



SURVEY OF ECONOMIC DEVELOPMENT PROGRAMS IN MICHIGAN

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CITIZENS RESEARCH COUNCIL OF MICHIGAN

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LOANS

Federal Small Business Administration Loans
Freight Economic Development Program
Rail Loan Assistance Program
Site Assembly and Clearance Fund
Urban Land Assembly Program

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FEDERAL SMALL BUSINESS ADMINISTRATION 504 LOAN PROGRAM

Statutory Citation

15 U.S.C. 697e

Program Description

A small business loan program administered by the United States Small Business Administration (SBA) in the Department of Commerce through Certified Development Companies (CDCs), non-profits and regionally focused, public/private organizations certified by the Small Business Administration.

Eligibility and Benefits

For-profit corporations, partnerships or proprietorships with a net worth of less than \$7.5 million and an average net profit after tax of less than \$2.5 million for the past two years are eligible. In addition, the small business applicant must be the user of the fixed assets being financed. Loans typically range between \$250 thousand and \$10 million.

Borrowers must have an existing cash flow from business operations greater than the debt service needed to pay both existing debt and debt resulting from the proposed loan, and sufficient collateral to secure the loan. In certain cases, the SBA 504 program will finance start-up businesses. Loans cannot be made to passive income and real estate companies, financial institutions and nonprofit businesses.

Borrowers must create or retain one new job for each \$50 thousand of debenture (credit guarantee) (or \$10 thousand for manufacturing). Projects that have low job creation, but achieve SBA public policy goals, may be considered.

Terms and Performance Guarantees

Eligible Purposes

Proceeds from 504 loans must be used for fixed asset projects such as: purchase of land and buildings or machinery and equipment with a useful life of at least ten years, land improvements, renovation or additions to existing buildings, and leasehold improvements.

Terms

Loan terms are offered for 10 or 20 years, depending on the type of assets financed, with the requirement that the useful life of the assets must equal or exceed the loan term. The participating private lender's loan must carry a minimum term of 7 years for projects involving machinery and equipment acquisition only, and 10 years for projects involving real estate financing.

Structure

The typical loan structure consists of a 50/40/10 financing split between the senior private sector lender or bank (50 percent of financing), an SBA Certified Development Company backed by 100 percent SBA guaranty (40 percent of financing), and an equity contribution from the borrower (10 percent). Maximum SBA debenture (credit guarantee) is \$1.5 million for general projects, \$2 million for projects that achieve an SBA public policy goal, or \$4 million for manufacturing firms.

Fees

A onetime processing fee equal to 2.75 percent of the loan for 20-year loans (2-5/8 percent for 10-year loans), and legal fees of \$2,500 are built into the actual loan amount and are financed over the term of the loan. A onetime participation fee equal to 1/2 percent of the bank's senior loan is due at closing. An

ongoing servicing and SBA fee on the declining loan balance is built into and included in the effective loan interest rates.

Other Specifications

The interest rate is fixed and is generally below market rates. The participating private lender's loan may be fixed or variable with a rate that is legal and reasonable.

SBA 504 loans are typically secured by a lien on fixed assets acquired with loan proceeds to reasonably assure loan repayment. The lien is subordinate to the private lender's position. In addition, the SBA requires personal guarantee(s) of the principal(s) who own 20 percent of the business.

Data and Source

According to the SBA Michigan District Office's Annual Report for Fiscal Year 2005, 189 loans for \$114,474,000 were approved, representing a 30 percent increase over Fiscal Year 2004. These loans were expected to create more than 2,000 new jobs.

Michigan SBA District Office:

477 Michigan Avenue, Room 515
Detroit, Michigan 48226
p: (313) 226-6075 f: (313) 226-4769
michigan@sba.gov
www.sba.gov/mi

Michigan Certified Development Companies:

Economic Development Foundation-Certified, Grand Rapids (888) 330-1776

Growth Finance Corporation, Howard City (231) 924-7461

Lakeshore 504 - South Office, Holland (616) 392-9633

Lakeshore 504 - North Office, Grand Haven (616) 846-3153

Metropolitan Growth and Development Corporation, Detroit (313) 224-0820

Michigan Certified Development Corporation, Lansing (517) 886-6612

Oakland County Business Finance Corporation, Pontiac (248) 858-0879

SEM Resource Capital, Livonia (734) 464-4418

SEM Resource Capital, Holland (616) 396-8591

Discussion

The SBA 504 program provides loan guarantees from the United States government to local participating lenders. The Small Business Administration offers many other types of small business assistance, which may be found on their Web site at www.sba.gov. Michigan Small Business & Technology Development Centers (see *Appendix E*) and satellite offices throughout the state can offer more information on available SBA programs.

The U.S. Economic Development Administration (EDA), also in the Department of Commerce, offers a broad set of federally-sponsored local economic development programs, which are found on their Web site at www.doc.gov/eda.

FREIGHT ECONOMIC DEVELOPMENT PROGRAM

Enabling Legislation; Statutory Citation

1951 PA 51 (original appropriation); 1976 PA 295; M.C.L. 474.67

Summary Program Description:

Administered by the Michigan Department of Transportation, the Freight Economic Development Program finances projects that assist in the development of rail spurs and connector systems to improve the delivery and flow of rail commerce to applicant private sector concerns.

Eligibility and Benefits

Businesses, or local units on behalf of businesses, may apply for a forgivable loan, for up to 50 percent of eligible project costs associated with rail infrastructure improvement that facilitate economic development. Other private sector concerns related to rail shipping and receiving, such as silos or unloading devices, are not eligible.

Though technically a loan program, the Freight Economic Development Program allows loan amortization over a designated period of years so long as the infrastructure is properly maintained and projected carloading commitments are met.

Terms and Performance Guarantees:

Priority is given to projects that anticipate multiple users or future public use; other considerations are expected job creation or retention, projected carloadings, local economic impact, total investment, relative project costs and the feasibility of transportation alternatives. MDOT accepts applications throughout the calendar year. The State Transportation Commission and the State Administrative Board must also approve all forgivable loans, which generally takes about 60-90 days from receipt of application.

Loan terms include financing, at two percent less than the current prime rate, for up to 50 percent of allowable project costs, generally defined as the rail infrastructure itself.

Data and Source:

According to the Michigan Department of Transportation, \$1.2 million was provided for project funding in 2006. The amount of funding available is based upon annual appropriations and competing priorities. Funding decisions are based upon exhibited needs and anticipated benefits.

From 1995 to 2006, the Freight Economic Development Program funded 36 projects, which represents over \$14 million in state investment. The program contributed to the creation and/or retention of an estimated 3,100 jobs, and generated close to 90,000 annual carloads.

Discussion:

A companion rail program, the Rail Loan Assistance Program, is discussed on page 34.

RAIL LOAN ASSISTANCE PROGRAM

Enabling Legislation; Statutory Citation

1996 PA 341 (original appropriation); 2002 PA 747; M.C.L. 474.65a

Summary Program Description

Administered by the Freight Services and Safety Division of the Michigan Department of Transportation (MDOT), the Michigan Rail Loan Assistance Program (MiRLAP) offers interest free loans to help preserve and improve Michigan's freight rail infrastructure.

Benefits and Eligibility Criteria:

Ten-year, no-interest loans are available to railroads, local governments, economic development corporations and current or potential users of freight railroad services for qualifying projects that help preserve or improve railroad infrastructure in Michigan. Qualified projects include, but are not limited to, track rehabilitation, bridge and culvert repair and construction of the rail portion of a transload facility. Loans may also be used to acquire rail property and to provide a nonfederal match for any federal rail infrastructure program.

MiRLAP is a competitive program; MDOT conducts an annual call for projects. Applications submitted during the call for projects must be for work scheduled for that construction season. Projects are evaluated using selection criteria, which are designed to determine the relative importance of projects in relationship to the program's goal of preserving and improving Michigan's rail freight infrastructure.

Terms and Performance Guarantees

Successful applicants can receive loans that fund up to 90 percent of eligible project costs. The loan recipient must provide a funding match of 10 percent of eligible project costs; expenditure of the funding match is required before state funds may be drawn down. Loans are non interest-bearing, and the loan repayment period may not exceed 10 years.

Loans are limited to \$1 million per project, per applicant. Applicants must demonstrate ability to repay the loan and provide one or more forms of collateral, e.g., an irrevocable letter of credit or first lien on assets. All loans must be approved by the State Transportation Commission and the State Administrative Board, which generally takes 60-90 days after applications are evaluated. Applications are due in February.

Data and Source

According to MDOT, approximately \$2.5 million will be available for project funding in 2007. Since its inception 10 years ago, the state has invested over \$15 million in loans to help fund 34 rail infrastructure projects throughout the state. These projects continue to bolster Michigan's economy and improve railroad safety.

Discussion:

The Freight Service and Safety Division administers a companion rail program, the Freight Economic Development Program, which is discussed on page 33.

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URBAN LAND ASSEMBLY PROGRAM

Enabling Act, Statutory Citation

1981 P.A. 171; M.C.L. 125.1851 et seq.

Program Description

A state-based revolving loan fund, administered by the Michigan Economic Development Corporation (MEDC), available to urbanized local units of government for the purpose of land assembly to facilitate industrial and commercial development.

Eligibility and Benefits

Eligible local units are those with one of the following:

- an unemployment rate more than 70 percent of the annual average statewide unemployment rate most recently released by the Career Development Agency of the Department of Labor and Economic Growth;
- population growth less than 75 percent of the state's average growth rate based on the most recent U.S. Census Bureau's published figures; or
- a change in state equalized value less than 50 percent of the state's five year average as reported by the State Tax Commission.

Local units that require assistance for land assembly for economic development projects are eligible for low-interest loans that can be used for the direct costs of land acquisition, demolition, relocation and site improvements necessary to make the land marketable.

Terms and Performance Guarantees

Land acquisition for industrial use must consist of at least 10 contiguous acres located within the legal boundaries of the municipality. Acquisition of less than 10 acres is allowable only if the project is industrial and of a "critical" nature. Acquisition of land for commercial use must be located within a Downtown Development Authority (See page 77) district.

According to the Act, priority shall be given to projects which yield the highest number of jobs per dollar of loan investment; receive private sector, local or federal government contribution of at least half of the project cost; make long-term contributions to the local tax base; contribute significantly to neighborhood revitalization; and identify a potential, immediate use for the property to be purchased.

Upon sale or lease of the real property, the municipality (or a nonprofit development organization designated by the municipality to plan and implement the project) will repay into the revolving fund a portion of the proceeds from the sale or lease of the land and improvements. The amount repaid shall be of the same proportion as the amount the original loan was to the total cost of the project; therefore, if the Urban Land Assembly Loan financed 30 percent of the total project cost, then 30 percent of the proceeds from the sale or lease of that project must be repaid to the Urban Land Assembly Fund. If the local unit is unable to fully repay the loan in this manner, or if the land had to be sold for less than the cost of the project to be competitive, then the remainder of the loan shall be repaid within 10 years of the sale or lease of the real property according to the provisions in the loan document.

The total amount of loan funding which a municipality may receive in any 1 year shall not exceed 1/2 of the assets in the fund.

The program also has an exit visa provision for any project that has the effect of transferring employment from one municipality to another.

Data and Source

Since 1989, the Urban Land Assembly program has financed 15 projects totaling nearly \$9 million. MEDC estimates that these projects will yield 3,580 new jobs over the next decade; approximately 1,300 jobs have been created to date.

Discussion

The Urban Land Assembly program was created to address the difficulty of land assembly for the purpose of economic development. Given that urban parcels are typically smaller than non-urban parcels, and often have complicated ownership, it is typically a more time-consuming task to acquire land for projects in urban areas than in non-urban areas, insofar as a greater number of property interests must be dealt with, acre for acre.