An Evaluation of the
PACE & FlexPACE Loan Programs

Bank of North Dakota

Conducted by:

Praxis Strategy Group

November 2016

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About This Report

The Bank of North Dakota is the only entity of its kind in the nation - a state-owned bank dedicated to promoting commerce, industry and agriculture. The Bank of North Dakota offers low-interest loan programs in collaboration with a lead lender to meet the financing needs of most any new or expanding business. This evaluation study of the PACE and FlexPACE programs was conducted by Praxis Strategy Group, an economic research, policy, strategy and development company that works with leaders, innovators and entrepreneurs in business, government and education to create more competitive companies and communities.

EXECUTIVE SUMMARY

The Bank of North Dakota (BND) serves as an economic-development lender and "banker's bank" that lessens loan risks of private banks and helps them finance larger projects in their communities. BND offers loan programs that are designed at low interest rates to encourage economic activity for businesses, farmers and students. The focus of this study is an evaluation of BND's PACE and FlexPACE programs for the time period 2005 – 2016.

The PACE and FlexPACE programs require participation by a local lender and participation by the local community to reduce the borrower's interest rate. The notable differences between the two programs are related to job creation and the maximum interest buydown.

- Job creation:
  - In the PACE program the borrower must demonstrate that within one year, there will be a minimum of one job created and retained for every $100,000 of total loan proceeds
  - FlexPACE requires no job creation.
- Interest buydown:
  - In the PACE program the maximum buydown from the BND is $300,000 per loan per biennium.
  - Flex PACE provides an interest rate buydown up to $100,000 per loan per biennium.

Accordingly the PACE Fund is primarily intended to help communities expand their economic base by creating new jobs while the FlexPACE Program supports community-based economic growth, with the community determining its needs.

Since its inception in 1991, when job creation was the top priority for North Dakota's economic development efforts, the PACE program has loaned $175,280,646 on 384 projects with participating lender loans totaling $165,914,384.

This study focuses on the time period between 2005 and 2016 to enable better comparisons between the two programs. Usage of the PACE and FlexPACE programs is statewide with 174 communities using the programs since 2005. Total loan value of the PACE and FlexPACE programs, including bank participation, from 2005 through September of 2016 equaled $610,108,704. FlexPACE accounts for $380,027,544 (62%) of this total and PACE accounts for $230,081,160 (38%). There were 611 FlexPACE deals and 264 PACE deals during this time period. Recent years have seen a shift toward greater use of the FlexPACE program as job creation skyrocketed in the state and the need for community services and amenities took on greater importance.

The two programs have been used in a wide variety of industries. Yet, three major industry sectors account for 80% of the use of PACE funds – manufacturing (38%), real estate rental and leasing (26%) and management of companies and enterprises (16%). Likewise, three sectors account for 64% of the use of FlexPACE funds – real estate rental and leasing (42%), manufacturing (12%) and food services and accommodations (10%). Overall, manufacturing and real estate rental and leasing are a common denominator of investment made by the two programs.

By any measure, based on the quantitative and qualitative findings reported in this study, the PACE and FlexPACE programs have demonstrated their value and functionality as capital access tools throughout North Dakota. The programs have helped to create jobs and leveraged private investment, with every FlexPACE dollar leveraging $1.67 and every PACE dollar leveraging $2.60. The programs get very high marks for their ease of use, effectiveness and impact from economic development professionals in North Dakota.

Use of the PACE program has declined in recent years and given way to increased use of the FlexPACE program. A diminished need to focus solely and primarily on creating jobs and a rising need to invest in community assets that contribute to quality of life are the primary reasons for the shift from PACE to FlexPACE. Yet, the PACE program's capacity for financing larger projects makes it an important part of the financing toolbox and new job creation will remain a legitimate and necessary goal for economic development far into the future, particularly in the rural parts of North Dakota.

Based on the quantitative findings and the insights of the economic developers some possible improvements to the PACE and FlexPACE programs can be suggested:

PACE Improvements include

- Lengthen the time period for meeting the job requirement from one to three years
- Increase the loan value from $100,000 per job to $250,000 per job, to better meet the needs of expansion projects that oftentimes don't add jobs but may increase capacity and revenue of companies
- Increase the buydown limit to $500,000
- Expand the range of industries that can use the program, e.g. advanced service industries

FlexPACE improvements include

- Increase the buydown limit to $300,000
- Expand the range of industries that can use the program, e.g. advanced service industries

BND PACE and FlexPACE Impact Highlights:

- There were 611 FlexPACE deals and 264 PACE deals from 2005 through September of 2016. Total loan value of the PACE and FlexPACE programs, including bank participation, equaled $610,108,704. FlexPACE accounts for $380,027,544 (62%) of this total and PACE accounts for $230,081,160 (38%).
- The average interest rate for FlexPace borrower from 2005-2016 is 1.63% and 2.21% for PACE borrowers for the 2005-2015 time period.
- Median wages among PACE borrowers, where jobs and wages were verified, increased year over year climbing to a peak of $21.65 in 2015. This median wage was $3.30 higher than the median wage of $18.35 from all occupations in North Dakota in 2015.
- The total value of projects for the 2005-2016 period is estimated at $1.09 billion, including $360,431,185 from BND loans and buydowns and $730,628,807 from lead lenders and other investors. Accordingly, every $1 of BND financing leverages $2.03 from other sources. Furthermore, each job created cost an estimated $11,711 in BND buydown dollars.

INTRODUCTION

The Bank of North Dakota (BND) serves as an economic-development lender and "banker's bank" that lessens loan risks of private banks and helps them finance larger projects.

BND offers loan programs that are designed at low interest rates to encourage economic activity for businesses, farmers and students. This study evaluates BND's PACE and FlexPACE programs. As shown in Figure 1, these two BND loan programs are part of the array of private and public tools that are available to help companies and their host communities in North Dakota access the capital needed to start and expand throughout the business lifecycle.

BND is designed to partner with local banks and not compete with them so lending is participatory in nature. BND's business lending programs work with the local lender as the borrower's first contact. The local lender initiates the loan application with BND on behalf of the borrower. Oftentimes, a local or regional economic developer originates and/or assists in packaging a loan in cooperation with the lender and borrower.

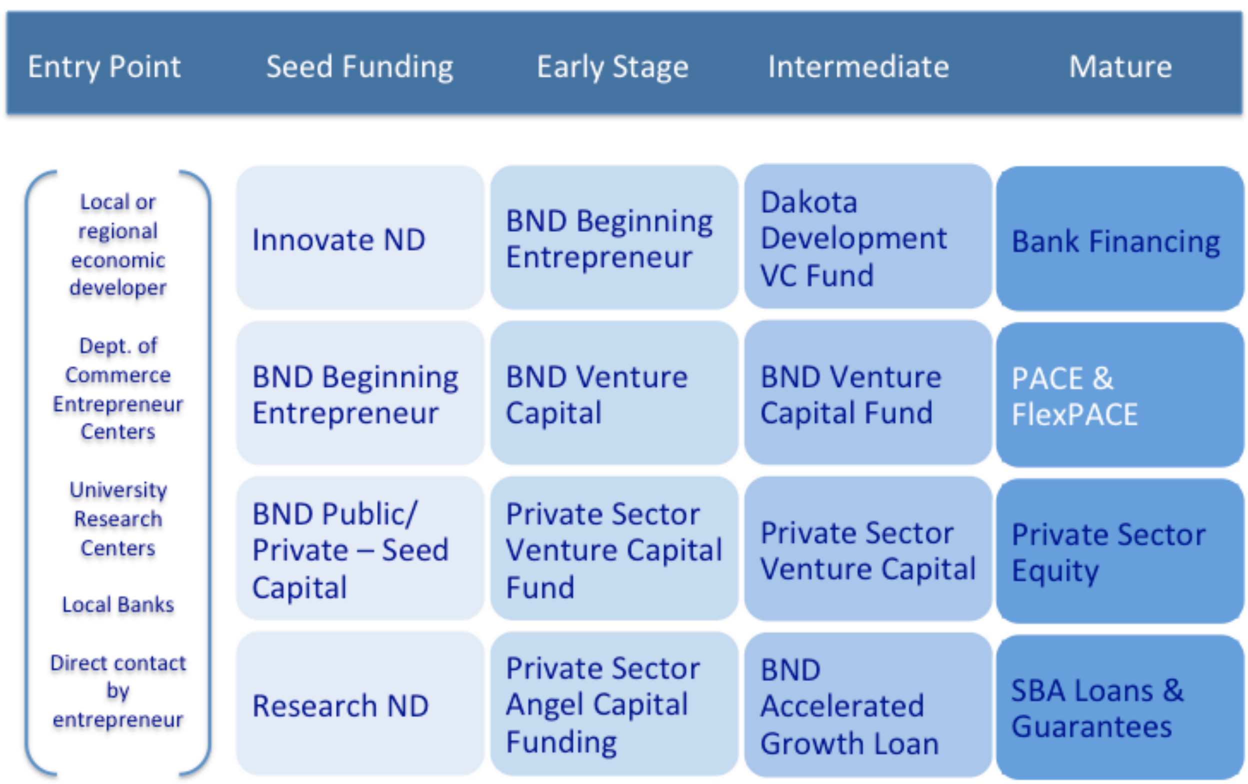

Figure 1: Capital Access from BND and Other Sources

The study's findings are based on several sources of data:

- Financial data provided by BND for the PACE and FlexPACE programs from the beginning of the program through September 2016. The analysis focuses on a period from January 2005 through September 2016. (see endnote on data sets used in the analyses)
- An online survey sent to the members of the Economic Development Association of North Dakota (EDND) to assess their utilization of the program and its effectiveness in

- Personal interviews conducted with several economic developers in communities where the programs have been used frequently over the last 5 years.
- Policy, program goal and performance indicator guidelines of capital access programs were evaluated and compared to the PACE and FlexPACE programs.

USAGE OF THE PACE & FLEXPACE PROGRAMS

The PACE and FlexPACE programs are very similar. BND requires participation by a local lender and participation by the local community to reduce the borrower's interest rate in both programs. The notable differences between the two programs are related to job creation and the maximum interest buydown.

- Job creation:
  - In the PACE program the borrower must demonstrate that within one year, there will be a minimum of one job created and retained for every $100,000 of total loan proceeds
  - FlexPACE requires no job creation.
- Interest buydown:
  - In the PACE program the maximum buydown from the state of North Dakota is $300,000 per loan per biennium.
  - Flex PACE provides an interest rate buydown up to $100,000

Accordingly the PACE Fund is intended to help communities expand their economic base by creating new jobs while the Flex PACE Program supports community-based economic growth, with the community determining its needs.

PACE & FlexPACE Loan Usage

Since its inception in 1991, when job creation was the top priority for North Dakota's economic development efforts, the PACE program has loaned $175,280,646 on 384 projects with participating lender loans totaling $165,914,384. The remaining analyses in this report will focus on the 2005-2016 time period to enable comparisons between the PACE and FlexPACE programs.

Total loan value of the PACE and FlexPACE programs, including bank participation, from 2005 through September of 2016 equaled $610,108,704. FlexPACE accounts for $380,027,544 (62%) of this total and PACE accounts for $230,081,160 (38%). There were 611 FlexPACE deals and 264 PACE deals during this time period. (see Figure 2)

The volume and usage of loans supported by PACE has decreased over the years (rebounding slightly in 2012) while, at the same time, average loan funding per deal has increased 3 fold from $646,113 in 2006 to over $1.8 million by 2014. The number of PACE deals per year has followed a steady decline from 41 in 2005 to a low of 8 deals in 2014 and 2015 and zero deals in 2016.

Meanwhile, the number of Flex PACE loans trended in the opposite direction with a steady increase from 7 loans in 2005 to a peak of 100 in 2014 with a slight retraction in 2012 before rebounding. Total loans from FLEX PACE, in terms of volume and usage, have skyrocketed since 2007, peaking in 2013 at just over $77 million (see Figure 3).

From 2005 to 2008 the PACE program supported 3 to 10 times more activity than the FlexPACE Program. However, in 2009 the programs reached a relative level of parity ($12 - $13 million in total loan amount funded) as PACE usage declined from $55 million to $12.2 million. After 2009 FlexPACE usage skyrocketed, increasing nearly 5 fold by 2013 to $77 million in total loan amount funded. During this same time period, PACE usage remained relatively stable.

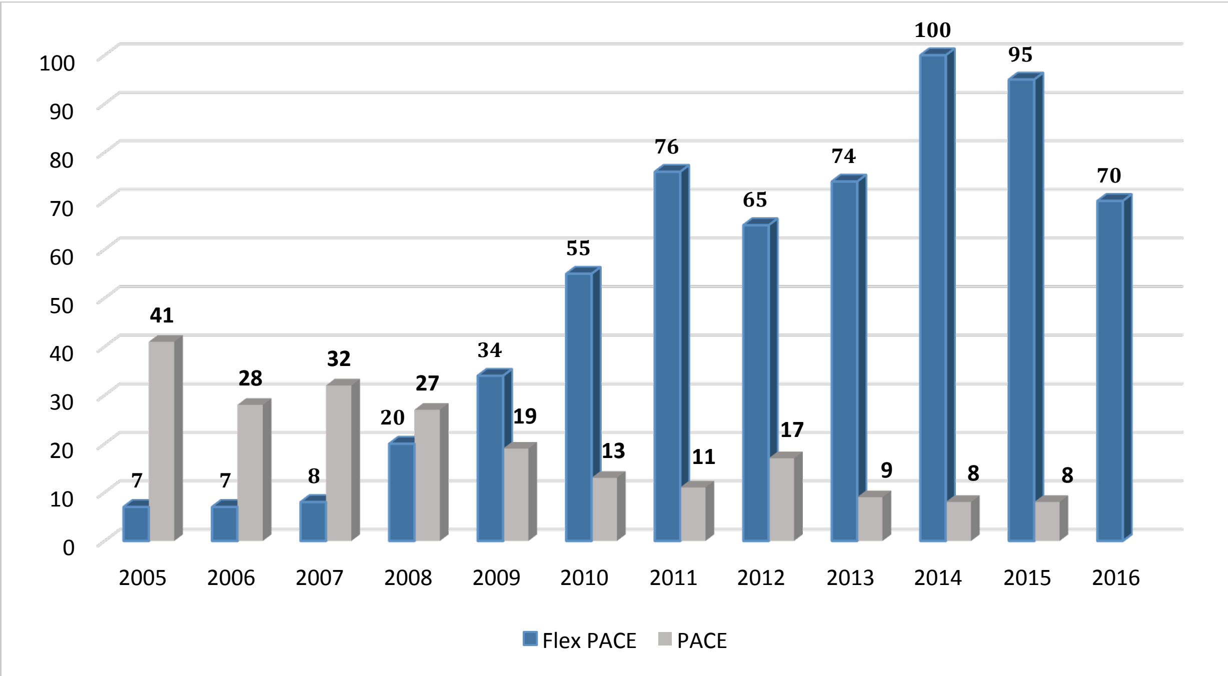

Figure 2: Deal Count for PACE & FlexPACE 2005-2016

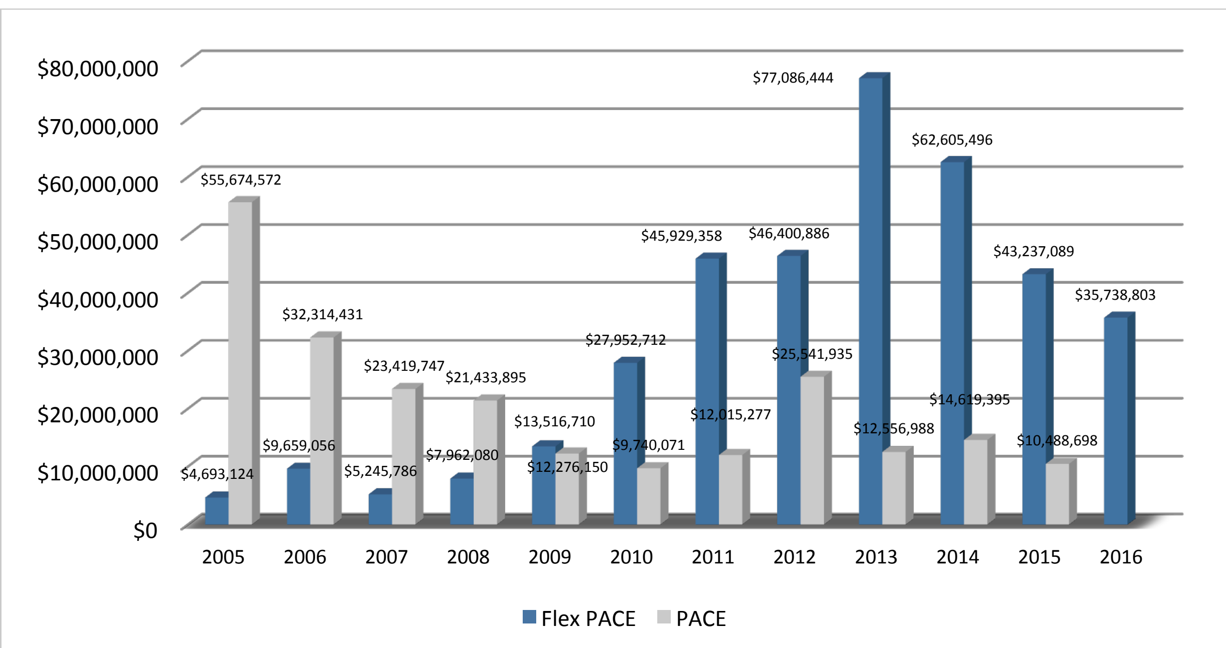

Figure 3: Total Loan Amounts for PACE & FlexPACE 2005-2016

FlexPACE loan averages have remained fairly stable, increasing incrementally since 2009 to a peak of just over $1 million in total loan amount per deal in 2013. PACE loans have also exhibited some stability over the years but typically have a higher average than FlexPACE because their buydown maximums are higher.

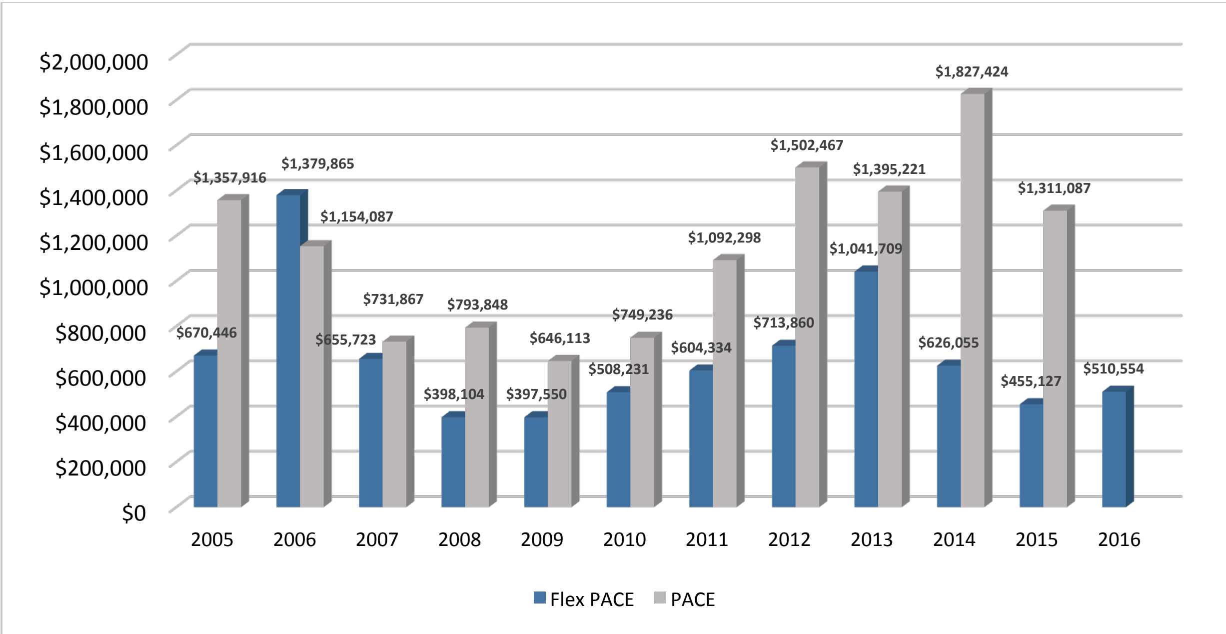

Figure 4: Average Loan Amounts for PACE & FlexPACE 2005-2016

Figure 5 clearly shows the shift of borrowers from the PACE to the FlexPACE program in 2009. One factor that coincides with this sharp shift from the PACE to the FlexPACE program is the robust rise in job creation in North Dakota in the mid-2000s (see Figure 6), which most likely put the focus on using the programs to fund those activities that contribute to quality of life and meeting the needs of a growing population.

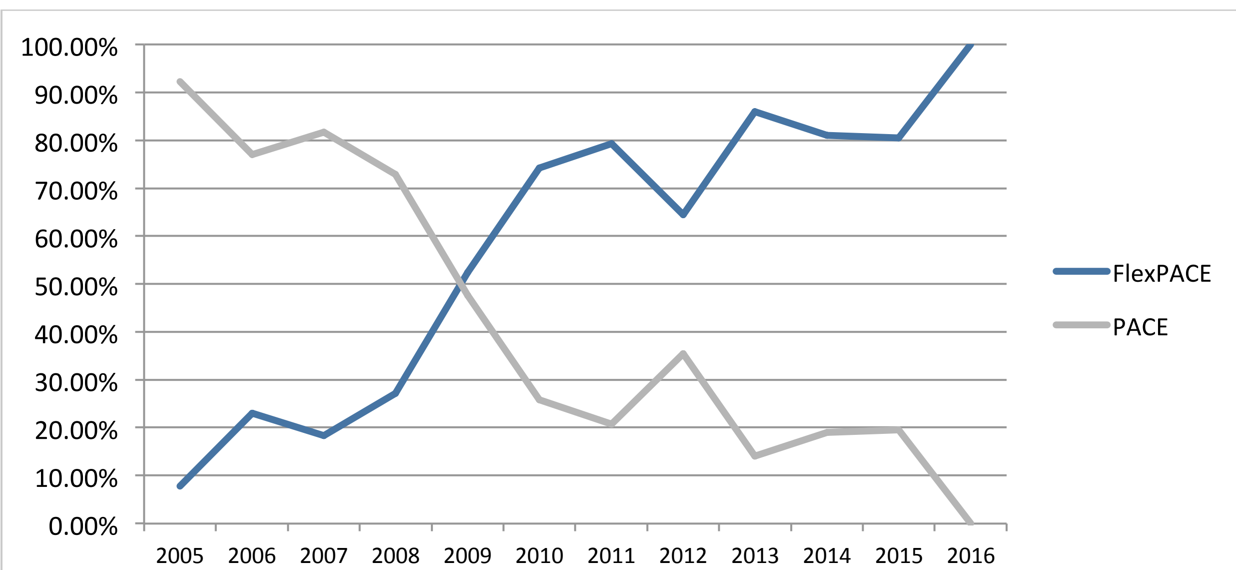

Figure 5: Percentage of Total Loan Value by PACE & FlexPACE 2005-2016

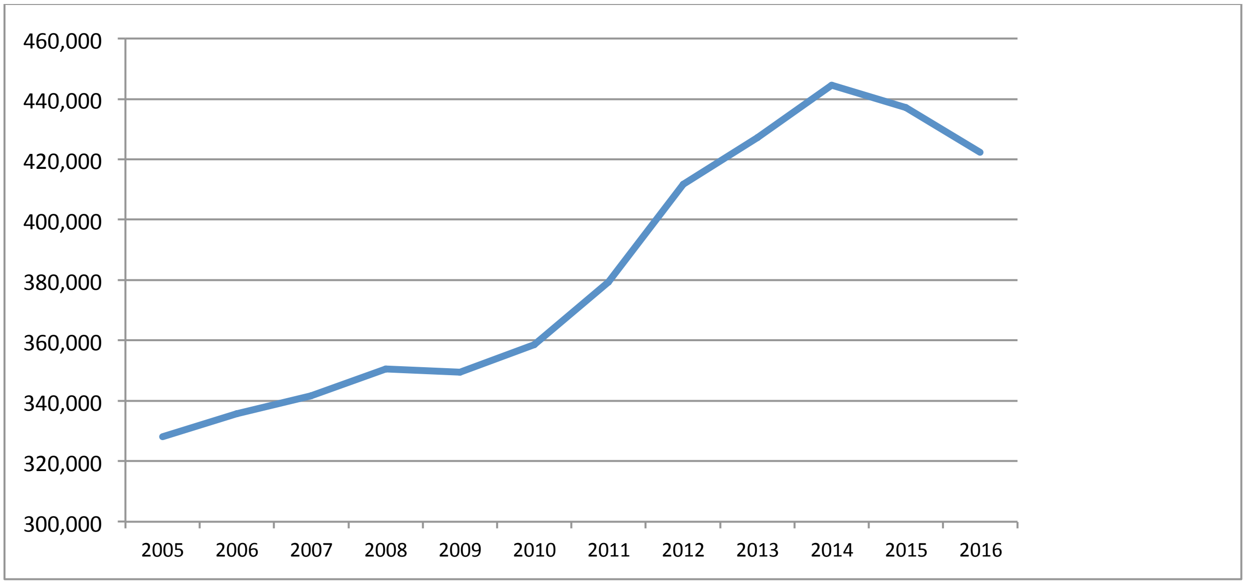

Figure 6: Jobs in North Dakota 2005 to 2016

PACE & FlexPACE Loan Usage by Industry

The PACE & FlexPACE loans, while very similar, do have differences that are important to different types of borrowers and meet distinct community needs. Figures 7 through 10 report the use of funds by industry for each of the programs.

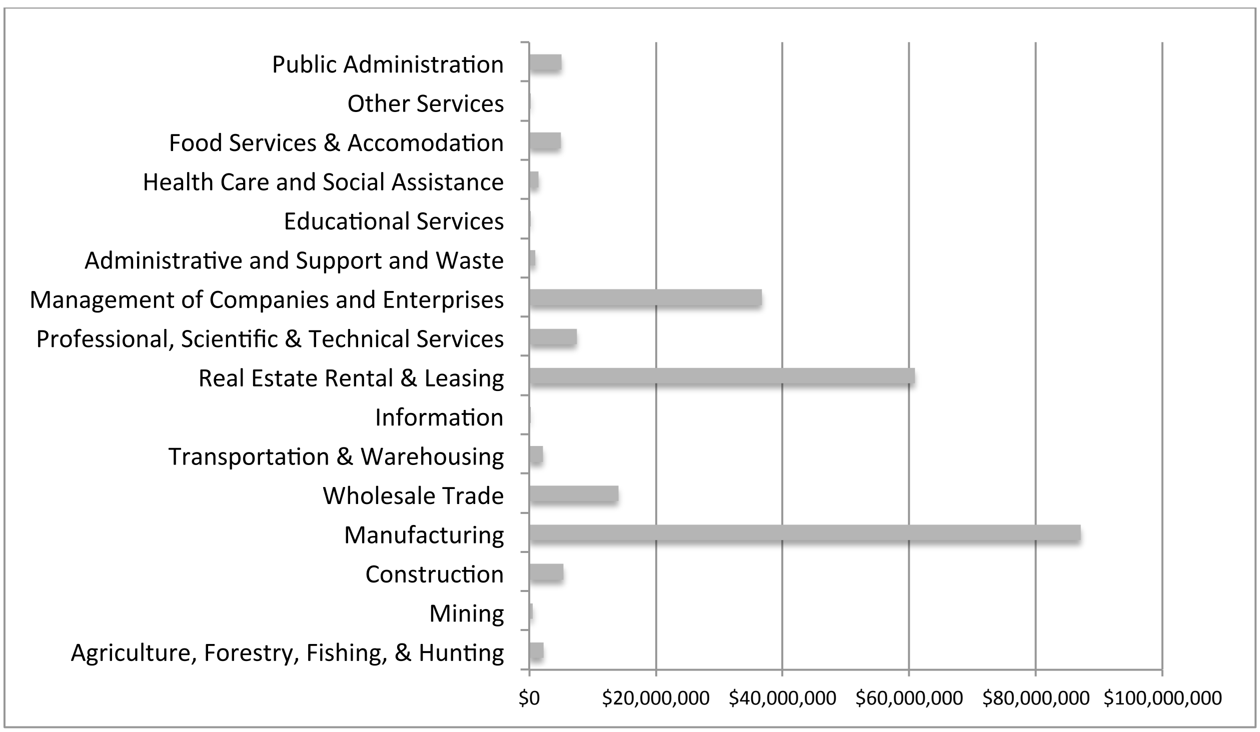

Figure 7: Use of PACE Funds by Major Industry Sector (2005-2015)

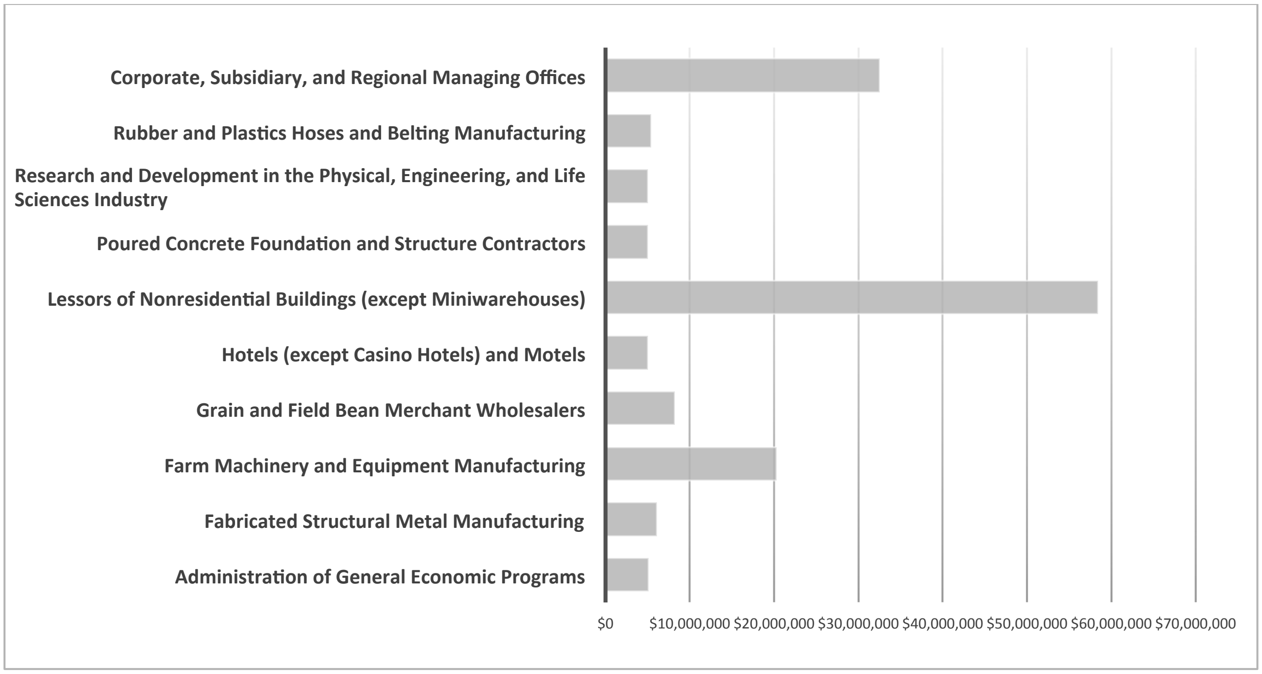

Figure 8: Use of PACE Funds by Top Ten Industries (2005-2015)

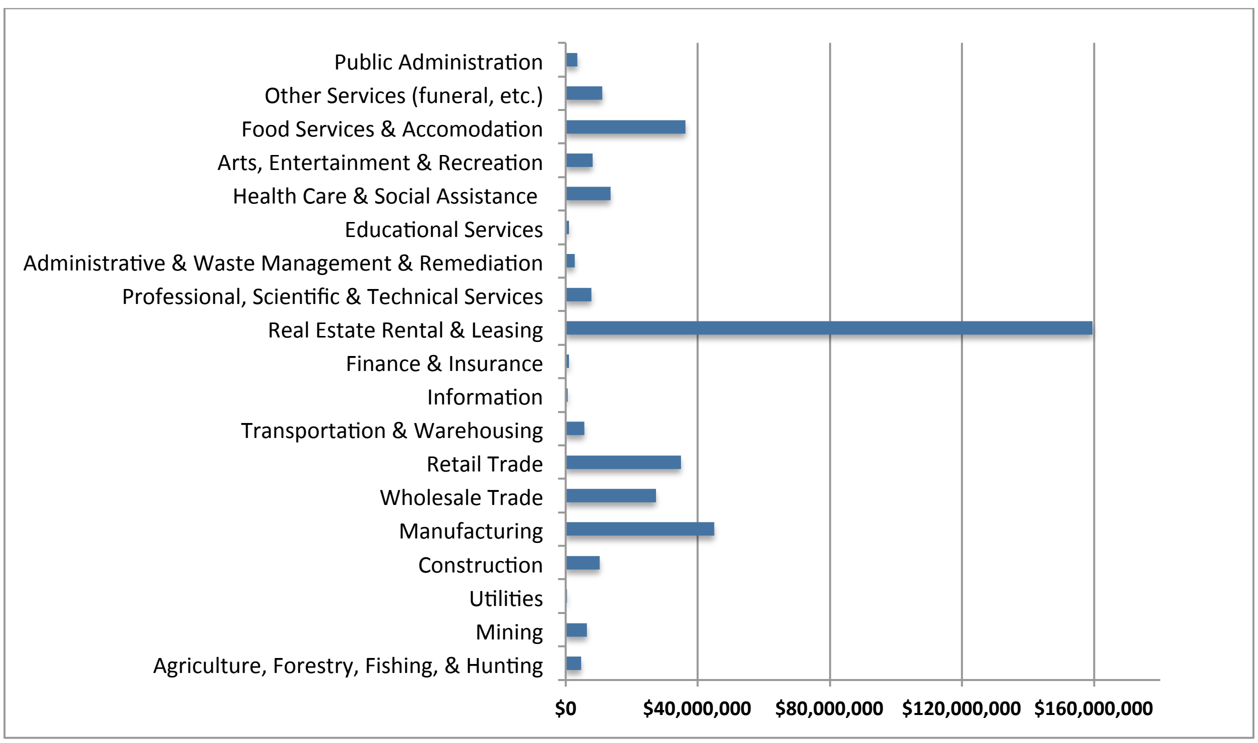

Figure 9: Use of FlexPACE Funds by Major Industry Sector

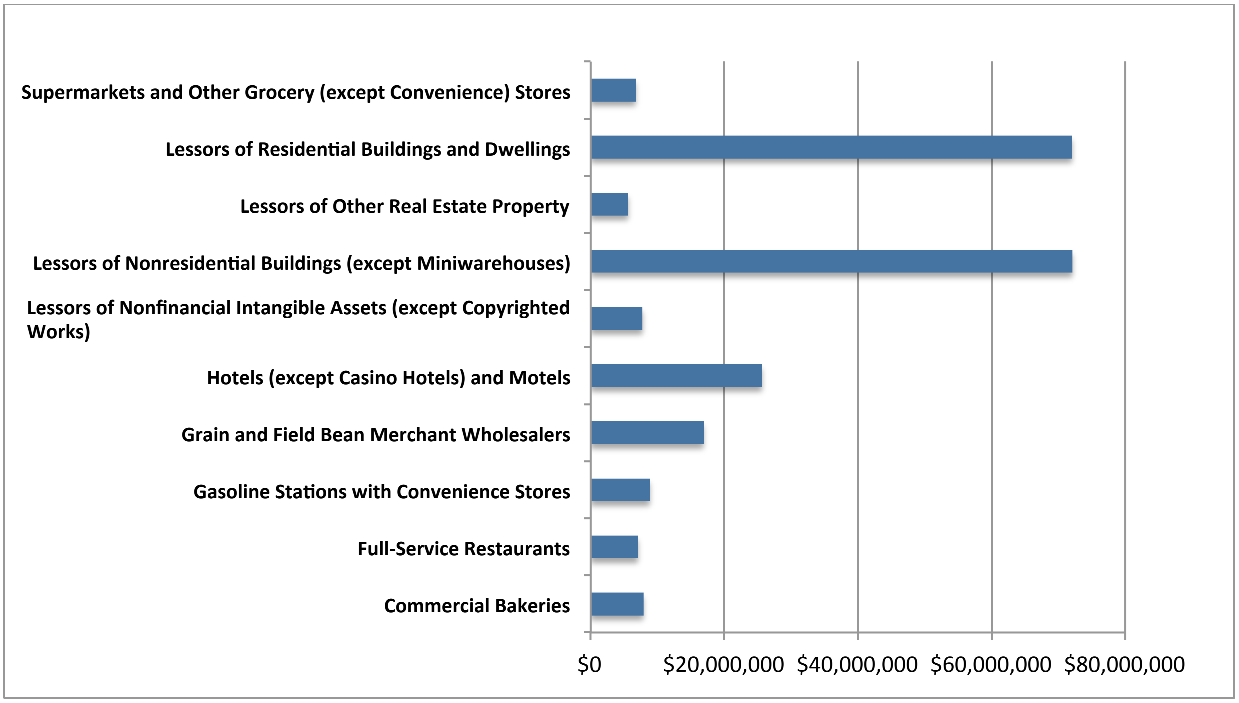

Figure 10: Use of FlexPACE Funds by Top Ten Industries

In summary, the two programs have been used to support a wide variety of industries. Yet, three major industry sectors account for 80% of the use of PACE funds – manufacturing (38%), real estate rental and leasing (26%) and management of companies and enterprises (16%). Likewise, three sectors account for 64% of the use of FlexPACE funds – manufacturing (12%), real estate rental and leasing (42%) and food services and accommodations (10%).

Overall, manufacturing and real estate rental and leasing are common denominator in both programs. Nonresidential buildings are typically built by an investor group that then rents or leases the building to an operating company that qualifies under the rules of the PACE and Flex PACE programs; these firms are typically engaged in manufacturing and other commercial services. Similarly, residential buildings include apartment complexes built by an investor group and then rented or leased.

Impact of PACE and FlexPACE

The PACE Fund is intended to help communities expand their economic base by creating new jobs while the Flex PACE Program supports community-based economic growth, with the community determining its needs. Foue program impacts are examined here including lower interest rates for borrowers, wages, leveraged capital and jobs.

Lower Interest rates to the borrower demonstrate the first impact of the PACE and FlexPace programs. Figure 11 shows the average interest rate that borrowers paid for each program after BND's interest buydown. The average interest rate for FlexPace from 2005-2016 is 1.63% and 2.21% for PACE for the 2005-2015 time period.

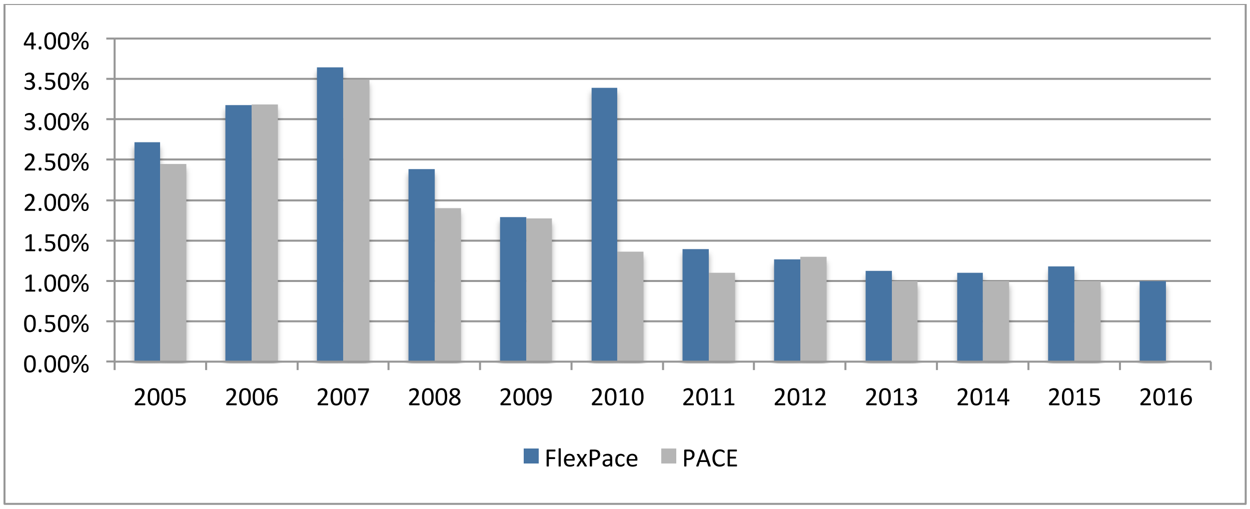

Figure 11: Average Interest Rate Paid by Borrower with BND Interest Buydow

Median wages reported in a limited database of PACE borrowers where jobs and wages were verified increased year over year climbing to a peak of $21.65 in 2015. Data for 2015 in North Dakota from the U.S. Census Bureau's Bureau of Labor Statistics (BLS) shows median hourly wages from all occupations to be $18.35, which is $3.30 lower than the $21.65 median wage for PACE supported companies in 2015.

Year	Median Hourly Wage
2006	$8.50
2007	$14.00
2008	$15.82
2009	$16.06
2010	$16.30
2011	$16.68
2012	$17.69
2013	$19.60
2014	$20.83
2015	$21.65
2016	$20.58

Figure 12: Median Hourly Wage for Companies Using PACE Funds (Verified 2007-2016)

Leveraging capital from other sources to finance projects is an important goal of capital access programs such as the PACE and FlexPACE programs. Figure 13 reports total financing from a limited database of 493 FlexPACE loans and 174 PACE loans totaling $885,167,880 from three sources and calculated the ratio of project financing from other sources to financing from BND.

	BND Loan + Buydown	Other Loan	Other Project Investment	Ratio of Total Other to BND
FlexPACE	$184,608,006	$144,313,020	$163,580,394	1.67
PACE	$109,044,413	$77,545,388	$206,076,660	2.60
Total	$293,652,419	$221,858,407	$369,657,054	2.01

Figure 13: Sources of Project Financing and the Leverage Ratio for BND Investment

Job creation verifications were performed by BND on a periodic basis to determine the status of jobs created as a result of PACE supported financing and to track total employment in terms of Full Time Equivalent (FTE) employees. The analysis of jobs data for 124 companies who received PACE support between 2009 and 2015 – those years with higher and consistent number of verifications – shows that the number of jobs created as a result of PACE supported financing grew each year, peaking at 1,272 in 2012. FTE employment followed a similar trend, increasing each year and peaking at 3,839 FTE employees in 2012. In summary, over the course of the subset of years analyzed, an average of 775 verified jobs were created by PACE funded companies and the total employment of these companies peaked in 2012 and totaled 2,930 FTE in 2015.

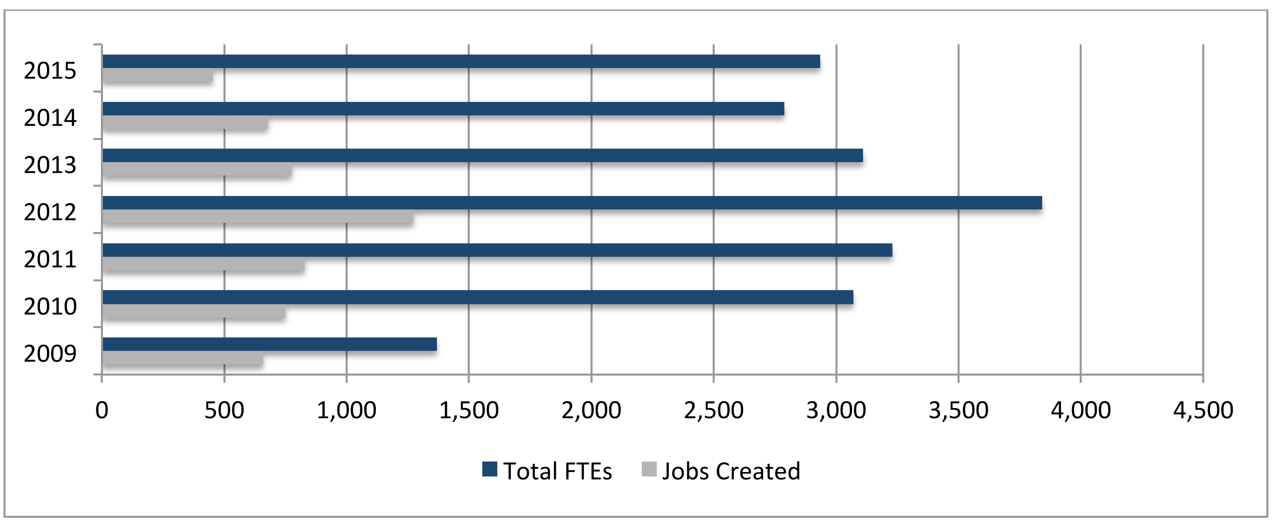

Figure 14: Jobs Created & Total Employment in Businesses Receiving PACE Loans (2009-2015)

Community Usage and Evaluation of the PACE and FlexPACE Programs

Usage of the PACE and FlexPACE programs is statewide with 174 communities using the programs since 2005. Figure 15 reports the total loan amounts for the ten communities that have used the two programs most extensively; they account for 57% of all FlexPACE loans and 74% of all PACE loans during the 2005 – 2016 time period.

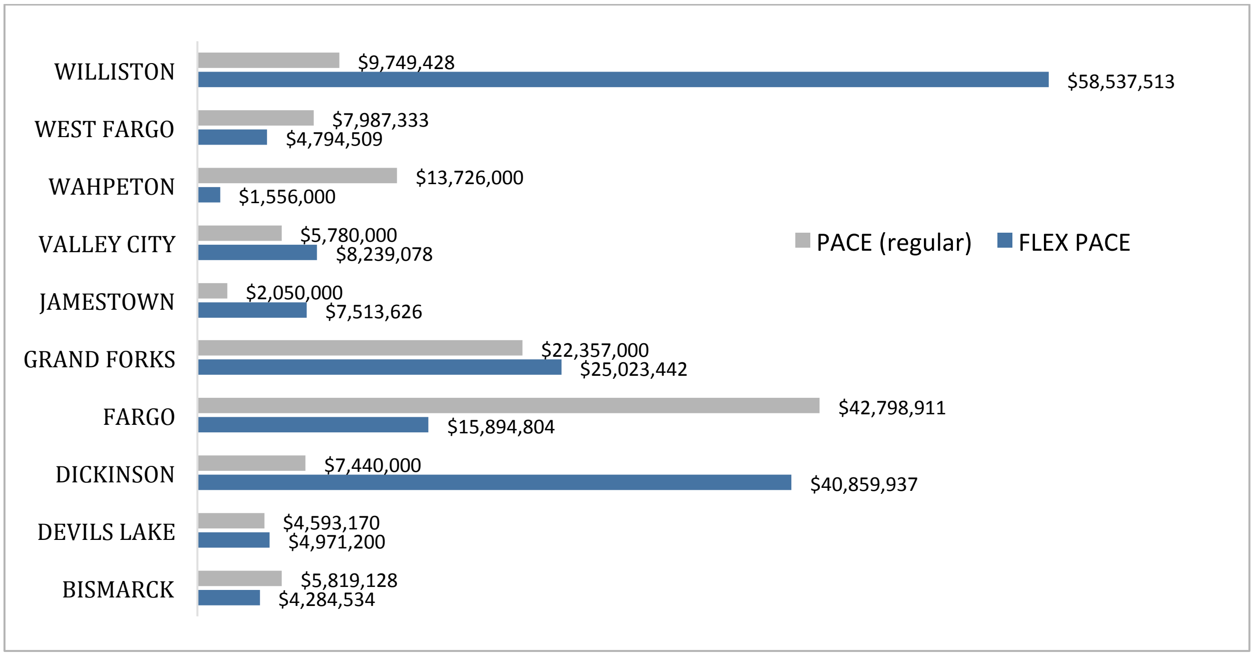

Figure 15: Total Loan Funding including PACE and FlexPACE by Top Ten User Communities

A survey of economic developers who are members of the Economic Development Association of North Dakota was conducted to ascertain their usage and viewpoint on the usefulness of the two programs. As Figure 16 shows, among the 19 respondents the majority have used the programs in the last five years, more FlexPACE than the PACE program. This finding is consistent with the usage data reported earlier.

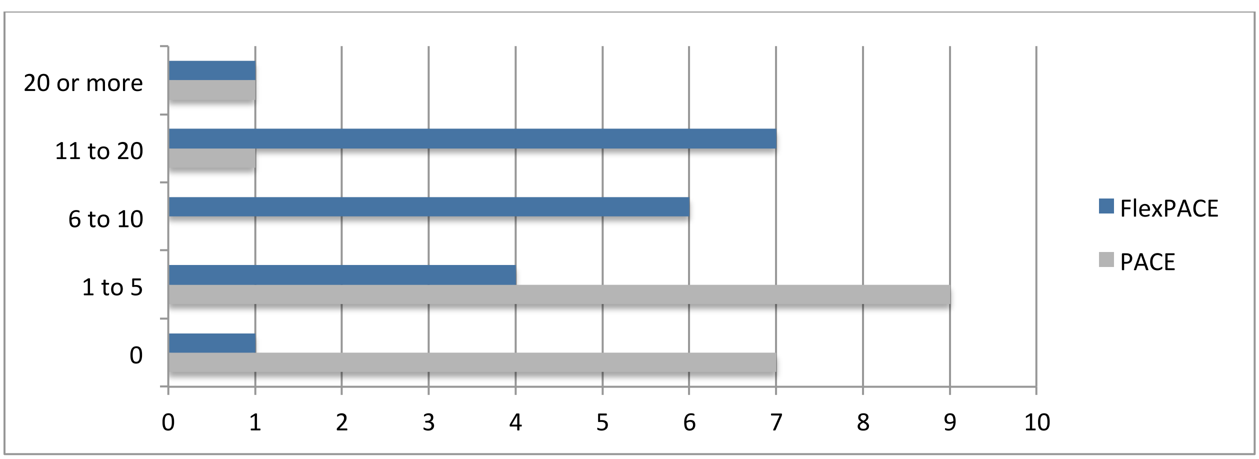

Figure 16: EDND Survey Respondents Program Usage in Last 5 Years

As reported in Figure 17, about 32% of the economic developers believe that FlexPACE is used always or most of the time because of the PACE program's job requirements. Yet just over 45% believe that use of the programs is dependent on either the project or the borrower.

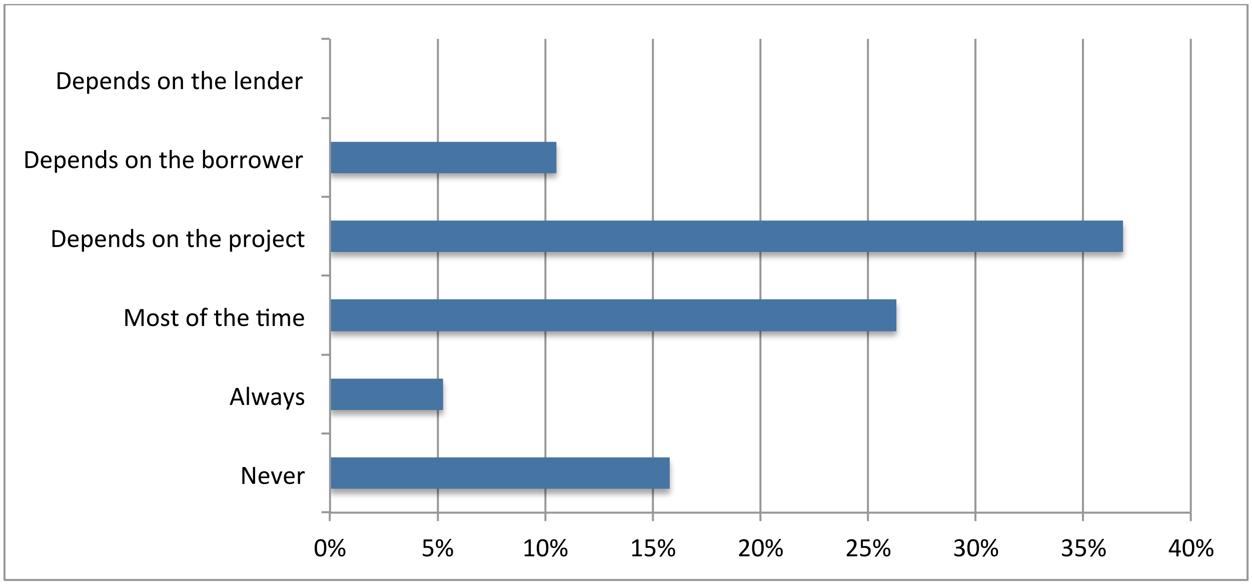

Figure 17: How Often the Job Requirement of PACE Discourages Its Use in Favor FlexPACE

Proceeds of the two programs may be used to purchase real property, equipment and certain working capital requirements. According to the respondents to the EDND survey the programs are very useful for each of these uses with real estate exhibiting the highest level of usefulness. This finding is aligned with the data reported earlier showing high usage of program proceeds for real estate rental and leasing projects.

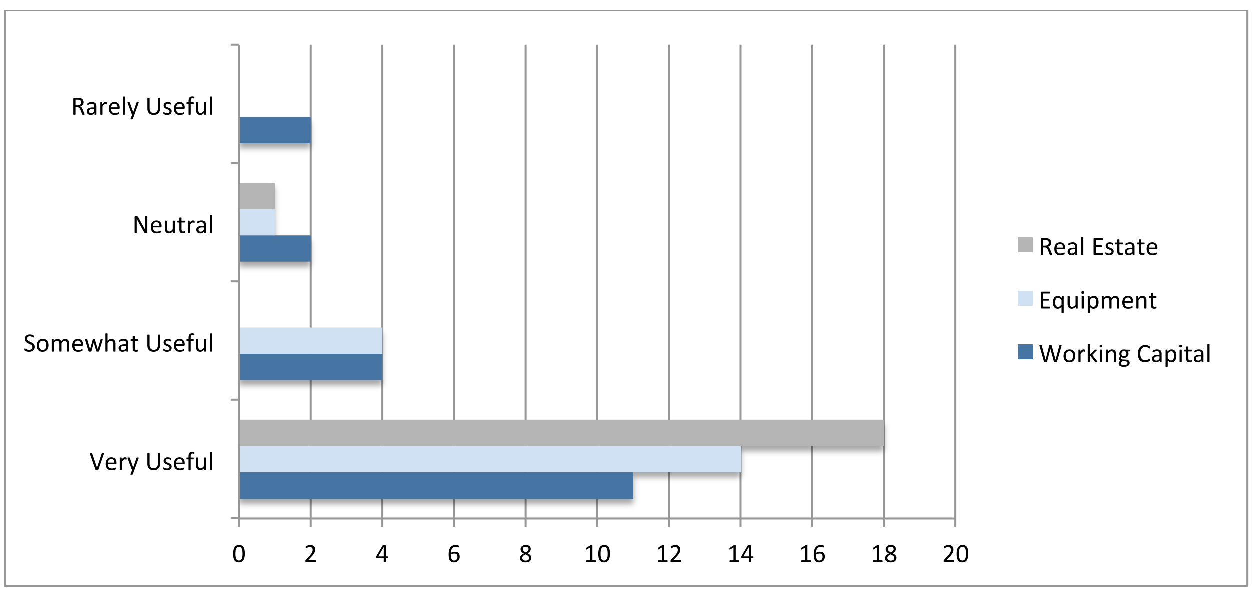

Figure 18: Usefulness of the Programs for Real Estate, Equipment & Working Capital

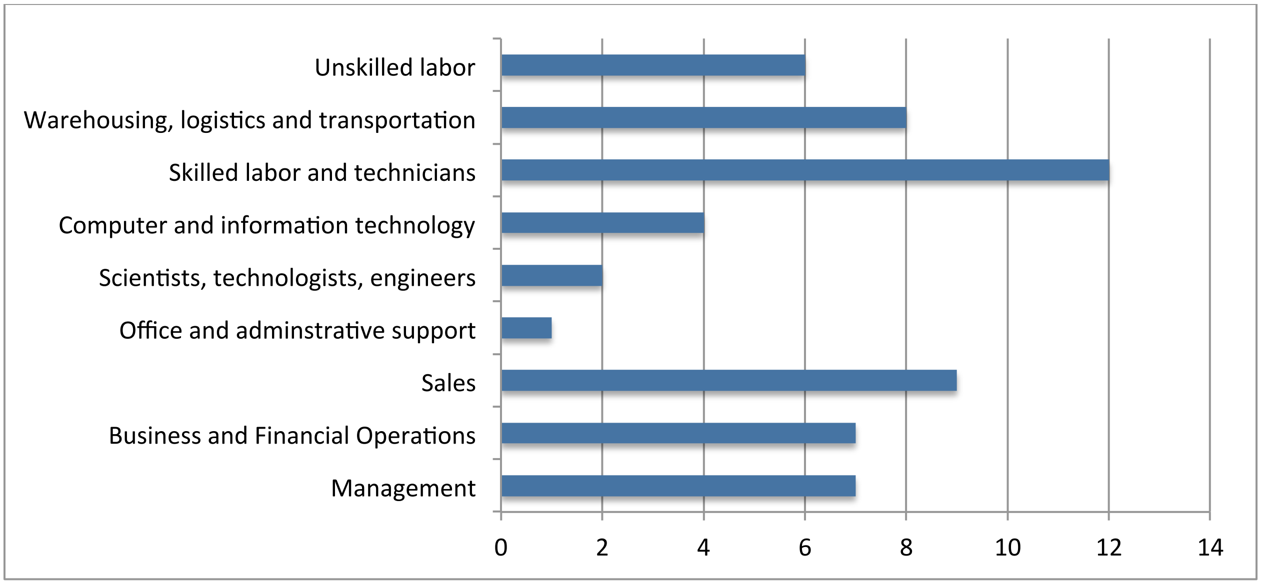

Figure 19: Types of Jobs Both Programs Are Most Useful in Creating or Retaining

Economic developers also weighed in on the types of jobs that the programs are most useful in creating and the impacts that the programs have in their communities. Skilled labor and technician jobs rose to the top as the kind of job creation most often facilitated by the programs while helping existing companies expand was reported to be the highest impact in communities.

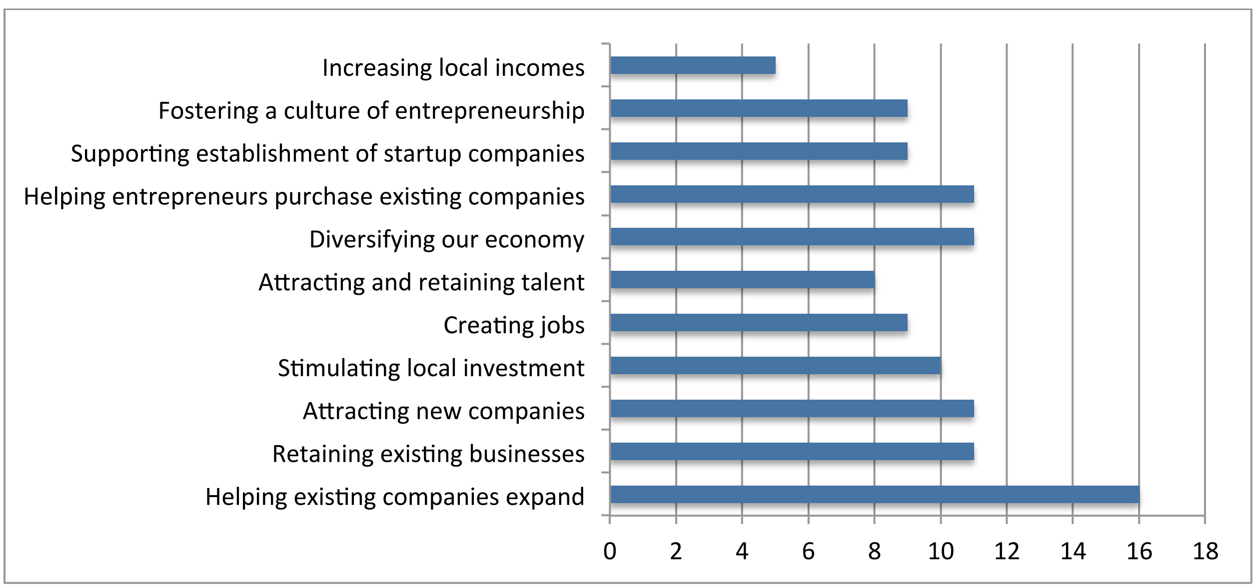

Figure 20: Outcomes that Both Programs Have a Very Significant Impact in Communities

POLICY & PROGRAM DESIGN

The goals for economic development are focused on expanding opportunities for businesses, workers and communities. As the economy continues to change, economic development goals become more nuanced and are affected by many, interrelated factors. Consequently, economic development leaders seek to improve their programs and the indicators they use to measure the effectiveness of their incentive programs.

The Center for Regional Economic Competitiveness released the *State Economic Development Performance Indicators White Paper* in September 2016, which summarized the current state of incentives among the states. The most common metrics used are jobs and investment, which

1. May not be appropriate indicators for all types of incentive programs given their various objectives and the business needs they are intended to address, and
2. May not be clearly defined or are not consistently applied across programs within (let alone across) states, hindering efforts to aggregate data into good-quality reporting of the full portfolio of outcomes.

Many other indicators identified in the CREC study are useful in providing insights about an individual program's outputs, but they are often not as tangible and useful in telling the broader story of economic development outcomes as jobs and investment have proven to be over the years.

Business Need Categories	Performance Indicator Categories
Business management	Business growth
Capital access or formation	Earnings (workers)
Facility/site location	Exports
Infrastructure improvement	Jobs
Marketing and sales assistance	Investment
Product/process improvement	Innovation
Technology and product development	Sustainability
Tourism	
Workforce Preparation	

Figure 21: Economic Development Program Purposes and Performance Indicators

Job creation is the primary goal and principle performance measure for the PACE program. Both the PACE and FlexPACE programs have built-in leverage goals and performance measures because of their loan participation requirements, i.e. bank financing caused by and resulting from the BND investment.

Personal interviews with eight community and regional economic developers whose communities have repeatedly used both programs over the years point to a high level of satisfaction with the programs and some changes that may better fit with North Dakota's current economic situation, particularly as it relates to job creation.

General comments about the PACE and FlexPACE Programs

- Great tools for economic development
- Terrific program – we use it all the time
- Our community uses the program aggressively

- Extremely important program and one of the best tools we have for economic development in the state
- Very user friendly and paper work is simple
- Helpful source of funding for startups and for ownership transitions
- BND is professional, responsive and accessible – the process is super easy and efficient
- BND finds a way to say yes
- Half the deals in our community would not happen without PACE and FlexPACE
- In the economic development world, this is the best program we have in the state
- This is a conservative program for which projects have to be bankable to qualify
- We use PACE for the bigger projects where capital investment is high
- The job creation requirement of 1 per $100,000 in loan value can be a limitation, particularly where the money will be primarily used to make a business more efficient and profitable
- In some cases, borrowers have opted not to use the programs because of concerns about public release of information
- Local buydown funds are becoming depleted, so we will use FlexPACE more often in the future

General recommendations for improving the programs

- The need to create jobs has diminished, while the need to fill job openings has increased, so job creation should not be as much of a factor in BND participation
- Deals that do create jobs should be rewarded by BND more than they are now
- Eliminate PACE
- Bump up the FlexPACE buydown from $100,000 to $200,000 or $250,000
- Lower the job creation requirement for PACE and lengthen the term for job creation to 3 years instead of 1 year
- Lengthen time for job requirements to 5 years, which will be more useful to startup companies
- Continue educating lenders and economic developers about the programs, e.g. the Finance Tour and ensure that BND informs local economic developers about projects they are working on in the community
- Provide financial assistance to development organizations that help package and service BND loans
- Expand the availability of the programs beyond the primary sector because many companies, particularly in advanced industries, do not readily fit that definition
- Raise the job requirement from 1 job per $100,00 to at least $250,000 – in some industries the reality is it may cost $1 million to create a single job
- The programs seem to work best for projects with values less than $3 million and more than $20 million
- FlexPACE is used more now because the emphasis is on building quality of life but these projects often have high build out costs that don't fit the program's requirements

Potential Changes to Improve PACE and FlexPACE

A clear goal or performance statement is the foundation of effective economic incentive programs. Performance indicators that describe expectations for outcomes (measures tied to program purpose and goals) are key to understanding and tracking whether programs are working and aligned with program goals.

By any measure, based on the quantitative and qualitative findings reported in this study, the PACE and FlexPACE programs have demonstrated their value and functionality as capital access tools. The programs have helped to create jobs, leveraged private investment and get high marks for their ease of use and effectiveness from economic development professionals in North Dakota.

Use of the PACE program has declined in recent years and given way to increased use of the FlexPACE program. A diminished need to focus solely on creating jobs and a rising need to invest in community assets that contribute to quality of life are the primary reasons for the shift from PACE to FlexPACE. Yet, the PACE program's capacity for financing larger projects makes it an important part of the financing toolbox and new job creation will remain a legitimate goal for economic development policy.

Based on the quantitative findings and the insights of the economic developers some possible improvements to the PACE and FlexPACE programs can be suggested:

PACE improvements could include

- Lengthen the time period for meeting the job requirement from one to three years
- Increase the loan value from $100,000 per job to $250,000 per job, to better meet the needs of expansion projects that oftentimes don't add jobs but may increase capacity and revenue of companies
- Increase the buydown limit to $500,000
- Expand the range of industries that can use the program, e.g. advanced service industries

FlexPACE improvements could include

- Increase the buydown limit to $300,000
- Expand the range of industries that can use the program, e.g. advanced service industries

ATTACHMENT

PACE Program

The PACE Fund helps communities expand their economic base by creating new jobs. The program has two elements:

- Participation by BND with a local lender in a community-based loan
- Participation by the PACE Fund with the local community to reduce the borrower's interest rate.

Eligibility

The borrower can be any person or entity whose business is in manufacturing, processing, value-added processing or targeted service industries. Targeted service industries are businesses involved in data processing, telemarketing, major tourist attractions, holding companies involved in leasing assets to entities otherwise defined as a PACE-qualified business, intermodal service facilities and all other companies and wholesalers that generate 75 percent or more of their sales outside the state of North Dakota.

A holding company may qualify if the benefits of the PACE buydown flows through to the lessee. The lessee will be responsible for satisfying the job creation requirements of the program. If no less that 40 percent of the space is used by the PACE-qualified business, the entire requested loan amount for the facility will be deemed as a PACE-qualified project, subject to all requirements of the program.

Use of Proceeds

Proceeds may be used to purchase real property, equipment and certain working capital requirements. The program cannot be used to refinance any existing debt or for relocation within North Dakota.

Loan Amount/Limit & Interest Rate & Fees

There are no maximum loan parameters.

A fixed or variable interest rate may be used in the loan participation. The interest rate is 5.00% below yield rate, and not less than 5.00% below Prime rate with a floor of 1.00%.

Colllateral

First real estate mortgage and assignment of rents. First security interest on all business assets.

Additional requirements

The borrower must demonstrate that within one year, there will be a minimum of one job created and retained for every $100,000 of total loan proceeds. Otherwise, the interest buydown will be prorated to reflect any partial fulfillment.

Participation requirements

BND will evaluate all requests in the same manner as a bank participation. Therefore, qualifications such as equity, collateral and information requirements are determined on a case-by-case basis. BND's participation must be 50 percent to 80 percent.

Buydown Requirements

The PACE Fund combines the resources of the local community and the PACE Fund to buydown the interest rate on the loan.

Maximum buydown from the state of North Dakota is $300,000 per loan per biennium. In addition, the community in which the business is located must provide a matching portion to the total interest buydown provided to the borrower.

Community percentage: A community percentage factor has been assigned to the 200 largest communities within the state. This factor determines the amount of the PACE Fund's participation (65%-85%) in the funding of the interest rate buydown. It is based on the community's taxable sales and purchases, employment, taxable valuation and population.

Buydown funding: PACE provides an interest rate buydown up to $300,000. The buydown is matched by the community at the designated participation level listed under Community Percentage Factor. The Fund's participation is limited to the amount required to buy down the interest to the lower of 5% below the yield rate. However, the interest rate may never be more than 500 basis points below the national prime rate. The borrower's rate shall never fall below 1% at any time.

Community buydown funding: The funds may come from a local development corporation, contributions, community funds or other community sources in the form of a grant or a loan. If the community provides its share of the interest rate buydown as a loan, interest may accrue. Repayment of principal or interest on the loan from the community shall not commence until the PACE interest buydown has been fully expended.

Community match requirements: The community may meet its matching requirement through direct cash, loans, equity, investments, land, property or infrastructure, and any combination of these. However, the community's portion of the buydown cannot be funded in any way, directly or indirectly, by the borrower or any individual or organization that has financial interest in the borrower. Property tax exemptions or payments in lieu of property taxes are not eligible as payments in lieu of property taxes are not eligible.

Transfer of funds: A trustee shall be appointed to act as the transfer agent for the buydown. Both the community and the PACE Fund will make payment to the trustee to cover the interest rate buydown.

Loan Terms

- **Working capital:** 1-5 years
- **Equipment:** 5-7 years
- **Real estate:** Up to 20 years

FLEX PACE Program

The Flex PACE Program supports community-based economic growth, with the community determining its needs. In addition to this program, specific Flex PACE options have been developed for day cares and affordable housing. No job creation is required for any Flex PACE Program options.

Eligibility

The borrower can be any person or entity whose business is located in the state of North Dakota. The community in which the business is located will determine if the objectives of the business meet the needs of the community and to what extent they will provide the matching portion of the buydown funds required to access this program.

A holding company may qualify if the benefits of the PACE buydown flows through to the lessee.

Use of Proceeds

Proceeds may be used to purchase real property, equipment and certain working capital requirements.

Loan Amount/Limit

Determined by the scope of the project.

Interest rate and fees

A fixed or variable interest rate may be used in the loan participation. As a result of the interest buydown, the interest rate to the borrower may be as much as 5% below the rate on the promissory note, but not less than 5% below Prime with a floor of 1%.

Fees: Origination fee $250 minimum

Participation

BND will evaluate all requests in the same manner as it does with a commercial bank participation. Qualifications such as equity, collateral and information requirements are determined on a case-by-case basis. BND's participation must be 50 percent to 80 percent.

Buydown Requirements

The Flex PACE Fund combines the resources of the local community and the PACE Fund to buy down the interest rate on the loan.

Community percentage: A community percentage factor has been assigned to most communities within the state. This factor determines the amount of the PACE Fund's participation (65%-85%) in the funding of the interest rate buydown. It is based on the community's taxable sales and purchases, employment, taxable valuation and population.

Buydown funding: Flex PACE provides an interest rate buydown up to $100,000. The buydown is matched by the community at the designated participation level listed under Community Percentage Factor. The Fund's participation is limited to the amount required to buydown the interest to the lower of 5% below the yield rate. However, the interest rate may never be more than 500 basis points below the national prime rate. The borrower's rate shall never fall below 1% at any time.

Community buydown funding: The funds may come from a local development corporation, contributions, community funds or other community sources in the form of a grant or a loan. If the community provides its share of the interest rate buydown as a loan, interest may accrue. Repayment of principal or interest on the loan from the community shall not commence until the Flex PACE interest buy down has been fully expended

Community match requirements: The community may meet its matching requirement through direct cash, loans, equity, investments, land, property or infrastructure, and any combination of these. However, the community's portion of the buydown cannot be funded in any way, directly or indirectly, by the borrower or any individual or organization that has financial interest in the borrower. Property tax exemptions or payments in lieu of property taxes are not eligible as payments in lieu of property taxes are not eligible.

Transfer of funds: A trustee shall be appointed to act as the transfer agent for the buydown. Both the community and the PACE Fund will provide funds to the trustee to cover the interest rate buydown.

Loan terms

- **Working capital:** 1-5 years
- **Equipment:** 5-7 years
- **Real estate:** Up to 20 years

Note about the Data:

Praxis Strategy Group's analysis and findings of this report relied on total loan, jobs, industry, and other data provided in several datasets. Dataset A featured total project, buydown, and location data for 493 FlexPACE loans and 174 PACE loans. Dataset B featured industry data for 611 FlexPACE loans and 213 PACE loans. Dataset C featured periodically verified job data for 121 PACE loans and 541 Flex PACE loans. Because of the difference in total loans featured among the datasets, some minor discrepancies may be found in the reported results.

The total value of projects for the 2005-2016 period is estimated at $1.09 billion, including $360,431,185 from BND loans and buydowns and $730,628,807 from lead lenders and other investors. This estimate was derived by taking the total project value and average BND loan and buydown values for projects in Dataset A and applying them to Dataset B, i.e. from the smaller project database to the larger. Using this methodology, the BND financing leverages $2.03 from other sources and each job created cost an estimated $11,711 in BND buydown dollars.