Grand Forks Growth Fund
Staff Report

Growth Fund Committee – October 19, 2015
JDA – October 19, 2015

Agenda Item: EDARLF Plan Update

Submitted by: Meredith Richards, Planning & Community Development Deputy Director

Staff Recommended Action: Approve and authorize submission to EDA

Committee Recommended Action:

BACKGROUND:

An update of the JDA's plan for its Economic Development Administration Revolving Loan Fund (EDARLF) is due every five years. Following EDA guidance, the plan is now structured in two parts: strategy and operations. A preliminary draft was reviewed by the Growth Fund Committee at its September meeting, at which time substantive changes in the update were discussed. These included targeting the UAS industry and start-ups, and a policy to generally offer EDARLF funds at the lowest allowable interest rate. Since that draft was reviewed, a section on local business conditions has been added (pages 3-4), along with more detail on operational elements, including loan servicing and RLF administration (pages 12-13).

SUPPORTING MATERIAL:

- EDARLF Plan Update (final draft)

GRAND FORKS GROWTH FUND

ECONOMIC DEVELOPMENT ADMINISTRATION REVOLVING LOAN FUND

Plan, Policies & Procedures

2015-19 Plan Update
Adopted ________________ , 2015

ECONOMIC DEVELOPMENT ADMINISTRATION REVOLVING LOAN FUND

STRATEGY

OVERVIEW/BUSINESS DEVELOPMENT STRATEGY

Soon after Grand Forks' devastating 1997 flood and downtown fire, a variety of federal resources were provided to the community to assist in its disaster recovery efforts. One such resource was a $2,000,000 grant from the U.S. Economic Development Administration (EDA). This was matched with $222,223 in local funds, and Grand Forks' EDA Revolving Loan Fund (RLF) was established. The RLF is administered through the Grand Forks Growth Fund, a Jobs Development Authority (JDA). The disaster caused extensive damage to businesses and homes throughout Greater Grand Forks, which in turn caused significant economic dislocation and population relocation. The JDA's immediate strategy for the RLF was to offer post-disaster financial assistance so businesses could retain and create job opportunities for residents of the city and surrounding area.

While flood recovery was underway, another economic threat emerged: the prospect of closure of the Grand Forks Air Force Base. GFAFB ultimately remained open, but its missile wing, and later its air refueling wing, were deactivated, resulting in significant reductions in personnel and economic activity. This called attention to the vulnerability of having employment concentrated so heavily in a few sectors: agriculture, education, government (including the military), and health care. While these sectors offered continued growth and opportunity, there was added recognition of the need to diversify the local economy. Developing and implementing such a strategy required collaboration and cooperation among the economic development partners in the city and region. The JDA and the Grand Forks Region Economic Development Corporation (EDC) aligned their respective goals and objectives and directed funding – EDARLF and other – toward their achievement.

The goal of this unified effort was to assist businesses in the targeted economic sectors listed below that are starting up, locating, or expanding in Grand Forks and the surrounding region. The Grand Forks trade area is defined as an area extending to the Canadian border to the north, 35 miles to the south, and 115 miles in either direction to the east and west. Businesses that recirculate dollars within the Grand Forks trade area through the direct sale of consumer goods or services are generally not eligible for financial assistance.

- Businesses involved in aerospace, energy and environment, life science, and value-added food processing
- Businesses involved in data processing and/or communication, telecommunication services, software development, information processing, or commercialization of technology
- Manufacturers, remanufacturers, or processors of a raw material or base product
- Packagers, distributors, and assemblers of end products

The objectives of providing this economic support were to:

- create higher paying jobs;
- save existing jobs;
- create prosperity for owners, investors and employees;
- enhance the local property tax base;
- encourage capital investment; and
- diversify the local economy.

The strategy that evolved centered on four underlying principles:

1. fund a variety of proposals that collectively offer a mix of employment opportunities for all segments of the work force, with an emphasis on moderate- to high-level skills;
2. revolve JDA dollars and leverage them with other financing whenever possible and practical;
3. be flexible so that proposals can be tailored to an applicant's circumstances and needs while weighing the impact of the proposal on the local economy; and
4. provide a rapid response to proposals.

This overall approach remained relatively unchanged, albeit somewhat refined to reflect the growing Unmanned Aerial Systems (UAS) component of the aerospace industry. Ground was broken recently at Grand Sky, a 200+ acre UAS tech park at the Grand Forks AFB with Northrop Grumman as the first anchor tenant. Grand Forks County negotiated an Enhanced Use Lease with the USAF to lease and develop over 1 million s.f. of hangar, training and office space to support up to 2500 jobs.

Fueled partly by the regional economic energy industry boom, the Grand Forks economy has enjoyed positive recent employment growth. The Grand Forks Metropolitan Statistical Area felt the impact of the significant downsizing of the Grand Forks Air Force Base coinciding with the national recession: the region suffered moderate job losses beginning in mid-2007 and recovered to 2007 employment levels by mid-2011. Grand Forks did not keep pace with the state of North Dakota during the energy boom period, but growth has accelerated recently. From July 2013 to August 2015, employment in Grand Forks MSA was up 3.9%, compared to the state average growth rate of 3.6%.

The chief economic challenge in the region remains the need to diversify, particularly to increase the presence of firms exporting high-value services. The region's economy is still dominated by "Eds, Meds, and Feds": higher education, health care, and military/ government. Sectors with the highest concentrated levels of employment include agriculture production, government of all levels, utilities, retail, health care, and construction. The region's most under-represented sectors include information; finance and insurance; professional, scientific, and technical services; and managing headquarters offices. Due to improvements in information technology over the past two decades, these high-paying sectors are increasingly exported, qualifying them as primary sector industries. Grand Forks significantly lags the national average job levels in each of these sectors. As innovation creates efficiencies in many areas of the productive economy that have typically been the basis of primary sector economic development efforts, growing these high-value traded services sectors will be critical for the Grand Forks Region.

The local concentration of jobs in the manufacturing sector is 77% of the national average. Since 2007, the region's most competitive sectors for job creation have been construction and retail. Yet overall recent job growth is strong and the concentration of professional service is increasing. The region has remained fundamentally strong in the face of significant headwinds, and specific opportunities – such as autonomous vehicles and engineering services – are materializing. The region's young workforce is educated at above-average levels, it is a talent-producing region with two four-year universities in the MSA, and it is a fundamentally sound community that is family-friendly. These all position Grand Forks well for an investment strategy targeting high-value, high-tech, knowledge-based traded services.

Because of its role as a university community and regional center, Grand Forks will likely always carry high concentrations of government, retail, and health care employment. However, increased private-sector employment – particularly in high-paying, locally grown firms – will fill a critical gap needed to balance the economy and improve the lives of local residents.

Discussions have occurred about the role of JDA funds in expanding infrastructure needed by targeted industries as opposed to solely providing direct business assistance. In terms of the EDARLF, the approach has been that it is available to all the business sectors listed above, but will be targeted increasingly to start-ups and young "gazelles firms" who have passed the start-up phase but could benefit from gap financing. Research suggests that it is these gazelles that generate the majority of new jobs in any region. The EDARLF is positioned to help fill this critical funding gap in the Grand Forks region.

This is compatible with the *Region IV Comprehensive Economic Development Strategy, 2014-19.* This CEDS was developed by the Red River Regional Council, one of eight regional planning councils established across North Dakota in the 1970s. Region IV includes the counties of Pembina, Walsh, Nelson and Grand Forks. This gives the CEDS a significantly rural focus, and the problems and opportunities of smaller communities are not necessarily reflected in a regional growth center like Grand Forks. Still, the CEDS goal of long-term economic health and enhanced quality of life is relevant, and several identified objectives apply. The objectives stated in the CEDS are:

1. Further Diversify the Regional Economic Base
2. Improve Infrastructure Throughout the Region
3. Improve the Marketing of the Region's Tourism and Family-Friendly Amenities
4. Stabilize the Regional Population
5. Mitigate Impacts of Natural Disasters on the Region's Economy

FINANCING

The original strategy for the RLF was based on immediate disaster recovery assistance. As the local economy moved beyond that relatively short-term need, the strategy moved with it. RLF funds are now available to borrowers in targeted sectors (noted previously) that are starting up in, locating to, or expanding in Grand Forks County for temporary or permanent financing for a variety of uses: purchase of land; site improvements; construction, acquisition, and renovation of buildings; purchase and installation of machinery and equipment; inventory and other working capital.

Loan Policies

- RLF applicants are expected to pursue financing from private and/or other public entities. Borrowers must provide a signed bank "turn-down" letter demonstrating that sufficient non-RLF credit is not available for the proposed activity.

- No single loan may exceed $500,000 (25% of the EDA's $2 million initial capitalization).

- Interest rates cannot be less than 4% or 75 percent of the prime interest rate listed in the *Wall Street Journal,* whichever is lower. The EDA-mandated floor rate is currently 2.4375%, and has been so since late 2008. The JDA will generally offer RLF funds at the lowest possible rate; however, the JDA may, at its discretion and on a case-by-case basis, offer a higher rate.

- Amortization is generally based on use of funds: five years for working capital, ten years for equipment/machinery, fifteen years for real estate. There may be circumstances that merit significant ramp-up time; in such cases, repayment terms may include up to two years of interest-only payments. A balloon payment may be required before the end of the loan term at which time the note may be continued under the original terms, may be restructured, or may be called.

- Borrowers are normally expected to provide a 10% minimum cash or in-kind equity contribution as a means to generate more capital for the project as well as provide a commitment from the borrower.

- The RLF must maintain a minimum ratio of $2 in private financing for every $1 in RLF financing for its overall portfolio. This minimum ratio will apply to individual borrowers unless a valid rationale is demonstrated.

- Loans will be collateralized by assets and security positions deemed appropriate by the JDA. When offered as collateral, appraisals are required for land and buildings and may be required for equipment, machinery, and furniture and fixtures if values are questionable. The JDA may also require guaranties from the company and any of its principals and their spouses.

- No loan will be made for any of the following uses as prohibited by 13 CFR 307.17(b):

  (1) Acquire an equity position in a private business;

  (2) Subsidize interest payments on an existing RLF loan;

  (3) Provide borrower-required equity contributions under other federal loan programs;

  (4) Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF;

(5) Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit or any investment unrelated to the RLF; or

(6) Refinance existing debt, unless

(i) a "sound economic justification" for the refinancing is demonstrated (e.g., the refinancing will support additional capital investment intended to increase business activities); or

(ii) RLF capital will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan.

Ultimately, each loan request will be reviewed and structured based upon the need for financing, the desirability of the project to the community, its consistency with JDA goals, the relative risk involved, and the growth potential of the firm. The following factors will be considered in evaluating requests for RLF funds:

- Is the request consistent with the RLF Plan?
- Does the proposed use of the RLF capitalize on regional assets?
- Does the proposed use support innovation and productivity in a targeted sector?
- Is the borrower a start-up or does the loan further entrepreneurial activity?
- To what extent will the borrower maximize private investment that would not otherwise come to fruition without the RLF's investment?
- Will the proposed use create or retain higher-wage jobs?

OPERATIONAL PROCEDURES

ORGANIZATIONAL STRUCTURE

The Grand Forks Growth Fund is the City's primary financing mechanism for economic development. The Growth Fund was established in 1987 with a portion of a 1% local sales tax. In 1995, the Growth Fund was incorporated under North Dakota Century Code as the Grand Forks Growth Fund, a Jobs Development Authority (JDA). JDA resources are typically derived from city sales tax, leases and loan payments, including the Economic Development Administration Revolving Loan Fund (RLF). It is governed by a board composed of the seven-member Grand Forks City Council and the Mayor. Advising the JDA is the Growth Fund Committee, composed of three City Council members and two members of the board of the Grand Forks Region Economic Development Corporation (EDC). Growth Fund Committee appointments are subject to approval by the Grand Forks City Council. The JDA and Growth Fund Committee are staffed by the City's Planning & Community Development and Finance Departments. All requests for RLF funding are subject to a public hearing, and approval requires a majority vote of the JDA at a duly noticed public meeting.

The Grand Forks Region Economic Development Corporation provides the "deal-making" component of the Growth Fund, and markets the RLF to client businesses as appropriate. Incorporated as a 501 (c)(6) non-profit organization in 1988, the EDC's mission is to

- recruit and retain businesses that bring new wealth into the community
- support workforce training and recruitment initiatives
- market the region's economy to potential clients
- educate and inform region's residents about economic development activity and results
- coordinate local and state resources to customize support to companies considering expansion or relocation in the region

The EDC is funded by the City of Grand Forks, Grand Forks County and private sector member companies across the region. The EDC's operational and strategic oversight is provided by an eleven-member board of directors representing the local business community and city and county government.

Loan Application and Approval Process

Applications typically originate through contact with EDC staff, who work with the applicant to develop and package a viable proposal/project. EDC staff meet with the applicant to ensure the business, proposed financing structure and use of funds are consistent with the JDA's EDARLF policies. The EDC also provides an overview of other local and state support programs that are available to the business for their planned project. The EDC works with the prospective borrower and lead lender to ensure the application and required submittals provide a comprehensive financial request to the JDA, and also to ensure the applicant is aware of the federal regulatory and statutory requirements associated with RLF assistance. The applicant and its commercial lender then submit a "Business Financing Application" (attached). This application is used for all funding requests made to the JDA, and includes: a description of the business, the proposed project and related employment projections; the financing proposed, including sources and uses, collateral and equity descriptions. Cost estimates and asset valuations must be documented. Required attachments include financial statements, pro formas and, in the case of RLF requests, a turn-down letter from a lender.

The application is first reviewed by the EDC board of directors. Acting in an advisory role, the EDC board reviews the request to ensure the applicant meets the community's targeted business criteria and then provides a recommendation on whether the Growth Fund Committee should consider the financing request. Following a positive recommendation, EDC staff forward the application materials to the City's Planning & Community Development Dept. City staff review the application for completeness and feasibility, and develop a staff report that includes business background information, loan analysis including consistency with the JDA/RLF goals and policies, and summary of terms. Appraisals may be required as appropriate. If the proposal includes using RLF proceeds for site acquisition or construction, the City's Construction Compliance Officer will visit the site and begin preliminary environmental review procedures. If the preliminary review shows any likelihood of a significant adverse environmental impact , no action will be asked of the JDA until staff has addressed any such concerns with the applicant; any identified environmental concerns will be noted in the staff report.

The application is then placed on the next Growth Fund Committee agenda. The Growth Fund Committee typically meets on the third Monday of each month at duly noticed public meetings. The applicant, EDC and City staff jointly present the application and staff report, including terms and conditions of assistance, to the Committee for review and discussion. Growth Fund Committee action is by majority vote of a quorum (three or more members). An application receiving a positive recommendation from the Growth Fund Committee is forwarded to the JDA for final action; applicants receiving a negative recommendation may appeal the Committee's decision to the JDA but only positive recommendations are moved forward.

The JDA meets as needed, typically meeting on the first Monday of the month. Prior to taking action on any request for financial assistance, the JDA holds a public hearing on the request. Public hearing notices are published in the *Grand Forks Herald* a minimum of three days prior to the scheduled public meeting. Following the public hearing and presentation of the request by staff and the applicant, the JDA takes final action. Approval requires a majority vote of a quorum (five or more members). JDA decisions are not subject to appeal.

It is the policy of the City of Grand Forks and the JDA to maintain the highest standards of conduct to prevent conflicts of interest in any actions taken by its officers, employees, representatives, board members or elected officials. A conflict of interest generally exists when an "Interested Party" participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests. A conflict may also exist where there is an appearance that an Interested Party's objectivity in performing his/her responsibilities is impaired. Additionally, a conflict of interest may result from non-financial gain to an Interested Party, such as benefit to reputation or prestige in a professional field. To avoid conflicts of interest and to ensure that no Interested Party benefits directly or indirectly from any action taken regarding using of RLF funds, the provisions of 13 CFR 302.17 and Part II-D of the EDA's Revolving Loan Fund Standard Terms and Conditions will be strictly followed.

Loan Processing

Following JDA approval of an EDARLF request, City Planning & Community Development (PCD) Department staff will initiate the JDA loan disbursement protocol and complete a NEPA-compliant environmental review. Environmental review is handled by the PCD's Construction Compliance Officer. This position also manages the NEPA reviews associated with the City's HUD-funded projects, including floodplain management, wetlands, Section 106 (historic preservation), hazardous materials, as well as federal procurement and labor requirements, so extensive experience and local knowledge are brought to this process. As noted above, a preliminary environmental review is meant to ensure that projects will not be approved by the JDA unless and until a project is found to be categorically excluded or a finding of no significant impact is anticipated. Following JDA approval, the final environmental review is completed and filed. If a significant impact is ultimately determined and cannot be successfully mitigated, the JDA will be notified. Under no circumstances will RLF funds be disbursed until NEPA compliance is documented.

Other than the environmental review component, processing RLF loans generally conforms to the protocol for other JDA loans (see Appendix for checklist): Following JDA approval, PCD staff prepares a term sheet for review and signature by the applicant. This summarizes the terms approved by the JDA and ensures a “meeting of the minds” between lender and borrower. Upon receipt of the signed term sheet from the borrower, PCD staff will ultimately prepare standard loan documents as shown in the table below. As appropriate, title searches will be reviewed prior to preparation/execution of loan documents, and subordination agreements will be prepared when applicable. All security instruments will be recorded immediately following loan closing. Standard documents are required as follows (see Appendix for templates):

Standard Document	**Type Loan**		
	Real Estate	Machinery/FF&E	Working Capital
Loan Agreement	x	x	x
Promissory Note	x	x	x
Amortization Schedule	x	x	x
Mortgage	x		
UCC Financing Statement		x	
Personal/Corp. Guaranty	JDA discretion	JDA discretion	JDA discretion

Disbursement/Servicing

Following execution of required loan documents, funds may be disbursed; under no circumstances will RLF funds be released prior to receipt of fully executed copies of all loan documents. Disbursement mechanism and timing are dependent on the use of funds. Funds used for construction will generally be disbursed as monthly progress payments based on contractor pay requests received and verified by the Construction Compliance Coordinator. Lien waivers will be required prior to releasing funds and a retainage may be withheld to ensure compliance with final inspection and reporting requirements (e.g., labor reports). Funds for purchase of equipment will be disbursed upon receipt of an invoice that details the items purchased and their cost. Funds for acquisition of real estate will be disbursed following review of a settlement statement prepared by a third party closing agent or the City Attorney’s office.

Each RLF loan is assigned a unique "3000 series" loan number. Once a loan has closed, it is set up in the City's GMS loan management software and entered in the general ledger. GMS generates invoices for payment in accordance with the promissory note, flags late payments, and also acts as a tickler for ongoing monitoring or special requirements. Borrower job creation projections are entered in GMS and subsequently tracked annually through North Dakota Job Service.

When the loan is entered in GMS, the checklist is reviewed to ensure the project file is complete. Along with the checklist, a complete application, approval documents (staff reports and minutes), copies of JDA and commercial loan documents, and relevant correspondence are filed in the project binder; original JDA loan documents are filed in a separate binder in the vault. The project binder is updated throughout the term of the loan to reflect post-closing correspondence and monitoring.

PCD staff receive RLF payments and enter them into GMS. After PCD staff enter a payment in GMS, it is coded for appropriate journal entries and submitted to Finance staff for deposit. As stated in the promissory note, if a payment is more than 10 days late, a late fee of 5% of the late amount is assessed, with a minimum charge of $25 and a maximum of $250. No other fees, such as loan origination or application fees, are charged.

Borrowers with loans 30 days past due will receive a letter and follow-up phone call from staff. In the event a borrower's payment exceeds 60 days past due, staff will seek a meeting with the borrower. If a delinquency extends 90 days and cannot be resolved through restructuring or other method approved by the Growth Fund Committee and/or JDA, it is declared in default and is turned over to the City Attorney for collection. If the City Attorney advises that all reasonable collection options have been exhausted, staff will recommend that the JDA write off the loan as uncollectible; however, the JDA will retain any and all rights to enforce liens and judgments on such loans. If payment is received on a defaulted EDARLF loan, it will be applied as required by 13 CFR 307.20.

As the need arises, staff will work with borrowers who seek to restructure existing RLF loans. Significant amendments to loan terms will be considered if the borrower can demonstrate that approval is necessary to the borrower's continued ability to repay the loan or avoid default. Any of the following requests is considered a significant amendment; amendments to loans of less than $100,000 must be approved by the Growth Fund Committee; amendments to loan of $100,000 or more must be approved by the JDA.

a) Additional RLF funding;

b) Change in repayment schedule or monthly payment, including moratorium of up to 12 months;
c) Interest rate change;
d) Write-off of principal, interest or other fees;
e) Change in priority of collateral;
f) Other concessions considered to be material.

RLF Administration/Assessment

Financial administration of the EDARLF is largely the role of City Finance Department staff, who monitor JDA finances and ensure that the JDA and the RLF operate in accordance with generally accepted accounting principles (GAAP) and comply with audit requirements. The full value of the RLF is included on the City's Schedule of Federal Expenditures. Should the dollar amount of the RLF qualify it as a major federal program, the Finance Dept. ensures that auditors performs the required federal audit procedures. A separate cash account is maintained to keep RLF dollars separate from other JDA funds; when necessary, sequestered funds are placed in a separate interest-bearing account, and the interest earned on that account is remitted to EDA quarterly. Sequestration of funds may be required if the capital utilization rate falls below 75% in two consecutive reporting periods.

Income from RLF lending activities will be used to cover reasonable and necessary costs associated with its administration; excess RLF income will be added to the capital base. PCD and Finance staff payrolls are monitored to ensure they are appropriately allocated and charged against RLF income vs. other JDA or City funds.

Required federal financial reports, including the RLF Semi-annual Financial Report and Income and Expense Statement (ED-209 and ED-209I), are prepared by Finance staff. The semi-annual reports are then provided to the Growth Fund Committee and the JDA for review and approval prior to submission to EDA. This ensures that the performance of the RLF is assessed at least twice a year, at which time any issues with overall RLF compliance can be raised and associated policy changes can be discussed. The EDARLF plan, policies and procedures are updated as needed, but no less than every five years. This plan update incorporates measures intended to improve awareness of the EDARLF by area lenders, increase its attractiveness to potential borrowers and, ultimately, improve its utilization rate.

APPENDIX

- Business Financing Application
- EDARLF Loan Checklist
- Loan document templates