

CHESTER DEVELOPMENT FUND

The purpose of the Town of Chester's Development Fund is to encourage and support business enterprises or the Town of Chester's municipal departments that produce a variety of goods and services that maximize the opportunities for the citizens of Chester. The Fund is also available to assist in upgrading technology to improve the efficient operation of existing private business or the Town of Chester.

OBJECTIVES

The objective of the Chester Development Fund (CDF) is to improve, stimulate and assist in maintaining the economic and physical environment of Chester. It does so by creating and maintaining employment or improving the efficiencies of an existing operation.

The Fund will also through its activities assist in maintaining, and or stabilizing the tax base. This will be accomplished through funding of small and medium size enterprises and municipal activities via loans to assist in start-up, expansion or efficiency improvement.

Adding employment opportunities, diversifying and/or maintaining the economic base and/or improving efficiencies of existing operations are important objectives of the CDF.

GOALS

The CDF will not usually be the primary lender to projects, however based on circumstances it could be the primary lender.

For private projects, the CDF will not provide the only source of funds but will take a secondary position behind private and/or State and Federal funding. CDF loans should be of a short term nature, not to exceed five years and not more than the life of the asset being financed. Furthermore, the Selectboard must agree that the funding will be for an activity that will benefit the citizens of Chester.

No individual business loan should make up more than 15% of the total amount of total funds in the CDF. Total funds are defined as the amount of money on loan as well as the amount of money held as cash for future use.

While the CDF is to provide funds to business and municipal activities, this goal must be weighed in relation to capital preservation of the CDF. The long-term viability of the CDF must be maintained. So while it can be assumed that because of the secondary position taken by the CDF in most loans there is risk involved, those loans considered by the Selectboard to have too high a risk of default will not be granted funding.

In municipal projects, the CDF could be the only funding source so long as the commitment does not lessen the opportunity to lend to private enterprise should the need arise. The Town of Chester can borrow up to 25% of the fund if the Selectboard agrees to repay the loan or a portion thereof sooner if circumstances dictate. Just as with private projects, the loan must not be in excess of five years and must benefit the citizens of Chester.

QUALIFYING BUSINESS

Any for profit or non-profit corporation, partnership, cooperative or proprietorship existing, locating or expanding in the Town of Chester or the Town's departments will be considered eligible for consideration. In addition, the requesting entity should show two or more of the following:

- There is a history, or the potential, of additional employment
- An enhanced level of technology is being acquired to improve the efficiency of the operation
- The activity fits within the Town Plan
- There is a history of sound financial operations. Absent a history, the requesting entity should provide a business plan showing the financial projections for at least two years into the future.
- Show how the activity will enhance the Town of Chester and be of benefit to its citizens

NON-QUALIFYING BUSINESS

Businesses specifically excluded from participation in the program include the following:

- Lending institutions
- Gambling institutions
- Businesses not located in the Town of Chester
- Businesses not relocating to the Town of Chester
- Real Estate investments unless that investment can be shown to improve the Grand List and create jobs that otherwise would not be available
- Schools and non-profit organizations

LENDING CRITERIA

Loans will be reviewed on the merits of the application. Loans may be made to those Qualifying entities as defined above.

Loan Amount: The CDF should not be the primary lender to private enterprise. Furthermore, the amount of the loan should not exceed 25% of the total financing package or be more than 15% of the total funds in the CDF as defined above.

Exceptions can be made to these basic rules if the loan can be shown to be of benefit to the Town of Chester that otherwise would not occur in the absence of this loan. This benefit can be measured in various ways. It can take into consideration jobs created or retained, tax revenues that will be enhanced or efficiency improvements that can be shown to benefit the citizens.

Term: The term of the loan in no instance should exceed the useful life of the asset being financed. The basic philosophy regarding the term of the loan is that it will not exceed five years. A longer term loan can be granted but only after a compelling case is made to show the activity would not otherwise occur without a longer term being in place. Furthermore, the case must also be made that the benefits will outweigh the added risk of a longer term loan being granted.

Interest Rate: CDF financing will carry an interest rate that shall not exceed the then current prime rate as published by the Federal Reserve Bank in effect on the closing date of the loan. In no case shall it be less than 3%. This rate will be subject to change on the anniversary of the loan based on the prime rate in effect on that date.

If a loan is made for more than five years, the Selectboard has the option of adding up to 2% to the prime rate in effect at the time of the loan to compensate for any additional risk they perceive due to the added repayment time.

Allowable Project Costs: The CDF will provide funds for the acquisition of materials, plant modernization, machinery & equipment purchases and land & building purchase related to the operation of the business. In no case will be loan be granted in excess of the useful life of any of the foregoing. Machinery and equipment purchases are further defined as occurring in the opening of a new business and are not to be used in the financing of a current operation unless it can be shown that a significant efficiency upgrade will occur and other financing is not available. In the case of a municipal request for machinery or equipment that will enhance productivity, financing can be provided even if outside sources of money is available if it can be shown that the fund will still be able to assist other potential borrowers as discussed previously and using CDF funds will benefit the citizens.

Working Capital Loans: Working capital loans will not be granted by the CDF except in extraordinary circumstances where after a review by a Small Business Development Specialist it can be shown that such a loan is in the best interest of the CDF.

Collateral: As a minimum, CDF will accept a security position, usually subordinate to a first mortgage lender, to secure payment of the loan. Repayment analysis will focus primarily on the evaluation of the entity's historical financial performance or forward looking financial business plan in the case of a new business. Other security requirements can include, but are not limited to the following:

- Personal guarantees
- Assignment of subordinate lease rights
- Cross collateralization of machinery and equipment or other assets
- Security interest in outside assets of borrower
- Corporate guarantees and management reviews
- Loans convertible to proportional equity

Repayment Ability: The applicant must demonstrate to the satisfaction of the Selectboard that sufficient cash flow will be generated from the operations to meet the requirements of this loan as well as all other debt. Such determination will be made using the following documents which include, but are not limited to:

- Multi-year operating statements and balance sheets for ongoing operations
- A business plan for new operations to include opening balance sheet, pro-forma statements, resumes of principles and a market study
- Current operating statement and balance sheet not more than 60 days old
- A narrative history of the business or business plan

Application Fee: A non-refundable application fee of \$100 is required.

Legal Fees: Any legal fees incurred are the responsibility of the borrower and will be payable prior to closing of the loan. A detailed breakdown of the fees will be available at that time. Any waiver of these fees will require a vote by the Selectboard.

LOAN APPLICATION STEPS

1. The CEDC or Town staff will make the first contact with the potential borrower and discuss their loan request with them. The applicant will be furnished with the CDF loan criteria and application process. This loan criteria will include, but not be limited to:
 - Name and address of applicant as well as business for which the loan is intended
 - Business plan with a minimum 2 year financial projection
 - Is this a qualifying business
 - What is the amount of loan requested
 - Term of loan being requested
 - Use of loan proceeds
 - Collateral provided
 - Authorization for a credit check
 - Bank documentation showing approval and amount and terms of any other loans associated with this request
 - Tax returns, if available, for the business in question for the previous two years
2. The applicant must meet with a Small Business Development Specialist to review their project in detail. The SBDS will issue a letter stating the applicant has completed this step but the SBDS will not make a recommendation regarding the loan itself. The applicant will pay any fees associated with this Small Business review.
3. The CEDC will review the loan criteria for completeness. They will also review the Small Business Specialist report and specifically review the applicant's ability to service the loan. A \$100 application fee will be paid at this time. The applicant may attend this review.
4. Pending the outcome of their review and check-list completion, the CEDC will provide the material they have collected as well as their written assessment of the application to the Town Manager.
5. The Town Manager may conduct his own interview of the applicant and review the material. He may ask for additional information he believes necessary to process the loan.
6. After the Town Manager receives the CEDC recommendation to proceed, the matter will be presented to the Selectboard. The Board will act as the Loan Review Committee. They will assess all documents in an Executive Session meeting prior to the Board meeting where the loan request will be acted upon.
7. The applicant should be prepared to appear before the Selectboard at one of its meetings to answer any questions.

Program Administration: The CDF program will be administered by the Town of Chester. Town staff will perform such functions as applicant interviews and screenings, analysis of financial documents and business plan narratives. They will prepare material as requested or required by the Selectboard. Staff will also provide loan closing documents, disbursements, collection services and any other administrative services as required.

Loan Closing: The Town's attorney will prepare all loan closing documents at the applicant's expense. Upon the Town's attorney approval, the material will be sent to the Board for their review and final determination. These and any other legal costs incurred by the Town regarding a particular loan will be paid by the applicant. Any outstanding legal payments must be made prior to closing. The Selectboard

can demand the applicant pay any ongoing legal costs as they occur even prior to any decision being reached.

Confidentiality: The Selectboard agrees that any information obtained from the borrower in relation to their application and loan will be kept confidential.

ADOPTED this _____ day of August, 2011.

Selectboard

John DeBenedetti

Thomas Bock

Derek Suursoo

William Lindsay

Arne Jonynas