ARDC CARES RLF

2025

ARDC
Arrowhead Regional Development Commission

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ARDC CARES Act Supplemental Revolving Loan Fund Plan

The Arrowhead Regional Development Commission (ARDC) CARES Act Revolving Loan Fund (RLF) Plan is divided into two parts. Part One is the Revolving Loan Fund Strategy and Part Two is the Revolving Loan Fund Operational Procedures. The plan is organized according to the Economic Development Administration's Revolving Loan Fund Plan Guidelines.

PART I. The Revolving Loan Fund Strategy

A. ECONOMIC ADJUSTMENT PROGRAM OVERVIEW

Northeast Minnesota continues to face significant economic challenges, primarily due to limited access to capital for businesses. These issues have been worsened by the lasting effects of the 2020 pandemic. Key problems include labor and skilled workforce shortages, lack of affordable childcare and housing, and difficulties recovering from business disruptions like natural disasters. ARDC intends to address these issues while building opportunities to reduce outmigration and retain jobs with high earning potential within the region.

Nature and Scale of the Problem:

- Capital Access & Business Continuity: Businesses struggle with securing capital and sustaining operations, especially small enterprises.
- Industry Pressures: Manufacturing and other key industries are declining due to GDP drops and a lack of skilled labor.
- Infrastructure & Cost Barriers: Geographic disparities in broadband, childcare, education, and affordable housing hinder workforce attraction. High operational costs, regulatory burdens, and labor shortages drive businesses away.
- Workforce Challenges: As of 2025, 59% of businesses report difficulty hiring. Slowed population and labor force growth further strain talent access.
- Sector-Specific Issues: Mining faces environmental and political uncertainties. Tourism and retail are down due to reduced Canadian traffic and economic hesitancy. New green industries face instability.
- Mixed Recovery: While employment and wages grew in 2024, job vacancies remain high and the labor force has not returned to pre-pandemic levels, particularly affecting service sectors like healthcare and hospitality.

B. BUSINESS DEVELOPMENT STRATEGY: THE ARROWHEAD REGION COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY (CEDS)

ARDC is designated by the U.S. Economic Development Administration (EDA) as the planning organization for the Economic Development District (EDD) for Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties of Minnesota. The Comprehensive Economic Development Strategy (CEDS) is required by the EDA to maintain Economic Development District designation for the region and for projects to qualify for EDA assistance. ARDC is responsible for completing a new CEDS every five years and helping develop EDA funding requests for infrastructure, technical assistance, and planning projects consistent with the CEDS. The current CEDS was adopted in January 2017.

The CEDS is a strategy-driven plan for regional economic development. Economic development planning – as implemented through the CEDS – is not only a cornerstone of the EDA's programs but successfully serves as a means to engage community leaders, leverage the involvement of the private sector, and establish a strategic blueprint for regional collaboration. The CEDS follows EDA guidelines to focus on the region's unique conditions, advantages, and challenges.

The CEDS is required by EDA to maintain Economic Development district designation for the region and for projects to qualify for EDA assistance. Since 1998, EDA has invested almost $47 million in public works, economic adjustment, and planning grants in Northeast Minnesota leveraging $45 million in public matching funds to stimulate many millions of dollars in private investment and create private sector jobs in every county in the region.

The CEDS identified four cornerstones for strong regions and communities: Human Capital, Economic Competitiveness, Community Resources, and Foundational Assets.

The 2022-2027 CEDS goals and objectives under economic competitiveness are summarized as follows:

CEDS Economic Competitiveness:

Making Northeast Minnesota an attractive environment for business growth is critical to creating jobs, improving living standards and financing necessary public services. Economic Competitiveness requires communities to develop and link all available assets to support innovation and encourage business growth.

Goals:

- Economic Development Organizations will collaborate to develop and support programs, projects, and organizations that effectively support the CEDS.
- Support and grow businesses and entrepreneurship to foster a diverse, resilient economy.
- Support the sustainable development of industries and communities.
- Advocate for public policy and programs that support the CEDS Vision.
- Work for inclusive and equitable quality education, workforce training, and lifelong learning opportunities for all.
- Grow and attract a workforce that will help the of the region prosper.
- Create opportunities for all.
- Remove barriers to participation in the economy and community and improve the ability to lead a healthy life.
- Develop and maintain a sustainable, resilient, economical, and integrated regional transportation system that supports the region's economic competitiveness and health of its communities.
- Develop and maintain sustainable, resilient, economical utility systems that support the region's economic competitiveness and health of its communities.
- Expand housing affordability and quality across the region.
- Improve the quality of life of the region and its communities through asset-based development strategies that build on natural strengths and amenities.
- Improve the overall health of the region's people and reduce health disparities.
- Improve collaboration and civic engagement to include more residents to make community and economic development more responsive to community needs.
- Initiatives that create career pathways and leadership opportunities such as majority ownership, including minority, veteran or woman owned business.

C. THE FINANCING STRATEGY

ARDC is committed to ensuring that all applicants meet §307.10 Pre-loan requirements. A Revolving Loan Technical Advisory Committee (RTAC) will review all applicants for the following:

- Impacts of the prospective loan on the physical environment including parts 302 and 314 of 13_CFR Chapter_III and applicable environmental laws and regulations.
- RLF loan agreements shall include applicable Federal requirements to ensure compliance and RLF Recipients must adopt procedures to diligently correct instances of non-compliance, including loan call stipulations.
- All RLF loan documents and procedures must protect and hold the Federal government harmless from and against all liabilities that the Federal government may incur as a result of providing an RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.

1. Financing Needs and Opportunities

The COVID-19 pandemic has created significant working capital needs across nearly all business sectors in northeast Minnesota. Key funding gaps include:

- Working capital
- Projects with minimal equity or collateral
- Private equity and higher-risk financing
- Subordinated and below-market-rate financing

2. Local Capital Markets

The region offers a variety of economic development financing programs including:

- Bank-participation and local development financing
- Gap-financing with subordinated, below-market terms

The CARES Act Revolving Loan Fund (RLF) will complement existing programs, focusing on maximizing impact, leveraging private investment, and avoiding duplication of available funding.

3. RLF Targeted Business Sectors

ARDC's RLF targets key sectors in the Arrowhead Region:

1. **Pandemic-Impacted Industries** – Retail, restaurants, tourism, lodging, arts

2. **Aviation/Aerospace** – Parts manufacturing, aircraft maintenance
3. **Energy** –Energy Industries and Systems
4. **Creative Clusters** – Tech design, architecture, engineering
5. **Innovative Manufacturing** – Transportation and machinery manufacturing
6. **Mature Manufacturing** – Printing, mineral products, metal products
7. **Timber/Wood/Paper** – Forestry, furniture, biochemical spinoffs
8. **Mining** – Iron and non-ferrous mining. Helium
9. **Medical Services** – Hospitals, residential/social care
10. **Transportation/Logistics** – Distribution, education, and research
11. **Tourism & Recreation** – Visitor services, accommodations, built infrastructure
12. **Workforce Supports** – Childcare, housing, transportation access.

This strategy aims to support job retention and creation through targeted, flexible financing.

Types of Financing and Terms

The **CARES RLF** primarily aims to support **job retention and creation**, especially for the **long-term unemployed** and **low-to-moderate income individuals as well as higher skilled, higher wage jobs**. Priority is given to projects that maintain or create these types of jobs.

Eligible Uses of Financing

- Working capital
- Real estate purchase or improvement
- Equipment purchases
- Business retention, expansion and recovery plans

Loan Terms

- **Working Capital:** Up to 10 years

- **Equipment:** Up to 10 years
- **Real Estate:** Up to 10 years with 20 years possible with TAC approval

Interest Rates and Flexibility

- Loans will be offered at **market or below market rates**
- See Section I D:6 Interest rates
- **Flexible terms** will be tailored to project needs
- Refinancing and other ineligible activities are **excluded**

Loan repayments may also be used to support targeted **regional business and industry clusters** outlined in the CARES RLF Plan.

D. FINANCING POLICIES – SUMMARY

Standard Lending Terms

1. **Eligible Lending Area**
   Businesses must be in the Arrowhead Region of Northeastern Minnesota: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis counties and tribal nations within those geographic boundaries.

2. **Eligible Borrowers**
   For-profit entities are eligible, not for-profit may be eligible with RLF TAC approval. Target sectors include:
   - Aerospace, energy, innovative and mature manufacturing
   - Creative industries, timber, mining, medical services
   - Transportation/logistics and arts/entertainment/tourism
   - Businesses impacted by natural disasters
   - Child Care and Housing

3. Loans may support startups, expansions, retention, and acquisitions, including real **Allowable Lending Activities** estate, equipment, and working capital.

4. **Prohibited Activities**
   Loans may not be used for:
   - Equity investments
   - Subsidizing existing loans

- Refinancing without justification
- Investing in unrelated financial instruments
- Illegal or gambling activities
- Acquiring business interest without strong justification
- Cannabis manufacturing, growing, retail, related industries
- Performances or products of a prurient sexual nature

5. Loan Size

- Minimum: $10,000
- Maximum Unsecured $75,000
- Maximum: Secured $250,000

6. Interest Rates

- *Interest rates* (1) *General rule.* An RLF Recipient may make loans to eligible borrowers at interest rates and under conditions determined by the RLF Recipient to be appropriate in achieving the goals of the RLF. The minimum interest rate an RLF Recipient may charge is four percentage points below the lesser of the current money center prime interest rate quoted in the *Wall Street Journal,* or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of four percent or 75 percent of the prime interest rate listed in the *Wall Street Journal.*

- *Exception.* Should the prime interest rate listed in the *Wall Street Journal* exceed 14 percent, the minimum RLF interest rate is not required to be raised above 10 percent if doing so compromises the ability of the RLF Recipient to implement its financing strategy.

7. Loan Terms

- Up to 10 years for working capital/equipment
- Up to 10 years with 20 years possible with TAC approval
- Seasonal or deferred payment options allowed
- Early repayment required if the business relocates outside the region
- RLF recipient pays for all NSF and other applicable fees

8. Fees

- 1.5% origination fee (can be waived at the discretion of the RLF TAC)
- Borrowers cover legal costs

9. Equity & Collateral

- Equity required (more for startups), but may be waived at the discretion of the RLF TAC
- Minimum collateral coverage: 1:1 (target: 1.5:1)

10. Moratoria
Up to 6-month deferral on principal payments allowed for businesses in financial hardship.

11. Startups
Must provide a valid business plan and demonstrate feasibility.

12. Working Capital
Loans for working capital are permitted.

13. Credit Not Otherwise Available
Borrowers must show they can't obtain private capital.

E. PORTFOLIO STANDARDS AND TARGETS

- **CARES RLF Target Percentages**
  - ARDC will not use target percentages in the administration of the CARES RLF
- **Private Sector Leverage**
  - ARDC will not require private sector leverage as part of the CARES RLF
- **Job Cost Ratio**
  - ARDC will not require minimum job cost ratios as part of the CARES RLF

F. LOAN SELECTION CRITERIA

- All applications undergo standard due diligence for creditworthiness and eligibility
- Business must be located in the eligible counties or tribal nation boundaries

G. PERFORMANCE ASSESSMENT PROCESS

- Annual report to Loan Administration Board on outcomes (jobs, leverage, business types, private leveraging)
- Plan reviewed/certified annually and updated as needed, with a required update every 5 years to meet EDA standards

PART II. Revolving Loan Fund Operational Procedures

A. ORGANIZATIONAL STRUCTURE

1. Critical Operational Functions

- The **Arrowhead Regional Development Commission (ARDC)** administers the CARES RLF.

- Key staff:

  - ARDC Executive Director- Oversees RLF process and goals
  - Finance Director – Administrator: Overall Compliance
  - Finance Assistant - Communications, reporting, site visits
  - Principal Planner-Aligns RLF with economic development strategy
  - Accountant- Assists with finance
  - Lending Contractor- Credit analysis, loan recommendations, collections

- Legal support: **Fryberger, Buchanan, Smith & Frederick, P.A. or appointed by the Board.**

2. Loan Administration Board

- The Arrowhead Regional Development Commission (ARDC) Board of Directors will function as the CARES RLF Loan Administration Board.
- Final loan disbursements are delegated to **ARDC Executive Director** and **an ARDC Board Officer**, with prior recommendation from the **Revolving Loan Technical Advisory Committee (TAC).**
- It is preferred that Board Resolutions are approved prior to disbursement.
- TAC must include at least:

  - 1 female
  - 1 economic development representative
  - 1 banking/private sector representative
  - The ARDC Board may appoint an ARDC staff member at its discretion.

The TAC will review, select and recommend for approval or disapproval all CARES RLF Loan applications to the ARDC Director and Finance Director.

Policy development and sound management for the CARE RLF is directed by the Loan Administration Board.

3. Conflict of Interest

In accordance with 13 CFR 300.3 ARDC will adhere to a conflict-of-interest policy.

- “Interested Parties” (including staff, board members, and close relations) may not benefit from RLF loans.
- Former board members must wait two years before applying for loans.

B. LOAN PROCESSING PROCEDURES

1. Standard Loan Application Requirements Pre-application (see form in

Appendix A)

- A pre-application must be filled out and submitted to the RLF
- Loan Administrator for review.
- Administration staff will act on behalf of the RLF Loan Administration Board in screening all pre-applications for eligibility and in authorizing full applications for eligible projects consistent with the policies set forth in this Revolving Loan Fund Plan.

Application Packet Contents:

- Completed Application
- Personal Financial Statement
- Business Plan please include on Impact on Community
- Balance sheet and Income statement
- Income Projections
- Schedule of Debts
- Documentation providing expressed need for financing and or gap financing
- Corporate and Individual Income Tax Returns
- Names of affiliated or subsidiary businesses (last two fiscal year-end financial statements and current financial statements)
- Organized Documents
- Current or proposed lease
- Key cost documents (e.g. vendor quotes, contractor estimates, purchase agreements)
- Credit Score

2. Credit and Financial Analysis

ARDC staff will review the contents of the application for accuracy and entirety.

Evaluation includes:

- Eligibility
- Economic benefits
- Financial health (balance sheets, ratios, repayment capacity)
- Management capability and credit risk
- Credit reports on borrowers and principles
- Need for any special conditions (such as hazard insurance, etc.)

3. Environmental Review

Ensures compliance with the National Environmental Policy Act (NEPA), of 1969 for historic preservation, wetlands/floodplain regulations, and hazardous materials handling.

The TAC, through ARDC staff shall assess the significance of all environmental impacts of activities to be finances, in compliance with NEPA and other federal environmental mandates, as required per the Assurance (SF 424B) executed with the EDA. No activity shall be financed, which would result in a significant adverse environmental impact unless that impact is to be mitigated to the point of insignificance. When necessary to ensure compliance the loan Committee shall make any required mitigation part of the loan conditions.

Wetlands

No project will be approved which would result in alteration of any wetland or in any adverse impact on any wetland without prior consultation with the U.S. Department of the Interior Fish and Wildlife Service and, if applicable, obtaining a Section 404 Permit with the Army Corps of Engineers.

Flood Plain

Consistent with EO 11988, no project shall be approved which would result in new development in a 100-year flood plain. This determination will be made by reviewing the proposed development against Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps or Floodway Maps.

Historic Preservation

The Minnesota State Historical Preservation Officer (SHPO) shall be notified of each loan project as part of the environmental review process and asked to submit comments on the effect of the proposed activity on historic and archeological resources.

Hazardous Waste

All loan applicants shall be requested to provide information indicating whether or not there is hazardous materials such as EPA listed (see 40 CFR 300) hazardous substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials present on or adjacent to affected property that have been improperly handled and have the potential of endangering public health. If deemed necessary, applicants may be required to perform or provide evidence of performance of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants.

4. Loan Write-Up

A Project Summary will be provided to the TAC and may summarize the key aspects of the loan, including history, management, market conditions, project financing, collateral, repayment ability, etc. The summary may also contain consistency with the RLF financing policy and whether there are environmental issues.

5. Loan Approvals

- TAC reviews the staff summary and makes recommendations.
- Staff follow up on any questions from the TAC
- The TAC determines if the project will receive financing from the RLF and sets forth any special conditions (ex. Loan amount, interest rate, terms, etc)
- TAC recommendations move forward to the ARDC Board via Resolution
    - ARDC Executive Director and Finance Director may move loans forward with TAC recommendation, prior to Board approval in some cases when financing is deemed critical AND with Board Officer approval.
- Approved loans are reported to the ARDC Board

- Approved loans are submitted to EDA

C. LOAN CLOSING AND DISBURSEMENT

1. Loan Documents

- Original signed application (packet)
- Documentation of the recommendation of the Technical Advisory
- Committee and the approval of the Director and Finance Director and Board Resolution
- Loan Agreement
- Promissory Note
- Security Agreements
- Deed of Trust or Mortgage
- Personal Guaranties
- Agreement of Prior Lien Holder
- Evidence of Insurance Coverage on assets used as collateral, if any.

2. Loan Agreement Provisions

The loan agreement will state the purpose of the loan and ensure that the RLF funds are used as intended.

All RLF loan documents and procedures will protect and hold the Federal government harmless from and against all liabilities that the Federal government incur as a result of providing an RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.

ARDC staff will ensure that prospective borrowers, consultants, or contractors are aware of and comply with the Federal statutory and regulatory requirements that apply to activities carried out with RLF loans. The closing documents include a loan call stipulation for instances of non-compliance.

3. Disbursement Requirements

- After all compliance issues and closing requirements have been assessed and met, documentation will be provided to the ARDC Finance department for loan disbursement.
- Legal Counsel will review all draft loan closing documents.

- The loan closing will be scheduled, most often at the same time as other lenders involved.
- An ACH, wire or check will be the disbursement vehicle.
    - All necessary procedures will be performed to protect RLF assets. These may include, but are not limited to invoices, purchase orders or receipts.

D. LOAN SERVICING PROCEDURES

Repayment

ARDC's CARES Revolving Loan Fund payments are provided to Finance team and then deposited into ARDC's bank account. Additionally, a monthly CARES RLF Summary Report is generated by the Administration Team that provides tracking and accounting of all CARES RLF income. It is recognized that RLF income includes interest from loans and accounts holding idle CARES RLF funds, loan fees, late payment fees and any other sources of RLF revenues. Loan payment and accounting services will be provided by ARDC using the GMS Loan Accounting Software. The Administration Team may provide the following services in conjunction with ARDC and its GMS Loan Accounting Software:

- Provide payment billings and notices to all CARES RLF borrowers upon request
- Monthly reporting of delinquent payments by individual loan and amounts (P & I)
- Monthly record keeping itemizing total principal payments and balances, interest payments and balances, and loan fee payments and balances

Collections of loan repayments will be done through ACH preferably or check payments. Loans will be repaid monthly unless there are special circumstances. Once the check is received it will be safeguarded, and a timely deposit will be made.

Monitoring

The RLF staff, with assistance and approval from the ARDC Board, monitors and manages the RLF loans. Ongoing portfolio management includes:

- Preparation and filing of initial loan documentation
- Filing necessary security updates

- Monitoring payments against repayment schedules
- Verifying that necessary insurance coverage is maintained
- Documenting the number of jobs created/retained/saved
- Collecting and reviewing financial statements
- Conducting initial and periodic site visits to verify collateral
- Pursuing legal recourse when necessary

A Loan Fund Status Report is prepared monthly and submitted to the ARDC Board for review. The Status Report includes general information on each loan along with the amount of principal paid, the loan balance, if the loan is current or delinquent, the amount of any delinquency, etc.

Monitoring of the CARES RLF portfolio for grant compliance is ongoing with each new loan application and loan approval. Additionally, compliance is reviewed semiannually in conjunction with EDA reporting and with the annual CARES RLF plan certification.

Loan Files

Loan files are maintained in a secure file cabinet by the ARDC Finance/Administration team. Loan file contents include but are not limited to:

- **Loan Application Materials**
  - Preapplication materials
  - Full application
- **Loan Closing Materials (including but not limited to)**
  - Promisary notes
  - Loan agreements
  - Security agreements
  - UCC's
  - Mortgages (if used as collateral)
  - Evidence of Insurance
  - Loan Commitment Resolutions
  - Loan Summary
  - General Correspondence

Original loan closing documents are kept in a fire-resistant file cabinet for safekeeping.

Job Creation

The borrower is asked how many jobs will be created and retained at the time of application. Annual job creation reports will be collected from each RLF borrower to track job creation during the monitoring period.

Defaulted Loans

CARES RLF policy regarding delinquencies (less than 60 days delinquent) will be firm, yet flexible with provisions for modifying or restructuring the terms of delinquent loans consistent with program objectives and responsible money management.

Defaults (delinquencies more than 60 days) will be handled on a case-by-case basis. Specific action taken will depend on the nature and circumstances surrounding the default, the amount and availability of collateral involved, and the costs verses the benefits of obtaining and liquidating assets. Any action taken will be handled by the Administration Team and ARDC's CARES RLF attorneys, with necessary approval of the Board.

When CARES RLF receives the proceeds on a defaulted or written off CARES RLF loan, CARES RLF will apply such proceeds in the following order of priority:

- First, toward any costs of collection.
- Second, toward outstanding penalties and fees.
- Third, toward any accrued interest to the extent due and payable; and
- Fourth, toward any outstanding principal balance.

Write-Offs

Any Loan Borrower that has not made a payment to ARDC in the last 6 months should be written off for accounting purposes @ 80% of the remaining balance. For lending purposes, we still collection unless the borrower and guarantors go into bankruptcy and bankruptcy would be the only exception. If we receive funding after a loan is written off – it would be recorded as bad debt recovery.

E. ADMINISTRATIVE PROCEDURES

New RLF

ARDC may seek to recapitalize the CARES RLF at a future date. Considering the economics of the Arrowhead Region, additional funds may be needed to ensure the area's businesses can access capital.

Accounting

ARDC's Revolving Loan Fund payments are provided to ARDC's Administration Team and then deposited into ARDC's bank of account designated specifically for the CARES RLF. Additionally, a monthly CARES RLF Summary Report is generated by ARDC, which provides a tracking and accounting of all CARES RLF income. It is recognized that CARES RLF income includes interest from loans and accounts holding idle CARES RLF funds, loan fees, late payment fees and any other sources of CARES RLF revenues. The ARDCs Finance Director is primarily responsible to assure compliance with EDA financial reporting requirements.

Administrative Costs

Administrative costs of the CARES RLF will be covered by income derived from loan interest, fees and interest from its bank deposit account designated to the CARES RLF. ARDC will not exceed 100% of income to cover administrative costs. CARES RLF income and administrative costs will be monitored and tracked on an ongoing basis and summarized in monthly CARES RLF income and expenses reports. All loan administrative activities are detailed in monthly loan administration activities reports.

Capital Utilization and Sequestration

ARDC will promote the CARES RLF on an ongoing basis to the region's traditional lenders, non-traditional lenders and technical assistance providers. These promotion and outreach efforts should result in the continuing pipeline of eligible businesses and financing opportunities for the CARES RLF.

Funds not used to offset administration of the RLF shall be returned to the RLF Capital Base.

EDA Reporting

ARDC will comply with all EDA reporting requirements.

Audits

ARDC acknowledges that CARES RLF funds are subject to an annual audit requirement and the full value of the CARES RLF (outstanding loans and available cash) must be shown every year on ARDC's Schedule of Federal Expenditures. If the dollar amount of the CARES RLF qualifies the CARES RLF as a major federal program, ARDC must ensure that the auditor performs the required federal audit procedures.