

KANDIYOHI COUNTY AND CITY OF WILLMAR ECONOMIC DEVELOPMENT COMMISSION (EDC)
FINANCE COMMITTEE
MINUTES
November 20, 2019
EDC Board Room, Willmar

Present: Matt Behm, Nick Dalton, Travis Jones, Les Nelson, Jeff Welker and Randy Zinda

Excused: Kerry Johnson and Justin Schnichels

Guests: Karen Acker; and Lucas Theis, Commercial Banking Officer, Central Minnesota Credit Union, Paynesville

Staff: Aaron Backman, Executive Director and Connie Schmoll, Business Development Manager

Secretarial: Diane Beck, Legal & Administrative Assistants, Inc.

Chairperson Matt Behm called the meeting to order at approximately 12:00 p.m.

MINUTES—Chair Behm presented the minutes of the May 21 and September 10, 2019 meetings.

IT WAS MOVED BY Les Nelson, SECONDED BY Nick Dalton, to approve the Minutes of the May 21 and September 10, 2019 meetings as emailed. MOTION CARRIED.

Loan Presentation by Glacial Ridge Winery. Connie Schmoll introduced Lucas Theis, Commercial Banking Officer with Central Minnesota Credit Union in Paynesville. Theis reported he has been working with Karen Acker and Scott Bedell since October on securing financing to purchase Glacial Ridge Winery, Inc. Theis shared the current owners purchased the 17-acre business approximately 12 years ago and have greatly invested in the property by making improvements to the large pole building and other amenities. It is the only winery in Kandiyohi County and an asset to the New London/Spicer area. There have been other parties interested in the property; however, Acker and Bedell are the only interested parties who plan to keep the business as a winery and the current owners would like it kept as a winery.

[Acker joined the meeting from Nebraska via Zoom video conference.]

Acker provided a brief bio; she has been a real estate agent for approximately 10 years and for the past two to three years has been interested in having her own business. She and Bedell have made four trips to Glacial Ridge Winery and visited with the current owners. They have been able to assist in the wine making process and bottled over 1,000 bottles of wine. Acker stated the current owners have done an outstanding job with the winery and it has been an asset to the community. Acker shared her vision and plans for the winery. The first goal is to insulate the large pole building in order to hold year round venues, i.e., corporate events and wedding receptions. They also may offer outdoor weddings in the apple orchard in warmer months. Acker has visited with Leslie Valiant, Spicer's City Administrator, regarding upcoming winter events and will also speak with Trudie Guptill, New London's City Administrator. Schmoll pointed out the amount of research done by Acker. Backman inquired what drew Acker to the winery business. Acker commented it is mainly the opportunity to be around people, create a pleasing atmosphere and

develop relationships with guests. Acker stated she will spend 100% of her time at the winery and Bedell approximately 30%. Bedell will assist with wine making during slower times of the year. Acker reported at least two current employees will stay at the winery.

The loan application is for \$25,000 from the EDC's Revolving Loan Fund for equipment, furniture and fixtures. Acker and Bedell will provide \$67,500 in cash. The Southwest Initiative Foundation (SWIF) has committed to a \$50,000 loan and will apply for a \$50,000 veteran and woman-owned business loan through the Minnesota Department of Employment and Economic Development (DEED). If the DEED loan is not approved, SWIF will provide financing of \$100,000. Acker noted Bedell is a 20-year Navy veteran currently working for the Nebraska Veterans Administration (VA) and provided an overview of his duties. He has contacted the St. Paul VA regarding employment and has received positive information on job openings. He is hoping to transfer from the Nebraska VA to the Minnesota VA. Theis noted paperwork has been submitted to the St. Paul VA for Bedell's transfer.

The committee discussed the loan application. Acker will be working to obtain or transfer her real estate license to Minnesota, which will increase their income. Acker reported she started a home flipping business, Rough Diamond Homes, approximately six years ago, which has been very successful and she understands how to run a business. Acker stated her home is on the market and she expects it to sell quickly. They plan to purchase the current owners' home with Bedell holding the mortgage. Theis commented there will be two separate parcels and noted the sale of Acker's home may result in a profit.

Theis indicated the winery has been on the market for over a year and felt revamping the pole building will result in a profit increase.

[Theis and Acker were excused from the meeting.]

Discussion on the loan application continued, including seller participation in the financing.

IT WAS MOVED BY Randy Zinda, SECONDED BY Les Nelson, to recommend to the Kandiyohi County and City of Willmar Economic Development Commission (EDC) Joint Operations Board that it approve a \$25,000 loan from the EDC's Revolving Loan Fund Program to Karen Acker and Scott Bedell for equipment, furniture and fixtures for their purchase of the Glacial Ridge Winery, Inc., with a five-year amortization, interest at 6% and a third security position after Central Minnesota Credit Union and Southwest Initiative Foundation. This approval is subject to receipt of an appraisal and the seller providing carryback financing of \$50,000. MOTION CARRIED.

Schmoll will visit with Theis as to the seller's participation.

UNFINISHED BUSINESS

Neighborhood Development Center Update. Schmoll provided an update on the Neighborhood Development Center (NDC), a nonprofit organization that provides training, technical assistance, loan funds and real estate (see attached). Schmoll and Scott Marquardt of SWIF viewed an NDC training session in South Minneapolis and were impressed with the quality of the training materials, professionalism of the

instructor and the commitment and eagerness of the entrepreneurs to learn and complete the tasks involved. They will continue to investigate the NDC program and may bring it before this committee in the future.

Guarantee Percentage under Entrepreneurs' Loan Guarantee Program. Backman reviewed the EDC's current ELGP loan program. Currently, the EDC's maximum guarantee is 80% and the Small Business Administration's maximum guarantee is 75%. Chair Behm stated the committee would prefer 85%.

IT WAS MOVED BY Nick Dalton, SECONDED BY Les Nelson, to change the Kandiyohi County and City of Willmar Economic Development Commission's guarantee percentage under the Entrepreneurs' Loan Guarantee Program from 80% to 85% on loan requests over \$25,000. MOTION CARRIED.

Development of a Manual for Willmar Area Multicultural Microenterprise Loan Program. Backman provided background on the EDC taking over the Willmar Area Multicultural Business Center assets and loans. The committee reviewed a Draft Manual for the Microenterprise Loan Fund (see attached), which was drafted based on the Revolving Loan Fund program manual. Backman noted the manual will need to be adopted by the EDC Joint Operations Board and the EDC Joint Powers Board.

IT WAS MOVED BY Les Nelson, SECONDED BY Nick Dalton, to adopt the Microenterprise Loan Fund Manual as presented and recommend to the Kandiyohi County Economic Development Commission's Joint Operations Board that it also adopt the manual. MOTION CARRIED.

Backman stated the microenterprise loan fund balance is approximately \$65,000.

NEW BUSINESS

Coffee and More request for interest-only payments. Schmoll shared due to equipment repairs, Coffee & More requested interest-only payments on the EDC's loan for six months. Schmoll reported due to time constraints, the EDC Joint Operations Board approved the request at its November 14th meeting.

ADJOURNMENT—

IT WAS MOVED BY Randy Zinda, SECONDED BY Les Nelson, to adjourn the meeting. MOTION CARRIED

The meeting was adjourned at approximately 1:13 p.m.

NEXT MEETING—The next regular committee meeting is **12 noon, Tuesday, December 10, 2019** at the EDC office.

Neighborhood Development Centers

I was introduced to the Neighborhood Development Centers (NDC) in early 2018. This program uses a four step approach to assisting entrepreneurs that have a great business idea and/or skills or experience in a certain business idea but lack capital to invest or otherwise have barriers to starting a business. The four pillars of assistance include:

1. Training
2. Technical assistance
3. Loan funds, and
4. Real estate.

Mihailo Temali, founder and CEO of the Neighborhood Development Center in St. Paul contacted me again in September to inquire about moving forward on establishing a program in Willmar. He had staff forward a training schedule so I could attend a Mpls/St. Paul area training for new business entrepreneurs to assess the curriculum and process used there. In addition, Mr. Temali reported that state funds are available for us if we decide to start a program. With a 30% match of local funds we would be able to access \$6,000 for training purposes; \$7,500 for lending or loan guarantee, if mixed with technical assistance for the business; and \$7,500 for the technical assistance portion of the program. Mr. Temali has requested to meet with the EDC and Southwest Initiative Foundation to further discuss the program. The philosophy of the Neighborhood Development Program closely matches that of the WAM-BC funds we have acquired; lower interest rates, businesses that may be un-bankable, training is provided in business management, and more advocacy and support is offered during the early stages of the business start-up.

On Thursday, October 17th, Scott Marquardt of SWIF and I were able to view a NDC training session in South Minneapolis. This was the 4th class in a series of 12 classes for the participants. We were impressed with the quality of the training materials, the professionalism of the instructor and the commitment and eagerness of the entrepreneurs to learn and to complete the tasks involved. There were 7 women involved representing a variety of business plans including a boutique, hair design studio, Asian/gluten free restaurant, construction company, senior home assistance and others.

The program would be an asset to entrepreneurs in our ethnic business communities and for low income potential business owners. Scott and I would like to further plan for some type of Neighborhood Development Center for Willmar and possibly the surrounding area. We will further investigate how other such centers are funded and the contract expectations to secure a program for our area.

Microenterprise Loan Fund

DRAFT MANUAL



Adopted by EDC Finance Committee
Adopted by EDC Joint Operations Board
Ratified by EDC Joint Powers Board

Introduction

A Microenterprise Loan Fund was established by the former Willmar Area Multicultural Business Center and is now owned by the Kandiyohi County and City of Willmar Economic Development Commission (EDC) and administered by its Finance Committee (Committee). The Microenterprise Loan Fund is intended to be a permanent loan fund where money is available for new loans on a continuing basis as loans are repaid.

The purpose of the fund is to provide alternative (gap) financing to for-profit businesses to promote job retention, job creation and the stimulation of private investment in an effort to strengthen and diversify the economy and the tax base of Kandiyohi County. Loans will serve as matching funds to create up to 100% leverage project financing with other borrowing sources to assist existing or new businesses meeting the program eligibility. Loan money is intended to complement, not replace, existing local development and private financing efforts.

Definitions

BORROWER must be a for-profit business in Kandiyohi County. Said business shall be identified per the North American Industry Classification System (NAICS).

COMPLETE APPLICATION shall include: form completed as provided by the EDC and all items described in Application Content.

LENDING INSTITUTION is any financial institution in Kandiyohi County or located outside Kandiyohi County doing business with a company located or expanding in Kandiyohi County.

NON REAL ESTATE LOAN is any secured loan, except real estate, with a maturity greater than 1 year but not more than 5 years, which is on an amortizing schedule and repays from cash flow. The need and economic reasonableness of the loan must be firmly established. The term of the loan must not exceed its economic purpose.

MICROENTERPRISE LOAN FUND LOAN is a loan used for the primary purposes of purchasing equipment, working capital, purchasing or expanding an existing facility or constructing a new facility in Kandiyohi County.

Loan Guidelines

1. Applicants must be for-profit businesses located in Kandiyohi County, meet the eligibility guidelines of the program, and be in an eligible industry category under the Small Business Administration (SBA) guidelines.
2. Applicants must have adequate collateral and cash flow to service the debt and show additional lending to meet up to the 100% leverage guidelines.
3. The Committee shall recognize that adequate collateral is not a primary consideration in approving loans.
4. Applicants must provide a minimum of 10% owner equity as part of the 100% leverage guidelines. EDC participation not to exceed 50% of total project.
5. Applicants must provide with their application a personal credit report for principal owner(s) with 20% or more ownership.

Loan Terms

1. Minimum amount of loans—\$2,500
2. Maximum amount of loans for one borrower—\$20,000
3. The loan term shall be no less than one year and may be negotiated up to five years based upon the productive life of the assets.
4. EDC will take a security interest position in any equipment or real estate financed.
5. EDC will require personal guaranties of the applicant(s).
6. EDC will accept subordinate position loans.
7. The Microenterprise Loan Fund's collateral must be adequately insured.
8. Recipients will be charged a 1% loan origination fee plus all costs associated with the loan.

Disbursement of Funds

The borrower will sign all loan documents before funds are disbursed. Loan funds must be fully disbursed within 90 days from the date the loan is approved by the EDC Joint Operations Board of Directors.

Administration

1. The administration and operation of the Microenterprise Loan Fund program will be the responsibility of the Committee. The Committee will present all loan applications for final approval to the EDC Joint Operations Board of Directors.
2. The Committee will operate within the guidelines stated in this document.
3. Loan applications should be submitted to the EDC office, 222 20th Street SE, P.O. Box 1783, Willmar, MN 56201.
4. The Committee will advise the EDC Joint Operations Board of Directors of its activities quarterly.
5. The Committee may contract with the financial institution that originates the loan to service the loan.
6. The Committee will invest all available funds in short-term investment financial instruments. These funds will be deposited in a local financial institution in an effort to provide funds for commercial bank loans.
7. If a financial institution services the loan, it will receive the interest as its fee.
8. Because of the nature of the information that will be considered in the administration of the Microenterprise Loan Fund, the meetings of the EDC Finance Committee will be open to Committee members, the involved lending institution and affected business parties only.
9. Because of the potential for conflicts of interest in the loan decision process, any Committee member who has a potential conflict of interest in a loan request is required to reveal their position to the full Committee. The Committee member with the conflict will be allowed to assist in the application process and participate in the discussion of the loan request, but will abstain from the motion and voting on the motion to approve or reject the loan.
10. The Committee will not participate in the application process.
11. The Committee will not approve incomplete applications.
12. The Committee will recognize the increased risk associated with lower equity levels and will not recommend for approval loans that it believes do not provide sufficient cash flow opportunities to support repayment of the obligation.
13. Applications that have the potential to create up to 100% leverage project financing must be based on the appraised market value of the property.

14. The participating bank shall provide to the EDC quarterly reports.
15. The Committee will review annually the information from the participating banks about the Microenterprise Loan Fund loans.
16. It may be necessary for the Committee to review periodically and modify its policy for loans in response to changing money market conditions, portfolio structure and local market conditions.

Interest Rate and Repayment Terms

The interest rate will be fixed and shall be at a rate no less than 3%. The interest rate will be computed as simple interest and will be fixed for the term of the loan. All loans will be structured to fully amortize over the term of the loan. Borrowers will be required to set up automatic payments from their bank account for the monthly loan payments under this program.

Application Content

Borrower shall provide a completed Application form as provided by the EDC, which shall include the following items:

1. A business plan, including:
 - a. History of the business
 - b. Market analysis and strategy
 - c. Products
 - d. Manufacturing process; and
 - e. Financials (including those designated below)
2. Business organization documents, including Articles of Incorporation, Bylaws and Certificate of Incorporation.
3. Certificate of Good Standing (obtained for corporations from Secretary of State) or Certificate of Assumed Name, if applicable.
4. Federal tax returns filed by the business for the past 3 years (unless in business less than 3 years).
5. Income statements and balance sheets from the past 3 years plus current within 90 days (unless in business less than 3 years).
6. Current debt schedule as outlined in the Application form.
7. Current detailed accounts receivable and accounts payable listing including an aging.
8. Income and cash flow projections for the next 2 years. [The projection must show a positive cash flow after one year.]
9. A detailed expense budget for the project showing how the requested funds would be spent and during what time periods. The budget should make clear how the major elements of expense were estimated. Applicant(s) should specify when the loan is desired and in what amount.
10. Personal credit report for each principal owner.
11. Statement of source of equity for the project, and how it will be obtained and appraised.
12. Commitment letter regarding any financing the applicant's lending institution will provide for the project.
13. Signed personal financial statements dated as of the date of application for principal owner(s) with 20% ownership or more.