Connecticut State University, the United States Small Business Administration, the Department of Economic and Community Development, and the private sector. CT SBDC provides one-on-one counseling as well as group training programs at regional locations around the state. Our regional offices are staffed by professional business counselors who provide one-on-one counseling without charge to Connecticut's small business community.

- o **Connecticut Development Authority**

Working with the Department of Economic & Community Development, the University of Connecticut, and the Federal Small Business Administration, the Connecticut Development Authority has established a network of contacts to guide the business person through the process of securing private and government assistance.

2. Loan Packaging and Referral Services

Staff will work with an applicant to provide the best financial package for specific purposes. In order to accomplish this, Staff will work with an applicant to seek additional funding through the Small Business Administration lending programs, the Community Development Block Grants and the City's Reinvest Loan Program.

Applicants who are ineligible under the RLF selection criteria will be referred to agencies and/or organizations as described above who can provide the applicant with financial and technical support.

3. Linking Jobs to the Long-Term Unemployed

Staff will have a direct link to various manpower training systems already in place to provide jobs for the long-term unemployed.

Staff will utilize the educational programs offered through Middletown Adult Education, Vinal Technical School, and the Worker Preparation and Re-entry Programs administered by the Chamber of Commerce. It is the City's intention to coordinate training programs that will assist workers to secure full-time, semi-skilled jobs while meeting the objectives established in this plan.

ADMINISTRATIVE ELEMENT OF THE PLAN

A. LOAN ADMINISTRATIVE BOARD

The program will be administered by the City of Middletown Department of Planning, Conservation and Development staff. Loan applications submitted for consideration will be compiled with supporting documentation and presented to the Economic Development Committee (Committee) who will then make recommendations to the Common Council.

For the long-term, it is recommended that approvals be sought to set up an office to administer this program with non-profit status under Section 501(c) 4 of the IRS Tax regulations. Once the non-profit is established, the 15-member Committee will evolve into a Board of Directors which would ultimately be the final decision-making power on all loan proposals rather than the Common Council. The implementation of a non-profit with a Board of Directors would reduce government bureaucracy that may hinder the loan process.

B. STAFF CAPACITY

Administration of the RLF will be the responsibility of Staff and the servicing of RLF loans will be handled by a bank operating within the City of Middletown.

Staff will be responsible for loan packaging, credit analysis, financial analysis and loan processing, in addition to marketing the program. The preparation of closing documents, promissory notes and collateral filings will require the assistance of the City Attorney's Office.

Monthly loan servicing will be provided by the Liberty Bank, which will be responsible for establishing separate accounts for each loan and provide monthly updates as to each loan's outstanding balance, amount on deposit and status of any delinquent account.

C. LOAN SELECTION AND APPROVAL PROCESS

Establishment of the RLF will be extensively advertised in the local media as well as by means of briefings with local bankers and chamber of commerce officials.

Initial interviews for prospective RLF recipients will be conducted by Staff who will review program guidelines and determine whether or not the prospective RLF recipient is eligible to apply for assistance. Once a determination of eligibility is made, the prospective RLF recipient will be briefed on RLF standards and criteria and will be provided with a loan application and list of required background material to be submitted.

Initial credit and financial analysis will be conducted by Staff following submission of the necessary material. The background material should include but not be limited to the following:

- o Verification that the applicant meets the HUD "Necessary" Test.
- o Applicant must provide at least one letter from an area bank approving only a portion of the capital needed by the applicant or denying all of the requested financing.
- o A history and description of the business.
- o A statement detailing the exact uses of the loan proceeds.

- o A statement of the anticipated benefits from the proposed financing.
- o A balance sheet and profit and loss statement for the previous three years.
- o A current balance sheet and a current profit and loss statement (not over 60 days old).
- o A pro forma balance sheet and projected profit and loss statement for at least one year.
- o The names of affiliates and/or subsidiary firms.
- o Resumes of the principals.
- o A list which contains the original date and amount, present balance owed, interest rate, monthly payment, maturity, and security for each loan or debt that the business currently has, indicating whether the loan is current or delinquent.
- o If the business is a franchise, include a copy of the franchise agreement.
- o Current personal financial statement for each proprietor, partner, officer, and stockholder with 20% or more ownership in the business.
- o A resolution from the Board of Directors, if the applicant is a corporation, authorizing the small business concern to borrow.
- o Number of present full-time and/or part-time employees, by job category and their hourly wages.
- o Number of full-time employment positions, by job category to be created and the hourly wage to be paid.
- o Description of collateral which is proposed to secure the loan.
- o Evidence of required private dollar match.
- o A current credit bureau report on each proprietor, partner, officer, and stockholder with 20% or more ownership in the business.
- o Any additional information (i.e. sales contracts) which may facilitate the decision-making process.

Staff will distribute completed loan request packages to the members of the Subcommittee who will review the material and then convene to render a recommendation to the entire Committee. When necessary, the Subcommittee may request additional information from the applicant in order to make an informative recommendation.

Upon acceptance of the terms and conditions of the loan, Staff will forward a copy to the City Attorney's Office who will prepare and review the necessary closing documents. Staff will also notify Liberty Bank to establish a new account, and provide the recipient with an amortization schedule for his/her loan.

D. LOAN SERVICING

Upon completion of a loan closing, the Department of Planning, Conservation and Development staff will verify establishment of a loan account with the servicing bank. Staff will be responsible for monitoring repayment of all loans. Repayments which are over thirty (30) days overdue, will trigger a letter to the recipient requesting immediate payment of arrearage. An assessment of a fifteen dollar (\$15.00) late payment fee will then be added to the loan payment each month until the loan is brought to a current status. If a prompt response is not forthcoming from the recipient, staff will personally visit the recipient and seek immediate correction of the problem.

E. DEFAULT

Any account that is sixty (60) days plus, overdue, will be considered in default. Upon the occurrence of an event of default, as defined in the executed loan documents, Staff, in conjunction with the City Attorney's Office, will be responsible for recovering the balance due from the recipient. The recipient and/or the guarantors shall pay to the City all reasonable attorney's fees, and all costs and expenses incurred by it in collecting this loan.

The Common Council will be kept informed promptly in writing of actions taken.

Staff will also be responsible for monitoring employment increases and/or retainages which are tied to the provision of loan assistance and the applicable Federal Guidelines. This function will be completed by means of a quarterly tracking system and quarterly site visits by Staff. If the recipient has not created and/or retained the required full-time positions, the City will reserve the right to consider the loan in default.

If at any time during the term of the loan, the business ceases operations, the loan will be considered in default and the recipient will be responsible to pay the entire loan balance, then due to the City, in full.

F. SOURCES OF FUNDING TO COVER ADMINISTRATIVE COSTS

Administrative costs will be covered by CDBG (Community Development Block Grant) funds, CDBG Program Income and RLF loan fees. Additional administrative funding may be provided by Jobs Training Partnership Act (JTPA) grant funds.

G. RECAPITALIZATION STRATEGY

Terms of RLF loans will generally not exceed five years in order to assure a continued cash flow to the fund for refunding. There will be no early prepaying penalties. CDBG income from existing loans will be used to compliment the RLF. Economic Development Administration funds and other appropriate sources may also be utilized to provide additional capitalization of the RLF. Funds not immediately required for pending new loans will be held in interest earning accounts until such time as they are required. This policy is already in place for the City's REINVEST Program and has proven to be simple to administer while assuring immediate access to funding when necessary.

H. ACCESS TO RECORDS

Staff will reserve the right to review recipient records, on-site, during the term of the loan.

I. OTHER REQUIREMENTS

Civil Rights - No RLF loan applicant will be denied a loan on the basis of race, age, national origin, religion, sex, or physical handicap. Staff will monitor applicants by means of quarterly labor status reports and site interviews with employees. Applicants with detectable deficiencies in employment practices will be allowed thirty (30) days to correct such deficiencies. Continued failure to correct deficiencies may lead to suspension or termination of assistance. All RLF loan applications are required to state both current and projected employment estimates in their loan package.

Environment - Staff will also function as the environmental review officer for each loan application. He/she will assure, when necessary, liaison between the applicant and local public agencies, and if appropriate, check with environmental agencies prior to loan approval.

Relocation - Benefits from the RLF will be restricted to businesses located in the City of Middletown. Businesses relocating jobs from another labor area will not be considered eligible for RLF assistance. Businesses moving from the City prior to maturation of this loan will be required to pay the outstanding principal balance of the RLF loan within thirty (30) days.

Flood Hazard Insurance - Applicants that are locating in the local flood hazard zone will be required to provide written evidence of an active flood hazard insurance policy prior to consideration for assistance from the RLF.

Access for the Handicapped - Staff will review the proposed use of loan proceeds with the applicant and, if applicable, insure that plans for construction projects include the necessary elements for provision of accessibility to the handicapped under the American Disabilities Act (ADA).

Approved by the Common Council as amended April 6, 1998, May 3, 2004