

# DOING BUSINESS IN FRAZEE

## *Guide to Local, State, and Federal Incentives*



### Programs Unique to Frazee

#### **Frazee Downtown Retail Center**

The Frazee EDA has developed a Downtown Retail Center. The Center is anchored by Seip Drug, a longtime Frazee pharmacy. There are 3 suites available at competitive lease prices. The suites are open plan and can be “finished to suit” the lessor. There is EDA funding available to assist with finishing the suites. A brochure with information on the project can be found on the City of Frazee website.

#### **Tax Increment Financing (TIF)**

Tax Increment Financing, or TIF, is a method of financing real estate development costs to assist with the construction of buildings or other private improvements, as well as other types of development. Project eligibility is determined individually depending on the size and scope of the project.

TIF uses the additional property taxes paid as a result of development and increased property value to pay for portion of the development costs.

#### **Tax Abatement**

Tax abatement is the process by which a portion of property taxes are rebated back to the property owner, who then uses it to help offset development or redevelopment costs. Tax abatement is simpler and less restrictive than tax increment financing and is quite useful for smaller projects. Project eligibility is determined individually depending on the size and scope of the project.

#### **West Central Initiative Programs**

The West Central Initiative (WCI) organization is located in Fergus Falls, Minnesota and serves Clay County. As a part of its activities, it offers financing assistance to commercial and industrial businesses. Financing assistance is provided through loans and is typically used as “gap financing” for projects. Loan programs include: Small Enterprise Loans, Business and Industry Loans, Access to Capital Loans and Child Care Loans. Information on the loan programs, as well as staff contacts can be found on the WCI website, [www.westcentralinitiative.org](http://www.westcentralinitiative.org)

#### **CEDA Revolving Loan Fund**

The Microenterprise Revolving Loan Fund was designed for start-up, newly established, or growing businesses. Administered by Community and Economic Development Associates (CEDA), a 501 (c)(3) non-profit corporation, this loan is available to qualified entrepreneurs in amounts up to \$35,000 and can be used for seed capital, working capital, inventory, equipment, real estate, building renovation, and expansion. Based on the items financed, loan terms generally do not exceed 6 years and the interest rates are up to 6%.

Ineligible uses of loan proceeds include, debt refinancing, routine maintenance, any business that derives the majority of their income from restaurant or liquor sales, among others.

## State Programs

There are a variety of State Grant, Loan and Tax Credit programs. These resources can be researched to check applicability for your business needs. Listed below are some of the programs:

### **Minnesota Investment Fund (MIF)**

The Minnesota Investment Fund provides grants to help add new workers and retain high-quality jobs on a statewide basis.

The focus is on industrial, manufacturing, and technology-related industries to increase the local and state tax base and improve the economic vitality for all Minnesota citizens.

At least 50 percent of total project costs must be privately financed through owner equity and other lending sources (most applications selected for funding have at least 70 percent private financing).

### **Minnesota Job Creation Fund**

The Job Creation Fund provides financial incentives to new and expanding businesses that meet certain job creation and capital investment targets.

Companies deemed eligible to participate may receive up to \$1 million for creating or retaining high-paying jobs and for constructing or renovating facilities or making other property improvements. In some cases, companies may receive awards of up to \$2 million.

This award-winning program has been recognized for its innovation by the Economic Development Association of Minnesota.

### **Research and Development Tax Credit**

Minnesota's new-and-improved research and development tax credit doubles the size of the credit and also expands the credit to include more business entities.

The tax credit for R&D expenditures is 10 percent, up to the first \$2 million in eligible expenses. The credit is 2.5 percent for eligible expenses above \$2 million.

Beginning with tax year 2010, individuals involved in partnerships, S-corporations and limited liability companies are allowed to claim the credit against their individual income taxes. This opens up the tax credit to more small and medium-sized businesses.

Minnesota's R&D credits are refundable, which means if the tax credits exceed the tax liability, the state will issue a refund payment. Businesses do not need income tax liability or revenue to claim the credit, as long as they have qualified research and development expenditures (as defined in Section 41(d) of the Federal Internal Revenue Code).

## Small Business Development Loan Program

This program provides a maximum of \$5 million to any single business and generally requires that 20 percent of project costs be privately financed. Eligible companies include manufacturing and industrial businesses located or intending to locate in Minnesota, as defined by Small Business Administration size and eligibility standards (generally, those with 500 employees or fewer).

Loan funds are raised through the issuance of industrial development bonds. Interest rates are the market rate for similar securities at the time bonds are sold. Rates are fixed for the term of the loan. Real estate loans are for a maximum of 20 years. Equipment loans are for a maximum of 10 years. Collateral requirements include the first mortgage on real property or equipment financed under the program and personal guarantees of owners. In some cases, additional security in the form of other liens or guarantees may be required. Bond issuance costs of 4 percent are capitalized with the loan principal, and 10 percent of bond issue must be escrowed.

These loans are made by the Minnesota Agricultural and Economic Development Board. Applications are accepted year-round but must be received by the first of each month to be considered at that month's MAEDB meeting.

## Federal Programs

### USDA Rural Development

The U.S. Department of Agriculture, Rural Development Office, has an extensive list of programs to assist new and existing businesses with construction, equipment purchases, renewable energy production, and energy efficiency upgrades.

Rural Development has over 15 programs, ranging from competitive grants to guaranteed loans, designed specifically for small businesses and agri-business in rural America.

### Small Business Administration (SBA)

Banks and other lending institutions offer a number of SBA guaranteed loan programs to assist small businesses. While the SBA itself does not make loans, it does guarantee loans made to small businesses by private and other institutions.

Below is an overview of SBA's guaranteed loan programs:

#### 7(a) Loan Program:

This is SBA's primary and most flexible loan program, with financing guaranteed for a variety of general business purposes. It is designed for start-up and existing small businesses, and is delivered through commercial lending institutions.

The major types of 7(a) loans are:

- Express Programs (SBA Express, Community Express, & Patriot Express)
- Export Loan Programs
- Rural Lender Advantage Program
- Special Purpose Loans Program

CDC/504 Loan Program:

This program provides long-term, fixed-rate financing to acquire fixed assets (such as real estate or equipment) for expansion or modernization. It is designed for small businesses requiring “brick and mortar” financing, and is delivered by CDCs (Certified Development Companies)—private, non-profit corporations set up to contribute to the economic development of their communities.

Microloan Program:

This program provides small (up to \$35,000) short-term loans for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. It is designed for small businesses and not-for-profit child-care centers needing small-scale financing and technical assistance for start-up or expansion, and is delivered through specially designated intermediary lenders (nonprofit organizations with experience in lending and technical assistance).

Disaster Assistance Loan Program:

This program provides low-interest loans to homeowners, renters, businesses of all sizes and most private non-profit organizations to repair or replace real estate, personal property, machinery and equipment, inventory and business assets that have been damaged or destroyed in a declared disaster.

## **Small Business Development Centers (SBDC)**

The Office of Small Business Development Centers (SBDC) provides management assistance to current and prospective small business owners. SBDCs offer free, one-stop assistance to individuals and small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community and federal, state and local governments and is an integral component of Entrepreneurial Development's network of training and counseling services.

If you would like help with the development of your business plan, marketing techniques, or if you would like assistance with financial/loan packaging, please contact: West Central Region SBDC Center, Concordia College, Grant Center 220, 1310 8<sup>th</sup> Street S., Moorhead, MN 56562 (218) 299-3037, [SBDC@cord.edu](mailto:SBDC@cord.edu) All assistance through the Small Business Development Center is free of charge and strictly confidential.