

MICHIGAN JOBS COMMISSION

MANUFACTURING DEVELOPMENT GROUP

EMPLOYEE-OWNED CORPORATION REVOLVING LOAN FUND

(By authority conferred on the department of commerce by section 14 of Act No. 217 of the Public Acts of 1985, being S450.814 of the Michigan Compiled Laws)

R 450.801 Definitions.

Rule 1. As used in these rules:

(a) "Act" means Act No. 217 of the Public Acts of 1985, being S 450.801 et seq. of the Michigan Compiled Laws.

(b) "Act 152" means Act No. 152 of the Public Acts of 1985, being S 450.731 et seq. of the Michigan Compiled Laws.

(c) "Applicant" means an employee-owned corporation group applying to the department for a loan from the fund established by the act and act 152.

(d) "Application" means the form provided by the department requesting information from a loan applicant.

(e) "Borrower" means an applicant that has executed loan documents with the department to borrow from the fund.

(f) "Department" means the department of commerce.

(g) "Director" means the director of the department of commerce.

(h) "Existing debt" means obligations or money owed by the applicant to another in accordance with an express or implied agreement.

(i) "Feasibility study" means a financial and economic analysis of the viability of a business becoming an employee-owned corporation.

(j) "Fixed asset costs" means those expenditures which are for the acquisition, construction, reconstruction, or improvement of property that is subject to an allowance for depreciation. Fixed asset costs do not include expenditures for working capital or the financing of inventory and accounts receivable.

(k) "Fixed assets" means real property and tangible personal property used in the operations of a business and not consumed or converted into cash in the ordinary course of events. Fixed assets include all of the following:

(i) Plant.

(ii) Machinery and equipment.

(iii) Furniture and fixtures.

(iv) Leasehold improvements.

(l) "Interest rate" means the cost set by the department for money borrowed from the fund.

(m) "Loan committee" means a 3-member body, of which 2 members are staff persons from the department of commerce and 1 is a staff person from the department of labor.

(n) "Project" means the use of loan funds as described in the application and approved by the director.

(o) "Staff" means employees of the department of commerce.

(p) "Working capital" means funds of the borrower expended for the acquisition of inventory, the financing of accounts receivable, and the payment of operating expenses.

History: 1987 AACs.

R 450.802 Applicant eligibility.

Rule 2. An applicant is eligible to submit an application for a loan from the fund if it is an employee-owned corporation as defined in section 2 of act 152.

History: 1987 AACCS.

R 450.803 Business plan.

Rule 3. The application for all loans, except a loan to conduct a feasibility study, shall be accompanied by a business plan from the applicant. At a minimum, all of the following information shall be included in the business plan:

- (a) A description of the project, including all of the following information:
  - (i) The location of the project.
  - (ii) All assets to be acquired.
  - (iii) The manner of project implementation and complete financial structure, including the requested loan.
  - (iv) Sources and uses projection of all project financing.
- (b) Information relating to the ownership and management of the project, including key personnel and the number, type, and skill levels of employees, and the effect of expansion plans on employment.
- (c) Schedules of management salaries, benefits, and total compensation.
- (d) The nature and history of the project and related businesses, and information regarding competitors and major suppliers.
- (e) Marketing factors, including all of the following:
  - (i) Present and planned geographic areas.
  - (ii) Market demand for the applicant's product or products.
  - (iii) Marketing and sales organization.
  - (iv) Methods of marketing and distribution.
  - (v) Proposed advertising programs.
- (f) Sales, including all of the following information:
  - (i) Recent history.
  - (ii) Trends.
  - (iii) Cyclical and seasonal factors.
  - (iv) Customer base, existing and potential, including details on concentration factors.
  - (v) Terms of sale.
- (g) Operations, including all of the following information:
  - (i) Product mix.
  - (ii) Production.
  - (iii) Research and development activities.
- (h) Future markets, including substitution products and obsolescence.
- (i) Financial background, including financial statements for the most recent 3 years, if applicable, and projected financial information, together with aging schedules for accounts receivable and payable. Projected information shall state the assumptions upon which projections are based and shall be supported with objective data, including feasibility studies, if appropriate.
- (j) Collateral and credit support, including all of the following information:
  - (i) A description and evaluation of the facility's equipment, whether owned or leased, including terms and status.
  - (ii) Insurance on the plant and life insurance on officers.
  - (iii) Corporate and individual guarantees available from owners or officers (include personal financial statements).
  - (iv) Independent appraisals.
- (k) Commitments of other participants, lenders, or financing sources, including terms and conditions.

History: 1987 AACCS.

R 450.804 Feasibility study.

Rule 4. (1) If a loan to conduct a feasibility study is made, the feasibility study shall include an evaluation of all of the following:

- (a) Historical financial statements.
- (b) Productivity of existing plant and equipment.

- (c) Market demand and competition.
  - (d) Management and labor relations.
  - (e) Wage requirements.
  - (f) Personnel requirements.
  - (g) Recommendations for company reorganization.
  - (h) The value of the assets and liabilities of the firm including contingent liabilities.
- (2) The department may require personal guarantees or other forms of security for a loan to conduct a feasibility study.

History: 1987 AACS.

R 450.805 Staff review and evaluation.

Rule 5. All loan applications and accompanying information shall be processed, reviewed, and evaluated by the staff. The staff may require additional information from the applicant for proper review and evaluation of the loan request. The results, from review and evaluation of other participating lenders connected with any loan requests, may be considered by the staff. Particular attention may be given to the validity of pertinent assumptions in the application upon which projections of future results are based. The staff may also request that the applicant supply specific information dealing with both of the following:

- (a) A description of the structure that enables employees to participate in the management decision-making process.
- (b) How the company intends to meet any stock repurchase liability obligations to redeem the stock when an employee resigns, retires, dies, or becomes disabled or when employment is otherwise terminated.

History: 1987 AACS.

R 450.806 Department of labor review and comment.

Rule 6. The department of labor shall review the application and submit its comments to the loan committee.

History: 1987 AACS.

R 450.807 Loan committee recommendation to director.

Rule 7. The loan committee will review all of the following and submit a recommendation to the director:

- (a) The loan application.
- (b) The staff comments.
- (c) The department of labor comments.
- (d) The collateral and security available for the requested loan.

History: 1987 AACS.

R 450.808 Director approval or denial.

Rule 8. After receipt of the loan committee recommendation, the director may approve or deny the loan request.

History: 1987 AACS.

R 450.809 Director approval by commitment letter.

Rule 9. If the director approves a loan request, the director shall send a formal loan commitment letter outlining the terms and conditions of the loan to the applicant for execution by the applicant. Execution by the applicant signifies approval and acceptance by the applicant of the terms and conditions of the loan.

History: 1987 AACS.

R 450.810 Applicant's acceptance; preparation of documents for closing.

Rule 10. After execution of the commitment letter and its return to the department, the preparation of loan and security documents for a loan closing will be undertaken by the department of attorney general.

History: 1987 AACS.