State Community Development Block Grant Program
Economic Development Allocation

CALIFORNIA COMMUNITY ECONOMIC ENTERPRISE FUND COMPONENT
Fiscal Year July 1, 2009 through June 30, 2010

SUPPLEMENTAL INFORMATION

STATE OF CALIFORNIA
Department of Housing and Community Development
Division of Financial Assistance
State Enterprise and Economic Development Section
Community Development Block Grant Program (CDBG)

1800 Third Street, Room 330
Sacramento, California 95811

Telephone: (916) 552-9398/9399
Fax: (916) 319-8488
Website: http://www.hcd.ca.gov/ca/cdbg/

Blank Page

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, GOVERNOR

BUSINESS, TRANSPORTATION AND HOUSING AGENCY

DALE BONNER, SECRETARY

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

LYNN L. JACOBS, DIRECTOR

<u>Financial Assistance Division</u>

Chris Westlake, Deputy Director

<u>State Enterprise and Economic Development Section</u>

Frank Luera, Section Chief

<u>Community Development Block Grant Program</u>

Economic Development Allocation

Mimi Bettencourt, Program Manager

MeLisa Adams, Program Administrative Assistant

<u>Program Staff</u>

Jim Miwa
John Almanza
Jon Diedesch
Patrick Talbott
Robert Lim

Blank Page

TABLE OF CONTENTS

PAGE

LIST OF APPENDICES

Blank Page

I. INTRODUCTION

With the release of the Notice of Funding Availability ("NOFA"), the Department of Housing and Community Development ("Department") is soliciting applications for the California Community Economic Enterprise Fund Component ("Enterprise Fund" or "EF Component") of the State Community Development Block Grant ("CDBG") Program's Economic Development Allocation. This funding component provides eligible jurisdictions with funding commitments with which they may fun business loans and infrastructure projects, or assist in the development of microenterprises, if these activities meet CDBG eligibility requirements and meet a CDBG national objective. This Supplemental Information describes the Enterprise Fund mechanism in detail, describing eligible uses, CDBG requirements, application procedures, rating and ranking criteria, and implementation issues. We strongly encourage you to read this document prior to completing your application.

See the NOFA for the application due date and additional details on dates and application submittal.

ELIGIBLE APPLICANTS

The intent of the ED Allocation is to stimulate economic development in small cities and rural counties with high unemployment rates and lagging economies. Eligible jurisdictions are counties with less than 200,000 people residing in the unincorporated area, and cities with fewer than 50,000 residents. There is one exception: Cities under 50,000 in population that are located in urban counties and participate in the federal CDBG Entitlement Program administered by the U.S. Department of Housing and Urban Development ("HUD") are not eligible for the State CDBG Program. (See NOFA.)

FUNDING PROCESS

For the 2009 – 2010 program year, **thirty percent (30%)** of the State's CDBG allocation is set aside for the Economic Development Allocation. **Thirteen and one half percent (13.5%)** of this amount is set aside for Planning and Technical Assistance grants. **Thirty-six percent (36%)** of the Economic Development allocation has been allocated to fund Enterprise Fund programs. The remaining **fifty and one half percent (50.5%)** is allocated to the OTC Component in 2007-08. (See page -1- for funding allocation amounts.)

The EF Component's funding cycle has a 150-day time line. Applicants have 70 days in which to prepare their applications and the Department has a maximum of 80 days to make funding decisions. The following describes the funding process:

- The Notice of Funding Availability (NOFA) announcement is mailed to all cities and counties and other interested parties in California. Persons interested in applying for funds may download a copy of the NOFA and Application at the HCD website, www.hcd.ca.gov/fa/cdbg/funds.
- A NOFA and Application workshop announcement is also released by the Department. Workshops are held in several locations within the State. These half-day workshops provide an overview of the State Program, including a review of the CDBG requirements, program design issues, the application form, evaluation criteria, and the major federal and State overlay and financial management requirements.
- **Completed applications for the EF Component must be physically delivered to the Department by no later than 5 p.m. on the application due date indicated in the NOFA. Applicants must submit an original and two copies of the application by this date.** The Department will not accept applications or portions of applications after the published due date, even if the late submittal was approved by the applicant's elected officials before the due date. The application must be in the Department's possession by the due date and time published in the NOFA. Postmarks for the due date are no longer valid.
- Department staff reviews each application to determine whether the application is complete and is requesting funds for eligible activities. Within 30 days of the application due date, the Department will return the incomplete application with a written explanation of the reasons. The Department may, on rare occasion, schedule discussions or request additional information, as needed, with applicants only to clarify any ambiguities or resolve questions CDBG staff may have on the application. No additional documentation will be requested or accepted.
- The Department then evaluates all complete applications using the rating criteria prescribed in State regulations. Staff rates and ranks each application and makes recommendations to the Director of the Department who makes the final award decision.
- The final step in the award process is preparation of the Grant Agreement (also called "standard agreement"), a contractual document in which the Department sets forth the terms and conditions for the use of funds. The grant recipient has 30 days in which to review the Grant Agreement, sign the Agreement, and return it to the Department.
- Upon award and execution of a State contract, the Department reserves funds for the grantee. The EF Component utilizes a funding mechanism whereby the Department holds funds for successful applicants, and makes funds available as projects are locally identified and underwritten.
- After meeting any special conditions contained in the Standard Agreement, the jurisdiction begins implementing the program: originating business loans or infrastructure grants, or assisting microenterprises. With each initial drawdown request, the jurisdiction must provide documentation of loan underwriting, loan documents, tri-party agreements, employment agreements,

environmental documents, etc. as described on the Drawdown Request form provided in the Grant Management Manual**. Six (6) months prior to the expiration of the grant agreement the grantee's loan encumbrances will be reviewed and uncommitted loan funds will be disencumbered.**

Blank Page

II. ELIGIBLE ACTIVITIES AND NATIONAL OBJECTIVES

Section 101(c) of the Housing and Community Development Act establishes the primary federal objective for the CDBG Program as the development of viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income. This overall objective is to be achieved through the undertaking of eligible activities, <u>each of which</u> must carry out a broad National Objective as set out in Section 104(b) (3) of the Act.

This section describes the applicability of these requirements (Eligible Activities and National Objective) to the two categories of eligible activities: <u>Business Assistance activities and Microenterprise Assistance.</u>

<u>Business Assistance Activities</u> include establishing a loan fund program for business start-ups and expansions as well as for infrastructure improvements necessary to accommodate business expansion, start-up or retention projects.

<u>Microenterprise Assistance Activities</u> include programs that establish and expand Microenterprises through technical assistance, business support services, and the provision of capital.

A. <u>Business Assistance - Business Loans/Infrastructure</u>

The EF Component can be used in a variety of ways to assist new and expanding businesses.

Eligible Uses

Business Loans - The following are eligible uses for business loans:

a. construction loans;
b. equipment purchase loans;
c. land acquisition loans;
d. loans for privately owned on-site improvements;
e. working capital loans; and
f. loan guarantees.

Infrastructure - The following are eligible infrastructure projects:

a. Construction, rehabilitation, or replacement of off-site public improvements, including; streets, sewer, water, storm drains, etc. necessary to accommodate a specific business expansion or retention project that will create or retain jobs; and
b. Construction, rehabilitation, or replacement of other publicly-owned facilities that will lead directly to the creation or retention

of private-sector jobs.

Please Note: –The complexity of a deal and the amount of the CDBG portion of a project may require review and approval by the Department's Economic Development Advisory Committee. If you anticipate such a project, you should contact your CDBG representative early in the process to avoid delays. A site visit by staff and review by the program's Financial Consultant may be required.

2. Eligibility Issues Related To Business Assistance Activities

Each business assisted under the Business Assistance component must meet the underwriting criteria and public benefit test.

- **Underwriting Criteria** *(See Section IV: for additional discussion)*

The underwriting guidelines must be applied to each loan or grant (project), made under the Business Assistance component. The underwriting guidelines facilitate the analysis necessary to determine that the business is financially viable and will make the most effective use of CDBG funds. A determination must be made (prior to providing the CDBG assistance for each CDBG-assisted project) that the amount of the CDBG assistance and the terms for that assistance are ***appropriate***, given the documented needs of the business, and given the amount of public benefit that will be realized from the project. The local Program Design and Program Guidelines that govern implementation of a local Business Assistance activity should incorporate the "Appropriate Determination" requirement. The methodology for making the "Appropriate Determination" is also summarized in Appendix A, "Guidelines and Objectives for Evaluating a CDBG Economic Development Project,"

Public Benefit *(See Section IV for additional discussion.)*

Each business provided assistance under the Business Assistance component must demonstrate that the assistance provided meets minimum federal public benefit standards. The local Program Design and Program Guidelines that will be used to implement Business Assistance activities should incorporate the Public Benefit standards.

The public benefit standards utilize the CDBG $35,000 cost per job or the CDBG $350 cost per Targeted Income Group (TIG) person served as the sole measures of public benefit. It should be noted here that, for a business assistance loan to a microenterprise (defined as a business of 5 or fewer employees of which one or more are the business owners, the owners *can be counted* in determining the cost per job ratio.

3. National Objective Issues Related To Business Assistance Activities

Each Business Assistance activity funded under the EF Component must meet at least one of the three federally mandated national objectives. These national objectives are:

- National Objective #1: The development of viable communities by expanding economic opportunities, principally for persons of low- and moderate-income
- National Objective #2: Aiding in the prevention or elimination of slums or blight
- National Objective #3: Meeting other community development needs having a particular urgency

The criteria for each national objective are described below.

National Objective #1: Expanding economic opportunities, principally for low- and moderate-income persons. *(See Section IV: for additional discussion)*

Most businesses funded under the Business Assistance category will meet the national objective of expanding economic opportunities, principally for persons of low- and moderate-income (TIG). This is accomplished by documenting that at least 51 percent of the jobs that will be created or retained by the CDBG-assisted business expansion or retention project will be filled by members of the TIG.
When meeting the low/moderate income national objective (TIG), infrastructure projects have additional requirements. CDBG funds should principally be used to pay for costs associated with the capacity needed by the immediately benefiting business(es). Where the infrastructure improvement will principally benefit the immediately benefiting business, but other businesses may also benefit from the improvements, the grantee may meet the low- and moderate-income national objective (51 percent of jobs to members of TIG) by aggregating only those jobs created or retained by those businesses for which the improvement is principally undertaken, provided that the cost (in CDBG funds) is less than $10,000 per permanent full-time equivalent job to be created or retained.

If the cost per job to be created or retained is $10,000 or more per FTE job, the national objective must be met by aggregating the jobs created or retained by all businesses that locate or expand within the service area (as a result of the CDBG-assisted improvement) between the date the project is awarded the CDBG funds and one year after the physical completion of the public improvement. In any event, the cost per job cannot exceed the $35,000/job Public Benefit standards described under the "Eligibility Issues" section.

National objective #2: Activities which aid in the prevention or elimination of slums or blight. In general, this national objective is met if the CDBG-assisted activity will directly remedy a slum or blighted condition that is within a designated area that meets a definition of a slum, blighted, or deteriorated area under State or local law. The project being funded must specifically remedy a condition that has been identified in a redevelopment plan as a blighted or slum condition and the CDBG-funded activity should be related to one of the projects specifically identified in an implementation plan as being necessary to remedy an identified slum, blighted or deteriorated condition. Under specific criteria, this objective can also be met on a spot basis. However, the uses of CDBG funds for rehabilitation is limited to the extent necessary to eliminate specific conditions detrimental to public health and safety.

Prior to providing CDBG assistance under this national objective, the grantee should consult with the State CDBG Program to determine if the specific project can meet this objective.

National objective #3: Activities designed to meet community development needs having a particular urgency.

A CDBG-assisted activity will meet this national objective if the jurisdiction certifies that the activity is necessary to alleviate existing conditions which pose a serious and immediate threat to the health or welfare of the community, are of recent origin and for which the jurisdiction is unable to finance without an additional injection of funds. A condition will be considered to be of recent origin if it developed or became critical within 18 months of the certification by the jurisdiction.

Prior to providing CDBG assistance under this national objective, the grantee should consult with the State CDBG Program to determine if the specific project can meet this objective.

B. ***Microenterprise Assistance Activities***.

CDBG funds can be used to assist owners of microenterprises or persons developing microenterprises. A microenterprise is defined as a business that has five or fewer employees, one or more of whom owns the enterprise. Persons developing microenterprises are defined as persons who have expressed interest and who are, or after an initial screening process are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed. The Department does not expect that all persons being assisted in developing a microenterprise will actually be operating their enterprise by the time the grant closes.

1. Eligible Uses

Microenterprise assistance activities facilitate economic development by:

a. Providing credit, including loans, loan guarantees and other forms of financial support which will establish, stabilize or expand microenterprises; and
b. Providing technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises; and
c. Providing general support, including peer support programs, counseling, child care, transportation, and other similar services, to owners of microenterprises and persons developing microenterprises.

2. Public Benefit Issues Related To Microenterprise Assistance

The Public Benefit (cost per job) requirements associated with Business Assistance activities are not applicable to Microenterprise Programs that meet the national objective of assistance to Low-Moderate income households, as defined below. However, the most effective Microenterprise Assistance program creates jobs and expands or creates new Microenterprises. Program Guidelines should include measures of the cost per job created or retained. Additionally, if your microenterprise assistance program includes a lending component, the Program Design must include underwriting criteria.

3. National Objective Issues Related To Microenterprise Assistance

Assistance provided to owners of microenterprises, or persons developing microenterprises, under the Microenterprise Assistance Activity must meet the national objective of expanding economic opportunities, principally for low- or moderate-income persons (TIG). The jurisdiction shall look at the income of the owner of the microenterprise or of the persons developing a microenterprise for purposes of determining the TIG status of the clientele. (*Employees of assisted businesses are not considered in meeting the national objective requirement.)* Any person receiving assistance under a CDBG-assisted Microenterprise Assistance activity must be a TIG person. The program must determine and document the client's income eligibility based on family size and income.

III. RATING AND RANKING APPLICATIONS

Application criteria for the Enterprise Fund are described in State regulations in Section 7062.1(a) (5) (D). Generally, these criteria are designed to assess the following:

1. Comparative local needs for economic development assistance;

2. The extent to which the program design meets identified local need and the capacity of the jurisdiction to implement an Enterprise Fund program efficiently and in a manner that ensures compliance with CDBG program requirements; and

3. The effectiveness of the proposed program in maximizing other available resources and the extent to which the proposed program complements a local or regional economic development plan or strategy.

The evaluation criteria are weighted by the maximum number of points assigned to each of the categories of criteria, as follows:

Need for Program	30
Local Program Capacity	50
Program Effectiveness	20
Maximum Total Points	**100**

Each criterion is explained in detail below.

A. Need for Program (Maximum Total 30 Points).

1. Relative Poverty Index (Maximum 15 Points)

The Department will compare the applicant jurisdictions on the basis of the percentage of the population with incomes below the poverty level as provided in the latest decennial census. The Department will assign the full 15 points to the application serving the jurisdiction with the highest percentage of poverty. The other applicants will be rank ordered based on their poverty rate in relation to the poverty rate of the jurisdiction with the highest poverty level for its proposed area of service.

Applicants may elect to target their program to operate within specific census tracts. In that case, the Application must document the poverty rate for a targeted census track and block group area based on the most recent decennial census and the Department will assign poverty points on the basis of that targeted area. This method may provide a competitive edge for jurisdictions with pockets of poverty that are considerably higher than the countywide poverty index, however, an applicant that targets its program to specific areas within the jurisdiction may have difficulty marketing the program effectively.

2. Relative Unemployment Rate (Maximum 10 Points)

The Department will compare the applicant jurisdictions on the basis of the county's unemployment rate. The Department will use the Employment Development Department's Labor Force Data For Counties to compare jurisdictions' annual average unemployment rates.

As with the method of assigning points for comparative poverty rates, the Department will assign the full 10 points to the application serving the area (county) with the highest rate of unemployment. The other applicants will be rank ordered based on their respective unemployment rates relative to the unemployment rate of the jurisdiction located within the county with the highest unemployment rate.

3. Adverse Economic Event (Maximum 5 Points)

Applicants will provide third party source documentation of an adverse economic event that has occurred in the last 5 years and will document job losses that have occurred and, or losses projected to occur, within 36 months from the date of the adverse economic event. As with the method of assigning points for comparative poverty and unemployment rates above, the Department will assign the full 5 points to the application suffering the greatest job loss relative to the jurisdiction’s labor force. The other applicants will be rank ordered.

B. Local Program Capacity (Maximum Total 50 Points)

1. Performance on Past CDBG ED Grants (Maximum 20 Points)

Experience has shown that an applicant's ability to manage prior CDBG Economic Development grants is a good indicator of probable performance on proposed activities. The Department will review an applicant's performance on CDBG Economic Development Allocation grants that have been funded under the 2003, 2004 and 2005 program years. Performance on these grants will be measured under four categories: timely submittal of required program and fiscal reports; rate of expenditure of CDBG funds; expenditure of leverage; and, unresolved monitoring or audit findings.

An assessment of actual vs. projected leverage on grants will be conducted to the review to determine how accurately each local program is in projecting its leveraging other funds.

2. Relative Strength of Basic Program Design (Maximum 10 Points)

Generally, applications will be reviewed to evaluate whether the local program is designed to effectively and efficiently meet local economic development needs. The activity description component of the application asks for a two-fold description of the local program: Program Design, and Program Guidelines. The Program Design should describe the activity, assess the local need, and demonstrate how the CDBG funding tool best accommodates the activity/ies designed to meet the locality's specific economic development need. The Program Guidelines should describe tasks and staff roles, include resumes clearly identifying CDBG RLF experience by actual operators and, must incorporate a task matrix that dovetails with those tasks, roles and activities, in order to provide a framework for how the local program will ensure compliance with CDBG eligibility, national objective and federal overlay requirements (e.g., environmental review, labor standards, etc.) *See Section IV: Policies #4 and #5 for additional information on environmental review and labor standards.* See **Appendices B, C and D** for information on content of Program Guidelines. See **Appendix H** for the Task Matrices.

3. Relative Experience of Program Operators (Maximum of 10 Points)

The application should identify the parties responsible for implementing the program. This may include local staff or private consultants. The application should also document the experience of the implementing parties. This should be in the form of an executed subrecipient agreement or program operator contract in circumstances where the applicant has an ongoing contract with a subrecipient or a previously procured contractual relationship with a consultant. Existing contracts must meet a completeness test for Department–approved language required in Subrecipient and/or Program Operator Agreements. An applicant without an existing program operator or subrecipient must supply either resumes of local staff and\or letters of interest and resumes from potential consultants or a subrecipient. Resumes should include all relevant experience and emphasize actual CDBG RLF and or microenterprise grants management experience where appropriate.

4. Other Local Organizational Support (Maximum of 10 Points)

Local program capacity will also be measured by the availability of other local resources if the grant will be managed entirely in house. For example, the local workforce developers may be willing to provide income-eligibility screening services for the program. The local Small Business Development Center may provide referrals to the program or may provide other assistance to prospective EF borrowers. The application should include executed agreements for service or commitment letters from the contributing local organizations which describe the service and/or contribution assign a dollar value and include the effective dates of the commitment.

C. Program Effectiveness (Maximum Total 20 Points)

1. Extent to Which Program Complements Local or Regional Economic Development Plan (Maximum 10 points)

Enterprise Fund business assistance and microenterprise activities should contribute towards the realization of goals and objectives that have been identified in local and regional economic development plans. The applicant should describe how the proposed activity(ies) will meet the goals and objectives of a local or regional economic development plan. To achieve full points, the applicant should cite the link between the program's design and the existing economic development plan, which will specifically identify CDBG-fundable activity, as well as include the appropriate pages from the plan. In addition, for microenterprise activities, documented linkages which build on Welfare to Work Programs and/or CalWORKS plans will also receive full points.

2. Commitment of Other Funding Sources (Maximum of 10 Points).

Applicants should seek to maximize the contributions from other, available funding sources to complement their Enterprise Fund program activities. This criterion will assess the leverage committed from private and local sources to the local program. However, it is important to note that as leverage is a commitment that is included by source and dollar amount in the grant agreement and therefore held up as a monitoring standard should the application be funded, the proposed figure should be a realistic one. For purposes of this criterion:

- Private funds include loans from private lenders, including SBA and Rural Development B&I loan *guarantees*, equity contributions from business owners, and private foundations.

Note: Private equity is defined as **new** equity (e.g., cash or other quantifiable assets) that is contributed by the business owners toward the individual projects being financed with CDBG Enterprise Funds. *Existing* business *equity* that is *not funding* the CDBG-financed *project* will not qualify as new equity. Program Guidelines should specify what will be considered as private equity from the owner.

- Local funds include local redevelopment agency funds, the locality's general funds, EDA capitalized loan funds and other locally-controlled revolving loan funds.

Except for equity contributions from business owners, all sources of leverage should be documented with a commitment letter or funding resolution from the funding source.

Equity contributions from business owners should be documented in two places: 1) Program Guidelines should document the equity requirement; and 2) Program Design should estimate the number of loans or grants to be provided and the type of business loan (e.g., start-up, business expansion, etc.). From this analysis, the applicant should be able to calculate an expected amount of private equity to be injected into the projects funded from the CDBG Enterprise Fund. Applications that list private equity as a source of leverage, but do not document the requirement and the anticipated number of loans in the Program Guidelines and Program Design will not receive points for private equity.

Note: Microenterprise programs document private and/or local leverage in the same manner as the other Enterprise Fund activities.

Blank Page

IV. POLICIES AFFECTING PROGRAM DESIGN

1. UNDERWRITING CRITERIA IN BUSINESS ASSISTANCE LOANS

HUD requires that the state or local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a business. HUD has developed guidelines that are designed to provide grantees with a framework for financially underwriting and selecting CDBG-assisted economic development projects that are financially viable and will make the most effective use of the CDBG funds. The State CDBG program requires that these HUD underwriting guidelines be used to determine whether a proposed CDBG subsidy is ***appropriate*** to assist a business expansion or retention project. In addition, the project must be reviewed to determine that a minimum level of ***public benefit*** (discussed in item 2) will be obtained from the expenditure of the CDBG funds in support of the project.

Historical business and personal financial information (e.g. balance sheets, income and expense statements and tax returns) are used to make a determination of the need for the CDBG funds and to provide the basis for structuring the amount of CDBG participation as well as the interest rate and term for the CDBG loan. Financial information from the business or developer should indicate the status of income tax, payroll tax, property tax and sales tax.

HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

The ED Loan Underwriting Matrix (please see handout) provides guidance on underwriting documentation needed to evaluate loans of various amounts.

2. PUBLIC BENEFIT IN BUSINESS ASSISTANCE PROGRAMS: DOCUMENTING JOBS

Failure of the grantee to meet the CDBG public benefit requirements of one permanent full time job per $35,000 may result in repayment of grant funds or program income to the local account or the Department. The Department's evaluation of the performance regarding the number of permanent new jobs created or jobs retained will occur approximately 18 months after the State signs the grant agreement. For purposes of meeting the CDBG public benefit requirement, all jobs must be created or retained by the end of the grant term, which is typically 30 months.

A. Job Creation Proposals

In job creation proposals, it is required that a recipient (the business) demonstrate that CDBG assistance will result in the creation of permanent, full-time (or full-time equivalent) private-sector jobs. For start-up businesses, job creation estimates should be supported by the projected labor costs contained in the financial projections. Financial projections for existing businesses should also support labor costs associated with the increase in jobs.

B. Job Retention Proposals

To qualify as a job retention proposal, the city or county should document that the jobs would actually be lost without the CDBG assistance. There should be evidence in the public record that prior to providing CDBG assistance, it was clearly and objectively demonstrated that without CDBG assistance, the jobs would be lost. Examples of clear and objective evidence include: a notice issued by the business to affected employees; a public announcement by the business to affected employees; financial records or other records provided by the business or other entities that clearly indicate the need for CDBG assistance to continue the business's operations in the jurisdiction. The grantee should maintain documentation that supports the conclusion that without the infusion of the CDBG funds, the jobs would be lost.

If the national objective being met is through benefit to the targeted income group, an income survey of current employees must document that at least 51 percent of the jobs retained with CDBG dollars are held by members of the targeted income group. However, if the survey cannot support 51 percent benefit, there are other options to qualify the application as a job retention proposal. For example: based on historical data on job turnover rate, the business can stipulate to a hiring plan over the next few months that will provide new jobs primarily for the targeted income group. Together, the number of actual TIG jobs retained, plus the number of projected TIG hires must achieve the 51 percent eligibility threshold for funding.

A self-certification form may be used to survey the incomes of the current employees to determine TIG status prior to making a funding decision, but only to demonstrate eligibility for the use of funds.

C. Permanent Jobs

Only permanent jobs directly related to the assisted activity are considered for purposes of determining whether the project will generate the requisite amount of public benefit. A permanent job is defined as a job classification that provides 1,750 hours a year employment. Full time equivalent jobs (FTE) are considered toward establishing a final job count. Two half time jobs of at least 875 hours per year each can count as one FTE job.

During underwriting, the grantee must evaluate the business' timetable for job creation to determine whether the proposed timetable is attainable, and will occur by the end of the 30 month grant period. A job classification is considered "permanent" if it is tied to the business's annual growth in sales or supported by the prior 24 months' sales and operating expenses.

3. MEETING NATIONAL OBJECTIVE #1: TIG BENEFIT IN BUSINESS ASSISTANCE

A. Presumption of Eligibility

Current Federal regulations allow the presumption that an employee belongs to the targeted income group if :

1) the employee resides in a census track (or block numbering area) which has at least 70% of its residents who are low or moderate income persons (TIG).

OR

2) the employee resides in, or the business is located in and the job under consideration is to be located within a census track (or block numbering area) which:

   a. is part of a Federally designated Empowerment Zone or Enterprise Community;

   OR

   b. has a poverty rate of at least 20% as determined by the most recent decennial census information;

AND

it evidences pervasive poverty and general distress if all block groups in the census tract have poverty rates of at least 20 percent, according to the most recent decennial census, or the specific activity is located in a block group that has a poverty rate of at least 20 percent, or upon the written request of HUD to determine that the census tract exhibits other objective signs of general distress (high rates of crime, drug use, homelessness, abandoned housing and deteriorated infrastructure or population loss.

B. Direct Evidence of TIG Status and Income Screening

For purposes of meeting the TIG benefit national objective, the salary level of a job is not evidence that it is held by a targeted income group employee. That is, the CDBG program cannot conclude that an employee is in the targeted income group based on a minimum wage job. It is possible that a minimum wage job, when combined with a spouse's salary or the salary of an adult child living at home, will exceed 80 percent of the county median income for the employee's family size. If so, the employee is not within the targeted income group. Therefore, for an employee to qualify as belonging to the targeted income group, all sources of family income must be disclosed. The total family income as of the date of hiring (for newly created jobs) or the date of the CDBG application (for retained jobs) must be at or below 80 percent of the county median for the employee to qualify for inclusion in the targeted income group.

All employees (100 percent) for jobs being counted towards the TIG benefit requirements must be income screened to determine TIG status. It is the responsibility of the grantee to assure that the job holders are being screened for TIG eligibility and that adequate records are being maintained. Self-certifications may be used to verify the job applicant’s family income. A grantee may utilize the services of a local job training agency to income screen job applicants. The State CDBG program allows jurisdictions to use the agencies funded through Workforce Investment Act (WIA) funds for a definition of income eligibility when there is an executed contract with a WIA agency. (See the Appendix E for the Employment Plan Agreement Model.) Including an executed agreement with a screening agency will strengthen the application. The grantee should also include a non-financial default provision in all loan agreements that specifies that the business will utilize the services of the agency and will provide the grantee with regular (at least quarterly) reports on number of hires and number of TIG hires.

If a job training agency does not income screen applicants, the grantee or the business must income screen the employees. In this instance, the income limits specified by the Department of Housing and Urban Development, which are listed by county and by family size, must be used. The grantee should include a non-monetary default provision in the loan agreement with the business or developer that specifies income screening on all applicants for hire according to CDBG requirements, and that requires the business to provide regular reports to the Grantee on the number of hires and number of TIG hires.

C. Self- Certifications

A self-certification form is one that applicants for hire or employees being retained fill out certifying their total family income. To be valid, a self-certification form must include the employee's home address and must be signed and dated by the employee

4. ENVIRONMENTAL REVIEW REQUIREMENTS

A grantee is required to complete an environmental review under federal regulations whenever CDBG funds are used to provide assistance to a business. The review process is set forth at 24 CFR Part 58 and further explained in the State CDBG Grant Management Manual. As a function of providing a business with direct financial assistance (such as a loan, grant, loan subsidy, loan collateralization, or loan guarantee), the grantee must complete an environmental review for each instance of assistance at the appropriate level of clearance. The local loan review board may conditionally approve each loan subject to completion of an environmental clearance as a special condition of drawdown of funds. The project may not begin until the environmental clearance has been completed including any applicable noticing requirements and approved in writing by Department staff, and the environmental review record must be placed in the public information file. Chapter 3 of the Grants Management Manual provides detailed guidance on the environmental review process for economic development activities.

5. LABOR STANDARDS

CDBG-assisted projects may be subject to the payment of Federal labor standards and provisions. The Department will monitor for compliance with Federal prevailing wage rates. Chapter 5 of the Grants Management Manual provides detailed guidance on Federal prevailing wage requirements.

6. OTHER REQUIREMENTS RELATED TO CDBG FUNDS

In addition to environmental review and labor standards requirements, other federal "overlay" requirements apply to the use of CDBG funds. These requirements should be addressed in the applicant's Program Guidelines to insure compliance. These requirements are:

- Acquisition, Anti-Displacement, and Relocation. If the grantee uses CDBG funds to acquire property, then it must comply with CDBG acquisition procedures. The grantee must minimize the displacement of persons (families, individuals, businesses, nonprofit organizations, and farms) that may result from CDBG-funded activities. (24 CFR 570.606). If the displacement occurs, then the grantee must insure that the affected parties are provided with adequate relocation assistance (24 CFR 570.606).

- Equal Opportunity/Section 3. The grantee must insure that no one is being excluded from participating in, or benefiting from, the EF program on the basis of race, color, religion, national origin, or sex (24 CFR 570.602). If CDBG-funded construction projects exceed specified amounts, then the grantee must seek to target contracts and employment opportunities to qualifying businesses and persons (24 CFR 570.602). Grantees must have a system in place for tracking the "protected class" status of loan applicants, loan recipients, job applicants and job recipients (24 CFR Procurement. Grantees must utilize procedures in procuring services, supplies, equipment, and construction contracts that maximize free and open competition and the efficient, economical use of the CDBG funds (24 CFR 85.36). Refer to chapter 8 of the CDBG Grant Management Manual.
- Contractor Eligibility and Certification**.** Grantees must insure that contractors are not on the federal list of ineligible contractors and that they are licensed and in good standing (24 CFR 570.609). Refer to chapter 5 of the CDBG Grant Management Manual.

APPENDIX A

GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

Blank Page

GUIDELINES AND OBJECTIVES
FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

HUD's underwriting guidelines (Appendix B, Exhibit 1) recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

Project Costs are Reasonable. Reviewing costs for reasonableness is important. It will help avoid providing either too much or too little CDBG assistance for the proposed project. Therefore, it is suggested that the grantee obtain a breakdown of all project costs and that each cost element making up the project be reviewed for reasonableness. The amount of time and resources expended evaluating the reasonableness of a cost element should be commensurate with its cost.

Commitment of All Sources of Project Financing. A review of all proposed sources of funding for a project should be conducted to evaluate whether the project is financially feasible given the availability and commitment of other proposed funding sources. This review is necessary to ensure that time and effort is not wasted on assessing a proposal that is not able to proceed.

Avoid Substitution of CDBG Funds for Non-federal Financial Support. This will help the grantee to make the most efficient use of its CDBG funds for economic development. To reach this determination, the reviewer should conduct a financial underwriting analysis of the project, including reviews of appropriate projections of revenues, expenses, debt service and returns on equity investments in the project. The extent of this review should be appropriate for the size and complexity of the project and should use industry standards for similar projects, taking into account the unique factors of the project such as risk and location.

Financial Feasibility of the Project. The public benefit a grantee expects to derive from the CDBG assisted project (a separate eligibility requirement) will not materialize if the project is not financially feasible. To determine if there is a reasonable chance for the project's success, the grantee should evaluate the financial viability of the project. A project would be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (including repayment of the CDBG assistance if appropriate) were determined to be realistic and met the project's break - even point (which is generally the point at which all revenues are equal to all expenses). Generally speaking, an economic development project that does not reach this break - even point over time is not financially feasible. The following should be noted in this regard:

A. Some projects make provisions for a negative cash flow in the early years of the project while space is being leased up or sales volume built up, and the project's projections should take these factors into account and provide sources of financing for such negative cash flow; and

B. It is expected that a financially viable project will also project sufficient revenues to provide a reasonable return on equity investment. The reviewer should carefully examine any project that is not economically able to provide a reasonable return on equity investment. Under such circumstances, a business may be overstating its real equity investment (actual costs of the project may be overstated as well), or it may be overstating some of the project's operating expenses in the expectation that the difference will be taken out as profits, or the business may be overly pessimistic in its market share and revenue projections and has downplayed its profits.

Return on Equity Investment. To the extent practicable, the CDBG assisted activity should not provide more than a reasonable return on investment to the owner of the assisted activity. This will help ensure that the grantee is able to maximize the use of its CDBG funds for its economic development objectives. The amount, type and terms of the CDBG assistance should be adjusted to allow the owner a reasonable return on his/her investment given industry rates of return for that investment, local conditions and the risk of the project.

Disbursement of CDBG Funds on a Pro Rata Basis. Grantees should be guided by the principle of not placing CDBG funds at significantly greater risk than non-CDBG funds. This will help avoid the situation where it is learned that a problem has developed that will block the completion of the project, even though all or most of the CDBG funds going in to the project have already been expended. When this happens, a grantee may be put in a position of having to provide additional financing to complete the project or watch the potential loss of its funds if the project is not able to be completed.

Standards for Evaluating Public Benefit. Besides reviewing a project under these underwriting factors, the project must be reviewed to determine that at least a minimum level of public benefit is obtained from the expenditure of the CDBG funds. The minimum standards for each type of public benefit are found in Appendix B, Exhibit 1).

APPENDIX B

SAMPLE PROGRAM GUIDELINES FOR A REVOLVING LOAN FUND

Blank Page

CITY OF SAMPLE REVOLVING LOAN FUND
PROGRAM GUIDELINES

1.0 INTRODUCTION

The City of Sample Revolving Loan Fund (RLF) is designed to provide the critical and necessary capital needs of businesses and real estate projects in Sample. The RLF is capitalized with funds from the State of California Community Development Block Grant (CDBG) Program. The intent of the RLF is to provide "appropriate" assistance to businesses and real estate development projects, which in turn will create and/or retain jobs, along with increasing the commercial and industrial base of the community.

An RLF, in this context, refers to a loan program in which loan repayments are "revolved" or "recycled" to be loaned again in the same program. Therefore, the initial funds that capitalize the Program will be used again to create additional jobs, assist more businesses and projects, and provide significant benefits beyond the RLF's initial loans.

2.0 PURPOSE AND OBJECTIVES

2.1 PURPOSE:

The RLF is designed to provide no more than one-half of a project's total financing requirements. The RLF will only provide the funds necessary to bridge the "financial gap" that allows the project to move forward. The RLF is targeted to businesses and projects that have the greatest potential for long-term job creation/retention, particularly jobs created and/or retained for low and moderate income persons.

The RLF will assist businesses and projects that start-up, expand, and/or locate within the city limits of Sample. The RLF proceeds can be used to finance:

A. Working Capital/Lines of Credit,
B. Inventory Purchase,
C. Equipment Acquisition,
D. Real Property Acquisition, Construction, Rehabilitation, and
E. Furniture/Fixtures.

2.2 ECONOMIC BENEFITS & OBJECTIVES:

The following elements are critical in the selection of loans for the RLF Program:

- Meeting the “public benefit requirement.
- That the terms and conditions of the RLF are "appropriate."
- That a sufficient number of jobs will be created or retained as a result of the CDBG-assisted project to justify CDBG assistance meeting public benefit requirements.

- When meeting the TIG National Objective, at least 51% of the jobs created and/or retained must be from the Target Income Group (TIG). The TIG is a low/moderate income person whose household income does not exceed 80% of county median household income. In order to meet the criterion for created/retained jobs, the employees must be from the TIG at the time they are hired or retained. For job retention projects, an income self-certification will be conducted on all employees prior to the approval of the loan.
- The loan meets the RLF's underwriting criteria.
- Contact your CDBG area representative when meeting the Slum and Blight National Objective.

2.3 SOURCE OF FUNDING:

The source of funding for the RLF is the State of California Community Development Block Grant Program. Loans are not from the City's General Fund or from the Redevelopment Agency.

3.0 DESCRIPTION OF FUNDING

3.1 GUIDELINES & FEATURES:

There is no minimum or maximum RLF loan amount. However, RLF loans above $250,000 will require additional approval by the State Department of Housing and Community Development (HCD).

- **Leveraging**: The RLF Program's overall goal is to leverage a realistic pledge of dollars from equity and/or debt for every one RLF dollar loaned. On a case by case basis this leverage requirement may be waived. A private dollar can be either a loan or owner equity. Owner equity can be cash and/or land. The land is counted only for construction projects. Expenditures made by the loan applicant prior to the RLF loan award are not counted unless made as part of the submittal, and made within 60 days of the RLF loan submittal, related to and in anticipation of such submittal.
- **Loan Terms:** Up to twenty-five years, depending on the asset being financed, the "financial gap," and the demonstrated need for the RLF funds.
- **Interest Rate:** The interest rate is set based on the needs and demonstrated "financial gap" of each loan. If the financial gap is the availability of capital, the interest rate shall be near market rates for the asset being financed. If the financial gap is the cost of capital (rate, term or collateral requirements), then the interest rate is set by evaluating the financial information to determine at what interest rate the project would be viable.

- **Prepayment Penalty:** None

- **Deferral of Payments:** On a case by case basis, determined based on the financial gap.

- **Job Creation/Retention:** One full time equivalent job (1,750 hours annually) per $35,000 loaned shall be achieved for each loan. Two permanent part-time jobs (at least 875 annually) can be aggregated to count as one full time equivalent job. For loans meeting the national objective of principally benefiting the Targeted Income Group (TIG), at least 51% of the jobs created/retained shall be held by TIG persons.

- **Collateral Requirements**: All RLF loans shall be fully secured by collateral in order to maintain the RLF Program. No unsecured loans shall be made. Types of collateral may include:

  - Liens on real property,
  - Deeds of Trust,
  - Liens on machinery, equipment, or other fixtures,
  - Lease assignments, as appropriate,
  - Personal and/or corporate guarantees, as appropriate, and
  - Other collateral, as appropriate.

3.2 GENERAL ADMINISTRATIVE FEATURES:

- Confidentiality of Client Financial Information, as allowed by law.
- Equal Opportunity/Affirmative Action Policy.
- Attorney review of all contracts and legal forms.
- Monitoring and Reporting Forms.
- Collection and Foreclosure Policy.
- Compliance with HCD and HUD regulations.
- The Business Development Corporation will be responsible for overall project marketing, loan evaluation, loan packaging, and monitoring.

3.3 PROJECT EVALUATION CRITERIA:

- The number of jobs created/retained and the percentage benefiting members of the Targeted Income Group.
- The amount of private dollars leveraging RLF funds.
- The financial viability of the proposed project.
- The demonstrated need for the RLF funds ("appropriate" test).

3.4 GENERAL CREDIT REQUIREMENTS:

A Loan Applicant must be:

- Be of good character,
- Show ability to operate a business successfully,
- Have enough borrowing ability or equity to operate, with the RLF loan, on a sound financial basis,
- Show the proposed loan is of sound value or reasonably secure to assure repayment, and
- Show that the past earning record and future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of the profits.

3.5 LOAN PACKAGING:

The staff of the Sample Business Development Corporation will be responsible for RLF loan packaging activities, including review of all proposals presented to the Loan Advisory Board (LAB).

3.6 LOAN REVIEW:

The Loan Advisory Board (LAB) shall be responsible for reviewing funding proposals and making recommendations to the City staff. The City Manager of the City of Sample will make the final decision on approval or denial of all loan applications submitted, including terms and conditions of loan agreements. All projects meeting the established criteria shall be brought before the LAB. The LAB shall be comprised of:

- One representative of the Sample Fair Lending Action Group(SLAG),
- One representative of the Business Development Corporation Board, and
- One representative of the business community appointed by the City.

3.7 LENGTH OF REVIEW PROCESS:

On average, the RLF review process takes six to eight weeks from submittal of a complete loan application through LAB review. All loans must be approved in advance by HCD. Every effort will be made to facilitate the process to coincide with the other funding source and the project's requirements.

3.8 LINKING JOBS WITH LONG-TERM UNEMPLOYED:

The City of Sample and the Business Development Corporation work closely with the Job Training Agency (JTA) to support the Workforce Investment Act (WIA) programs and services that provide assistance to the unemployed and low and moderate income persons. With the assistance of the State Employment Development Department, the three agencies regularly promote training activities and the labor market to potential employers in the area. Early and consistent involvement with each loan applicant will be an integral policy of the RLF Program.

The training, recruitment and placement activities currently operating in the community constitute the primary vehicle for insuring that the unemployed, under-employed and low and moderate income persons are linked with the jobs created through the RLF Program. These programs provide training and can be custom tailored specifically to meet a company's needs. Loan recipients in the RLF will be provided with a detailed description of the services and benefits, including financial, of participation in the Workforce Investment program and will be referred to the job training agencies. The City will use cooperative agreements with the job training agencies to refer all borrowing companies to the WIA-funded program for prospective employers. All loan recipients will be required to sign a Loan Agreement. This Loan Agreement includes a Three-Party Employment Agreement which lists specific jobs to be created with RLF funds and designates the job training agency as the primary personnel resource for all available positions. The job training agency will provide 100% income verification and/or self certifications of all hires placed by them.

4.0 ELIGIBILITY

4.1 ELIGIBLE APPLICANTS:

Eligible applicants include on-going and start-up private, for profit business concerns, corporations, partnerships, sole proprietorships and cooperatives that are incorporated and licensed, and are located in or expanding to Sample. The project to be financed with the RLF Program must be within the Incorporated area of Sample.

4.2 ELIGIBLE USES:

The project must be commercial or industrial. RLF funds can be used for construction and permanent financing, working capital, inventory, equipment, real property acquisition, construction and rehabilitation.

4.3 INELIGIBLE USES:

Projects must be located in the City of Sample. Projects cannot be residential in nature. Projects must have reasonable assurance of repayment. Projects are not eligible if they create a conflict of interest pursuant to California Government Code S87100 et seq for any current City or Business Development Corporation employee or Loan Advisory Board (LAB) member. Projects must create or retain jobs, primarily for the Targeted Income Group, and must leverage private or equity funds.

4.4 ELIGIBLE PROJECTS:

Project eligibility is based on the project satisfying the CDBG Program's national objective of principally benefiting targeted income group persons through job creation/retention, or aid in the elimination of slums or blight. Additionally, the eligibility of a project is dependent on the appropriate determination being made to justify the provision and extent of CDBG assistance.

4.5 ELIGIBLE COSTS:

- Land costs, including engineering, legal, grading, testing, site, mapping and related costs associated with the acquisition and preparation of land.
- Building costs, including real estate, engineering, architectural, legal and related costs associated with acquisition, construction and rehabilitation of buildings including leasehold improvements.
- Working capital, inventory, furniture, fixtures, machinery and equipment.

4.6 INELIGIBLE COSTS FOR CDBG LOANS:

- Costs incurred prior to CDBG grant execution, submittal of the loan application, and environmental review requirements, except for private leverage as specified in Section 3.1.
- Costs other than those listed as eligible in Section 4.5.

5.0 ROLE OF THE PARTICIPANTS

5.1 ROLE OF THE BUSINESS DEVELOPMENT CORPORATION (BDC):

BDC's staff will, as required:

- publicize and market the RLF;
- screen all applicants for loans;
- refer candidate that are not eligible, do not meet the RLF criteria or need technical assistance to the Small Business Development Center;
- ask promising candidates to submit preliminary information and an application, along with accompanying financial information;
- prepare package, along with recommendation to LAB;
- if approved, assist City with loan processing and closing;
- Once closed, monitor the loan, maintain the loan records, and monitor compliance with job objectives.

5.2 ROLE OF THE LOAN COLLECTION AGENT:

The City of Sample will contract with a local lender to act as the City's loan collection agent. The duties of the collection agent will include the following:

- loan servicing and accounting;
- provide monthly receipts of loan payments to BDC;
- provide quarterly statements on each loan to BDC;
- in concurrence with the City's legal counsel, under take loan collections, including asset liquidation;
- obtain credit reports on all loan applicants and provide such to BDC.

5.3 ROLE OF CITY STAFF:

The City staff will make the daily decisions called for or implied regarding the activities of the RLF. Decisions to foreclose and declare defaults will be the responsibility of the City Manager, in consultation with legal counsel, based upon recommendations of staff and BDC. The City staff will monitor on-going operations of the loan recipient, in conjunction with BDC. Staff will consult and monitor BDC during the term of the contract. Staff will review all reports, financial information and performance reports on each loan during the term of the loan. Staff will serve as the contact for the State Department of Housing & Community Development for the RLF Program.

City staff will meet with each RLF applicant to ensure that the applicant maintains the documentation required. Staff will brief each applicant on his obligations and requirements of the Program. Additionally, City staff will conduct an environmental review of the project as necessary.

City staff and BDC will refer potential applicants, including those ineligible or denied RLF financing, that need technical and management assistance to the appropriate organization. This will include referrals to the College Small Business Development Center, the SCORE program, and financial institutions. As a condition of the loan, the City, LAB or BDC may require that applicants receive pre- and/or post-loan counseling.

City staff and/or BDC may require applicants who have received loans to undertake business counseling if it appears that the applicant’s financial position is declining and the RLF loan may become delinquent.

6.0 LOAN SELECTION & APPROVAL PROCESS

6.1 PROCESS:

6.1. (A) MARKETING:

The marketing of the RLF Program will be accomplished by a variety of means. There will be media coverage, marketing brochures, and joint marketing through BDC's existing loan packaging and financial services. Local lenders will recommend clients and projects, when appropriate. The Small Business Development Center, local Realtors, and business associations will also refer potential applicants. The City and BDC will also use existing business and community networks to market the RLF Program.

6.1.(B) PROCEDURE:

Once a potential project has been identified, City and BDC staff will conduct a preliminary review for eligibility with the RLF criteria. If another lending source is more appropriate, or the project does not meet the RLF criteria, the staff will refer the prospective borrower to another organization for assistance.

If the project appears to meet the criteria, the applicant will be asked to submit preliminary information. Preparation and submission by an applicant of preliminary information and supporting documents include, but are not limited to: business and personal tax returns for the last three years or since commencement of operations (whichever is less), business financial statements (balance sheet and income statement) for current year and prior three years, current personal financial statement, credit history, and proposed project summary. Start-up businesses must submit proforma financial statements for the first five years. Real estate projects must submit pro forma projections for the first five years, and pre-leasing information.

The preliminary information will be reviewed by BDC staff, in consultation with City staff. If the project is viable, a draft loan analysis will be prepared by BDC. If the decision is to decline the request, the BDC will provide the applicant with a written explanation of the denial. If appropriate, referrals to other organizations will be made.

If the review is positive, the applicant will be invited to an application conference with BDC and to submit a formal application to BDC, which will be presented to the LAB for their recommendation. At the application conference, BDC will review with the applicant the formal RLF checklist and required information, forms and financial schedules deemed necessary by BDC or City to complete the loan package. City and BDC will determine project needs/conformance with local requirements, as well as determine the necessary environmental review for the project. City will begin the environmental review as necessary. The applicant, in conjunction with City, BDC and JTA, will develop the employment plan. Upon completion of the necessary information, applications will be presented by the BDC to the LAB. The presentation will include a completed RLF Project Evaluation Form (sample attached as Exhibit 2). If the private funds are from equity, then the commitment letter must be from the applicant. The BDC presentation will include a recommendation. This recommendation will include the proposed terms and conditions, based upon the identified "financial gap" and the "appropriate" analysis undertaken by BDC, along with a checklist insuring that the loan meets the RLF guidelines and criteria.

The LAB will decide to recommend approval or to decline the loan request. If declined the applicant will be informed in writing by BDC as to the reason. If recommended, the LAB's recommendation can be under the terms and conditions proposed by BDC, or the LAB can recommend alternative terms and conditions. The LAB recommendation is the presented to the City Manager. Prior to City Manager consideration, City staff will review the loan package for completeness and regulatory compliance, as well as final review for compliance with RLF guidelines and criteria.

If the City Manager approves or denies the loan request, the applicant will be notified in writing. If denied, the reasons for denial will be included. City Manager approval shall include a certification statement that, based on his/her review of the staff report and LAB recommendation, the City finds that the CDBG loan is appropriate and that the assistance is commensurate with both the needs of the borrower and level of benefit to

TIG persons in addition to other public benefits stemming from the project.

6.1.(C). LOAN CLOSING:

Upon approval by the City Manager, BDC and City will prepare for the loan closing. The Borrower will sign all the necessary documents and agreements. The City will request a drawdown of funds from the State Department of Housing & Community Development (the timing of the request may vary depending on the project). The BDC will prepare the loan closing documents, prepare title and lien searches, and UCC-1 filings, if appropriate (the sample pre-closing checklist and escrow instructions attached in Exhibits 6, 7A and 7B will be developed and used for each loan closing). City legal counsel will review all agreements and documents, as necessary.

Loan closing will be undertaken by the City with BDC assistance. At the time of closing, the Borrower will be provided with a checklist outlining their obligations under the RLF Program. At closing, or another specified time, funds will be disbursed to the Borrower. City and BDC will complete any remaining legal, regulatory or other items (Exhibit 8 contains a sample checklist). Monitoring and compliance files will be set-up at this time.

6.1.(D) LOAN MONITORING:

Two separate loan files will be maintained. The first is the legal file which holds all the original loan documentation, along with the original documents. This file shall be kept in the City's fireproof vault for safekeeping. The second is a credit file which shall contain the day-to day administrative records of the loan. At a minimum the legal file shall include:

- Note
- Loan Agreement, including Non-Financial Employment Plan
- Mortgage
- General Security Agreement
- Personal Guaranty
- Corporate Guaranty
- Subordination Agreement
- Life Insurance Policy and Assignment
- Hazard Insurance Policy and Assignment
- General Resolution
- Certificate of Secretary
- Opinion of Counsel
- Intercreditor Agreement

The credit file shall contain, at a minimum, the loan application and financial information associated with the application, credit memo, LAB recommendation, final City approval, disbursement records, reports of site visits, updated financial information provided by borrower, job creation/retention data, etc.

A reporting system will be established for each loan and the loan portfolio as a whole. The report should be up-dated at least quarterly. The BDC shall be responsible for preparation of this report. The report will be used by BDC and the City to monitor the loans and identify problems. The report will contain the following:

- **Fund Report Balance:** A monthly summary of the beginning fund balance, principal and interest recaptured during the month, disbursements made during the month and funds committed but not yet disbursed, and amount remaining in the RLF which is unencumbered. The monthly receipts from the lender on each loan will serve as the basis for this report.
- **Portfolio Summary Report:** A quarterly summary of the total loans outstanding and authorized loans. The report shall include a quarterly statement on each loan, prepared by the lender. The quarterly report shall include the last payment date and loan balance. Delinquent loans shall be identified and a summary of actions to date to collect delinquent loans shall be included.
- **Employment Report:** A quarterly report on each project detailing the jobs created/retained, and those hired that meet the Targeted Income Group.
- **Loan Loss and Delinquent File:** A list of all loans that have been classified
as uncollectable and a summary of foreclosure procedures to date on the loan. Loans that are delinquent will also be listed, along with a summary of recommended steps, and steps taken to date.
- **Tickler File:** A listing of the current loan portfolio and dates for receipt of financial statements, employment information, renewal of UCC-1 filings, review date, dates for insurance renewal and other information.

In addition, a loan monitoring file will be established which will include a summary of the monitoring requirements of the State Department of Housing and Community Development. A tickler file will be part of this overall file to insure that loan and RLF Program monitoring is undertaken and completed.

EXHIBIT I
LOAN UNDERWRITING GUIDELINES

The loan underwriting policies of the City of Sample Revolving Loan Fund (RLF) are designed to insure the Program's on-going viability, assist businesses that could not proceed without the RLF, and ensure that the RLF assistance is "appropriate."

HUD UNDERWRITING GUIDELINES:

The City of Sample has adopted the HUD underwriting guidelines to determine whether a proposed CDBG subsidy is ***appropriate*** to assist the business expansion or retention. In addition, the project will be reviewed to determine that a minimum level of ***public benefit*** will be obtained from the expenditure of the CDBG funds in support of the project.

The objectives of the underwriting guidelines are to ensure:

- that project costs are reasonable;
- that all sources of project financing are committed;
- that to the extent practicable, RLF funds are not substituted for non-Federal financial support;
- that the project is financially feasible;
- that to the extent practicable, the return on the owner's equity investment will not be unreasonable high;
- that to the extent practicable, RLF funds are disbursed on a pro rata basis with other financing provided to the project; and
- sufficient public benefit will be received from the expenditure of RLF funds.

Project Costs are Reasonable

All project costs will be reviewed for reasonableness, and to avoid providing either too much or too little RLF assistance. The amount of time and resources expended evaluating the reasonableness of a cost element shall be commensurate with its costs. In some instances, it will be necessary to obtain third-party, fair-market price quotations or a cost element. Particular attention will be documenting the cost elements in a non-arms-length transactions.

Procedures:

1. Start with Sources and Uses of Funds.

2. For each Use of Funds, determine if costs are reasonable:
   a. For construction, machinery, equipment. Determine if the costs are estimated by a third-party (e.g. architect, engineer, equipment supplier, etc.) Determine if the estimates are included in the application. Determine if the contingency is

adequate.

b. For land, determine if the price is based upon fair market value. If not, determine the fair market value and how was price determined. Obtain an appraisal or an opinion of fair market value.

c. For development costs (building fees, architectural/engineering costs, financing costs, franchise fees, etc.), determine if these costs are itemized and supported by contracts or other documentation.

d. For working capital, compare the amount of working capital to industry averages, risk, historical needs of the business and the projected need. Analyze business financial statements, projections, operating cycle and financial ratios.

3. A higher level of review will be required if there are no third party estimates.

4. Sources of information:
   - Sources and Uses of Funds statement
   - Financial Statements and Projections
   - Industry Averages (Robert Morris)
   - Third party costs estimates
   - Building Department/Public Works
   - Realtors
   - Appraisers
   - Architects/Engineers
   - Contractors
   - Equipment Suppliers
   - Other similar projects

Commitment of All Sources of Project Financing

Prior to the commitment of RLF funds to the project, a review shall be conducted to determine if sufficient sources of funds have been identified and committed to the project, and the participating parties have the financial capacity to provide the funds to ascertain if the project is viable and will move ahead in a timely manner. In certain circumstances, the RLF may commit its funds in advance of final commitments from other funding sources. However, to conduct the underwriting analysis, the approximate terms and conditions of the other funding sources should be known. Final commitments from the other funding sources will be required, with the substantially similar terms and conditions as used in the underwriting analysis, will be required prior to any loan closing or disbursement of funds.

Procedures:

1. Start with Sources and Uses Form.

   a. For all sources of funds, determine if there is evidence verifying commitment or intent to commit.
   b. For debt sources, be in receipt of letters of intent or interest that specify the level of commitment and terms/conditions of the loan. The proposed terms should be reflected in the business projected debt schedule and in the financial projections. Determine if actual loan packages have been submitted to lenders.
   c. For equity sources, determine if the equity injection is verified on the business or personal financial statements. Or if the equity is provided by an investor, obtain evidence of the level and terms of commitment (e.g. letter of intent with accompanying financial statement verifying availability of funds).

2. Sources of information:
   - Sources and Uses of Funds
   - Business and Personal Financial Statements
   - Letters of intent/interest from lenders, partners and investors

Avoid Substitution of CDBG Funds for Non-federal Financial Support

The project will be reviewed to ensure that, to the extent practicable, RLF funds will not be used to substantially reduce the amount of non-federal financial support for the project to make the most efficient use of the RLF funds.

In order to receive RLF funds a project must have a "financial gap." This gap must be documented. There are three types of financial gaps, two are discussed below, and the third is discussed under the criteria of "Return on Equity Investment." One project may have two different gaps. The types of gaps are as follows:

A. <u>Unavailability of Capital</u>: The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources. In regards to debt, the gap may be a result of a lender's loan to value requirements or the inherent risk of the industry or project. For example, the lender will only loan 70% of the project's cost. In this case, the business may not have the cash to bridge the gap, or if the business bridges the gap, its cash flow may be so restricted as to jeopardize the business. In order to document this gap, several steps need to be undertaken. The lender needs to be contacted to determine if there is any ability to increase the size of their loan. Other lending sources, both public and private, need to be explored. This includes looking at the business owner(s) personal financial statements for potential funds, including home equity loans. Finally, in addition to looking at the business and personal financial statements and tax returns, a pro forma cash flow analysis needs to be prepared and analyzed, with and without RLF funds, to demonstrate the gap.

The terms and conditions of a loan under this gap analysis should be comparable to the market.

B. Cost of Capital: The project cannot support the interest rate, loan term and/or collateral requirements of a lender. In analyzing this gap, discussions with the lender are important to determine any flexibility in terms. A single project may not be able to support the rate, terms and collateral requirements, or may just face a single hurdle. In addition, the gap may only exist in the early years of the project. To determine the gap, business and personal financial statements and tax returns shall be analyzed. Sources of equity shall be explored. Public and private funding sources that would bridge the gap shall be evaluated. Pro forma cash flow analysis shall be developed with and without the RLF funds to demonstrate the gap. Depending on the gap, the terms or rate shall be adjusted to a rate that allows the project to proceed but are not too generous. Terms can be adjusted to allow for deferrals of principal and /or interest, or to allow loans to be amortized over a longer period. Interest rates can be adjusted, including increases in the rate over time as cash flow allows.

Procedures:

1. Review the Sources and Uses to determine if other sources of funds are available (e.g. SBA, RD, business, personal or investor equity, etc.)

2. If the need for RLF funds is based upon a lender's loan-to-value requirements, determine if this requirement is reasonable and based upon the project's risk and location.

3. If the need is based upon the cost of funds, then conduct a review of the financial information to validate the need for the RLF funds.

   a. Review historical and projected financial statements.
   b. Determine if revenues, expenses, debt service, officer's salaries, owner's draw, net operating income are reasonable via a comparison of historical financial information and industry averages (Robert Morris).
   c. Review projections with and without CDBG funds.

Determine if the project can support more debt within prudent underwriting guidelines. Determine if net operating income, owner's draw, and the degree of equity participation is reasonable.

4. Sources of information:
   - Sources and Uses of Funds
   - Financial Statements
   - Projections
   - Industry Averages (Robert Morris)
   - Other Financing Programs
   - Lenders

Financial Feasibility of the Project

Each project will be examined to determine the financial viability of the project, and thus the reasonable assurance that the public benefit will be realized. The current and past financial statements for both the business and individuals must be analyzed, along with tax returns and projections. The assumptions behind the projections must be critically analyzed. Income and expense costs shall be evaluated and compared historically, where applicable, and compared to industry averages (using guides such as Robert Morris' Annual Financial Statements). Project costs, including both hard and soft costs, must be determined to be reasonable. Accurate project costs are vital to determining project feasibility.

As part of the financial analysis, the past, current, and projected financial data shall be analyzed to determine if the job estimates are reasonable and supportable. Labor costs shall be looked at the break-even point. In addition, labor costs shall be checked against industry averages. Variations should be explained in the loan analysis.

The terms and conditions of the RLF loan must be "appropriate." In general, the interest rate shall be set at a rate where available cash flow is able to meet debt obligations, after other obligations are met, with enough cash flow remaining to operate successfully. The loan term typically is based in the asset being financed. The term should not exceed the economic life of the asset being financed. However, a longer loan amortization schedule, with the loan due at the end of the economic life may be justifiable.

Each loan shall include a written explanation of the "appropriate" analysis that was undertaken, and the reason the terms and conditions of the loan were approved.

Financial Analysis

Historical and projected financial statements will be subject to financial analysis to determine the gap, and structure the terms and conditions of the RLF loan, as discussed above, but also to determine that the project is feasible. In addition, use prudent underwriting guidelines, demonstrating that the proposed loan is of sound value, and note how past earnings and future prospects indicate an ability to meet debt obligations out of profit.

Information that will be required to be submitted by the applicant will be depend on the project, ownership structure and whether it is an on-going or start-up business. In general, the information required is outlined in the RLF checklist in the exhibits.

The financial analysis will differ depending on whether the business is a start-up or existing business. The analysis will include for existing businesses a spread of the current and financial statements to determine trends. The pro forma statements will then be compared to these past statements. Financial ratios will be analyzed. The statements and ratios will be compared to industry averages. For start-up business the projections will be analyzed and ratios developed, and both compared to industry averages.

Ratios that will be analyzed include:

- Current Ratio: current assets/current liabilities. This ratio is a rough indication of a firm's ability to service its current obligations. A ratio of 2:1 is considered secure.
- Quick Ratio: cash & equivalents plus accountants & notes receivable/current liabilities. This ratio is a refinement of the current ratio. A ratio of 1:1 usually indicates ample liquidity.
- Cash Flow Coverage: net profit & depreciation & depletion-amortization expenses/current portion of long-term debt. This ratio is a measure of the ability to service long term debt.

Another coverage ratio is: earnings before interest & taxes/annual interest expenses. This ratio is a measure of a firm's ability to meet interest payments. A cash flow coverage of 1.25 debt service shall be used as a guideline.

- Debt to Worth: total liabilities/tangible net worth. This ratio the relationship between debt and a businesses net worth. A lower ratio is an indication of greater long-term financial safety and greater flexibility to borrow. In general, a debt to worth ratio of higher than 5:1 should not be exceeded as a underwriting policy. There are exceptions when the industry average is high due to its capital intensive nature or when projections show the ratio lowering quickly.
- Collateral Coverage: The value of collateral as compared to the amount of the loan. Typical underwriting guidelines suggest that 125% of loan balance be used. However, this is highly dependent on the quality and security of the collateral. In addition, collateral requirements are a cause of "financial gaps." The RLF shall use 125% as a guideline, which shall only be lowered with specific and detailed analysis and explanation.
- Break-even Analysis: The analysis of the project's ability to support the projected labor costs and additional debt service at its break-even point

(BEP) will be analyzed to determine what proportion of the jobs can be supported at that BEP. This will serve as a worst case look at the business' prospects for success, ability to service new debt, etc.

The financial and ratio analyses must be supported by the business plan. The business plan must provide a clear understanding of the project, competition, market strategy, sales estimates, management capacity and other factors.

Lastly, to ensure project feasibility, an evaluation will be conducted of the experience and capacity of the business principals to manage the business and achieve the projections.

Procedures:

1. Perform financial underwriting analysis.

    a. Spread historical financial statements and projections. Identify any significant differences. Compare to industry averages.
    b. Review assumptions to projections. Determine if projections are reasonable and supported by market studies, business plan, and historical trends.
    c. Review financial ratios for project. Compare to industry averages. If significantly different, determine the reasons and impact on feasibility.
    d. Review cash flow for project. Determine if there is adequate working capital.
    e. Determine break even point for project, and how much the projections are above the break even point. Determine if the public benefit will be realized at the break even point.

2. Review the business plan, market information, historical financial statements, projections, ration analysis, break even analysis, spread sheet analysis and management capacity to determine the project feasibility.

3. Sources if information:
    - Historical financial statement
    - Financial Projections
    - Business plan
    - Market and industry information
    - Industry Averages

Return on Equity Investment

The return on equity investment is the amount of cash that the investor/business owner is projected to receive in relation to their initial equity. For a sole proprietor, this equates to salary plus net income. To the extent practicable, the RLF should not provide more than a reasonable return on investment to the business owner. This will help ensure that the RLF will maximize the use of RLF funds and not unduly enrich the business owner(s)/investor(s). However, care shall be taken to ensure that the rate of return will not be too low, so that the business owner's motivation remains high to pursue the business with vigor.

If the project's financial returns are projected to be too low to motivate the business and/or investor to proceed with the project then risks of the project outweigh the returns. An inadequate rate of return, adjusted for industry and locational risks, is a third method to determine the gap appropriate to be funded with RLF funds. To analyze this gap, the projected return on investment must be compared to the return on investment on similar projects. If it is shown that a gap does exist, then the RLF financing rate and terms must be set at a rate which provides a return equal to the "market rate." Real estate appraisers and lenders are important sources of information on "market rate" returns.

Procedures:

1. Review projections.

   a. Review revenues, expenses (including officers' salary/owners' draw), debt service and net operating income. Compare to historical financial information and to industry averages. Determine if these items are reasonable.
   b. Review indicators of owners' return on equity, including officers' salary, owners' draw, and net operating income. Given the project's risk and local conditions, determine if the return on equity is reasonable compared to industry averages.

2. Review the business and personal obligations. Determine what return on equity is necessary to meet personal and business obligations.

3. If return on equity is above industry averages, adjusted for risk and local conditions, take steps to reduce the return to within a reasonable rate by restricting owners' draw/officers' salary, or adjusting the RLF loan terms.

4. If return is below average, adjust RLF subsidy to bring the rate of return closer to the industry average.

5. Sources of information:
   - Financial projections
   - Historical financial statements
   - Personal financial statements
   - Industry averages

Disbursement of RLF Funds on a Pro Rata Basis

To the extent practicable, RLF funds should be disbursed on a pro rata basis with other funding sources to avoid placing RLF funds at a greater risk than other funding sources. When it is determined that it is not practicable to disburse RLF funds on a pro rata basis, other steps shall be taken to safeguard RLF funds in the event of a default.

Procedures:

1. Review Sources and Uses of Funds. Determine when RLF funds will be expended as compared to other funds.

2. Determine other funding sources' policies towards expenditure of funds. These policies may require the use of RLF funds first. If so, may need to negotiate with other funding sources.

3. If RLF funds are to be expended first, consider actions to safeguard RLF funds (e.g. performance or completion bonds).

4. Sources of information:
    - Sources and Uses of Funds
    - Construction Contracts
    - Lender Requirements/Policies

Standards for Evaluating Public Benefit

Each project will be reviewed to determine if a minimum level of public benefit will be obtained from the expenditure of RLF funds. The minimum standards are:

- The project must lead to the creation or retention of at least one full-time equivalent job per $35,000 of RLF funds used; or
- The project must provide goods or services to residents of an area, such that the number of TIG persons residing the areas served by the project amounts to at least one TIG person per $350 of RLF funds used.

Procedures:

1. Review historical financial statements.

    a. Review historical labor costs as a percentage of revenues. Compare the percentage to projected labor costs. Determine if the two figures are consistent. If not, obtain an explanation.
    b. Determine if the number of projected jobs is consistent with the projected increase in labor costs. Compare the labor cost percentage to industry averages.

2. Review the projections.

    a. Determine if the assumptions used to project revenues and labor costs are reasonable. Determine if revenues and labor costs are supported by market/ industry information and historical financial statements.

3. Determine if project meets minimum public benefit requirements (one full-time equivalent jobs for every $35,000 in RLF funds, or one TIG resident per $350 in RLF funds residing in the area served by the project).

4. For infrastructure projects, determine the area of benefit, negotiate fair share contributions, and track jobs from the benefiting business(s) if the projected cost/job is less than $10,000, or track jobs in the area of benefit if the projected cost per job is $10,000 or more.

EXHIBIT II
LOAN AGREEMENT

OUTLINE

1. THE LOAN
   a. Loan/Note
   b. Term and Repayment
   c. Purpose
   d. Employment
   e. Use of Funds
   f. Other Loans/Funds
   g. Disbursement of Funds

2. CONDITIONS OF LENDING
   a. Note and Loan Agreement
   b. Security Agreement
   c. Deeds of Trust
   d. Guarantees
   e. Non-Financial Employment Plan Agreement
   f. Governmental Approval
   g. Approval of Others

3. EVENTS OF DEFAULT
   a. Non-payment of Loan
   b. Non-payment of other indebtedness
   c. Incorrect Representation of Warranty
   d. Default in Covenants
   e. Employment
   f. Voluntary Insolvency
   g. Involuntary Insolvency
   h. Judgments
   I. Right Upon Default
   j. Sale/Refinancing/Change of Ownership

4. OTHER DOCUMENTS

5. COLLECTION AGENT

6. WAIVER

7. ATTORNEY FEES

8. EXHIBITS INCORPORATED BY REFERENCE

9. NOTICES

10. HEIRS, SUCCESSORS and ASSIGNS

11. AMENDMENTS

Exhibit A - REPRESENTATIONS AND WARRANTIES
Exhibit B - AFFIRMATIVE COVENANTS OF THE BORROWER
Exhibit C - NEGATIVE COVENANTS OF THE BORROWER
Exhibit D - MISCELLANEOUS
Exhibit E - PROJECT ASSURANCE
Exhibit F - EMPLOYMENT PLAN AGREEMENT
Exhibit G - BUSINESS ASSISTANCE THREE-PARTY EMPLOYMENT AGREEMENT

I. General Terms
II. Employment Recruitment
III. Referral
IV. Placement
V. Training
VI. Controlling Regulations and Laws
VII. Indemnification, Assignment Modification and Renewal
VIII. Acceptance

LOAN AGREEMENT

THIS AGREEMENT is made and entered into______________**, 200**_ by and between the City of Sample, a municipal corporation, (hereafter the "Lender") and ____________ ____ ____(hereafter the "Borrower").

WHEREAS, the Borrower has applied to the Lender for a loan for the purpose of helping to finance a________________________ (business); and

WHEREAS, the Borrower has read and agrees to comply with all restrictions and requirements of the loan contained in this Agreement and attached Exhibits, which are incorporated herein by reference; and

WHEREAS, the Lender is willing to make such a loan to the Borrower on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

1. THE LOAN

a. LOAN/NOTE: Subject to the terms and conditions of this Agreement, the Lender hereby agrees to lend the Borrower, and the Borrower hereby agrees to borrow from the Lender and repay the Lender, the amount of $___________ (hereinafter called "Loan"). The obligation of the Borrower to repay the Lender shall be evidenced by the promissory note (hereafter the "Note") of the Borrower in a form satisfactory to the Lender dated the date on which the Loan is made (hereafter known as the "Closing Date") payable to the order of the Lender for the amount of the Loan with interest on the unpaid principal in the amount of _______________ and secured by a Deed of Trust on the subject property, a UCC-1 filing on all furnishing, fixtures and equipment financed with the Loan, and a personal guarantee by ___________________________.

b. TERMS and REPAYMENT: The term of the Loan shall be ________ years from the date the____________ is first open for business. The principal and interest shall be deferred for the first ____________months after the date of opening for business. The Note shall be repayable in _______equal monthly installments after the deferral. The first monthly installment shall be due and payable on the first day of ______the month after the date of opening. All payments shall be applied first to interest and then to principal. All payments will be made promptly to the Lender at the addresses specified by the lender. Prepayment of the loan is allowable with no prepayment penalty.
The interest rate on the principal amount of the loan shall be _______% per annum.

c. PURPOSE: The purpose of the Loan is to help finance ___________________________________: The acquisition of land (APN #) and purchase of roll-in and plug-in equipment, furniture and fixtures are to be used the ____________ _________________________________to be developed at the above site in Sample, CA.

d. EMPLOYMENT: As a condition of the Loan, the Borrower agrees to create at a minimum ________ full time jobs, allowing for some full-time equivalents, within _____ months of the Closing Date, defined as the date the Borrower acquires the land. When meeting the national objective of TIG benefit, at least 51% of **all** jobs created as a result of this loan will be filled by members of the targeted income group.

e. OTHER LOANS/FUNDS: The Loan is made in combination with other loans/funds described as follows:

Sample Valley Bank	$662,000
SBA	$540,000
Cash Equity	$150,500

The contact for other Loans/Funds is:

Name:	Sample Valley Bank	Name:	Lake Area EDC
Address:	P.O. Box 123 Sample, CA	Address:	P. O. Box 456 Sample, CA
Phone:		Phone:	
Contact:		Contact:	

Prior to disbursement of any funds, Borrower shall provide to Lender evidence satisfactory to Lender that Borrower has executed loan documents for the other funding/loan(s).

f. DISBURSEMENT OF FUNDS: Funds for the purchase of equipment, furniture and fixtures shall be disbursed by Lender as two party checks payable to Borrower and vendor(s) only upon presentation of invoices from said vendor(s), evidencing materials, services or labor provided in connection with the project approved by the Lender. Disbursements for working capital, using the funds, by Borrower shall only be for the approved uses contained in the CDBG Standard Agreement, which has been reviewed by Borrower, and in accordance with State of California Department of Housing and Community Development regulations.

Disbursement of working capital is subject to providing documentation that Borrower has executed other loans for this project and has received the initial disbursement from at least one loan or has expended equity funds in an amount equal to the requested CDBG loan disbursement.

2. CONDITIONS OF LENDING

The obligation of the Lender to make the Loan shall be subject to the fulfillment at the time of closing of each of the following conditions:

a. NOTE AND LOAN AGREEMENT: The Borrower shall have executed and delivered to the Lender this Loan Agreement and the Note in a form satisfactory to the Lender and its Counsel.

b. SECURITY AGREEMENT: The Borrower shall have executed and delivered to the Lender a Security Agreement for a Third Deed of Trust for the subject site, a UCC-1 filing for all equipment, furniture and fixtures financed with the Loan, and personal guarantee of ____________________________.

c. DEEDS OF TRUST: The liens granted to the Lender pursuant to the terms of the Security Agreement, the Promissory Note and the Deed of Trust are or will be, when executed, liens in the respective property described therein, including the proceeds and products thereof.

d. GUARANTEES: The Lender shall have received duly executed personal and corporate guarantee agreements acceptable to the Lender.

e. THREE-PARTY EMPLOYMENT AGREEMENT: The Borrower shall have executed and delivered to the Lender a Three-Party Employment Agreement.

f. GOVERNMENTAL APPROVAL: The Borrower shall have secured all necessary approvals or consents, if required, of governmental bodies having jurisdiction with respect to any construction contemplated in accordance with the use of proceeds of the Loan. The Borrower shall comply with the Zoning Ordinance of the Sample City Code throughout the development and use of the property described herein.

g. APPROVAL OF OTHERS: The Borrower shall have secured all necessary approvals or consents required with respect to this transaction by any mortgagor, creditor, or other party having any financial interest in the Borrower.

3. EVENTS OF DEFAULT

The entire unpaid principal of the Note, and the interest then accrued thereon, shall become and be immediately due and payable upon the written demand of the Lender, without any other notice or demand of any kind or any presentment or protest, if any one of the following events (hereafter an "Event of Default") shall occur and be continuing at the time of such demand, whether voluntarily or involuntarily or, without limitation, occurring or brought about by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rules, or regulations of any administrative or governmental body, provided, however, that such sum shall not be then payable if Borrower's payments have been waived, or the time for making the Borrower's payments has been extended by the Lender:

a. NON-PAYMENT OF LOAN: If Borrower shall fail to make payment when due of any installment of principal on the Note, or interest accrued thereon, and if the default shall remain unremedied for fifteen (15) days.

b. NON-PAYMENT OF OTHER INDEBTEDNESS: If Borrower shall be in default of payment when due of any installment of principal or of interest on any of the Borrower's other indebtedness, if such default shall remain unremedied for fifteen (15) days.

c. INCORRECT REPRESENTATION OR WARRANTY: If any representation or warranty contained in or made in connection with the execution and delivery of this loan agreement, or in any certificate furnished pursuant hereto, shall prove to have been incorrect when made in any material respect.

d. DEFAULT IN COVENANTS: If the Borrower shall **materially** default in the performance of any other term, covenant, or agreement contained in this Loan Agreement, and such default shall continue unremedied for thirty (30) days after either: (1) it becomes known to an executive officer of the Borrower; or (2) written notice thereof shall have been given to the Borrower by the Lender.

e. **EMPLOYMENT: If the Borrower shall fail to comply with the provisions of the Three-Party Employment Agreement, which results in the requirement by the CDBG program upon the Grantee to repay grant funds expended to assist the Borrower, the Borrower hereby agrees to repay $35,000 per job which contributes to the failure to meet the CDBG requirements.**

f. VOLUNTARY INSOLVENCY: If the Borrower shall become insolvent or shall cease to pay its debts as they mature or shall voluntarily file a petition seeking reorganization of, or the appointment of a receiver, trustee, or liquidation for it or a substantial portion of its assets, or to effect a plan or other arrangement with creditors, or shall be adjudicated bankrupt, or shall make a voluntary assignment for the benefit of creditors.

g. INVOLUNTARY INSOLVENCY: If an insolvency petition shall be filed against the Borrower under any bankruptcy, insolvency, or similar law or seeking the reorganization of the Borrower of the appointment of a receiver, trustee, or liquidator for the Borrower, or for a substantial part of the property of the Borrower, or a writ or warrant of attachment or similar process shall be issued against a substantial part of the property of the Borrower, and such petition shall not be dismissed, or such writ or warrant of attachment or similar process shall not be released or bonded, within sixty (60) days after filing of levy.

h. JUDGEMENTS: If any final judgment for the payment of money that is not fully covered by liability insurance shall be rendered against the Borrower, and within sixty (60) days shall not be discharged, or an appeal therefrom taken and execution thereon effectively stayed pending such appeal, and if such judgment be affirmed on such appeal, the same shall not be discharged within thirty (30) days.

h. RIGHT UPON DEFAULT: Upon default by Borrower, Lender has all remedies available to it under State law in enforcing this Agreement and Lender rights to the collateral mentioned herein including, but not limited to, the following:

   i. Accelerate and declare the full balance immediately due on the Note and commence suite for collection thereof
   ii. Take possession of the collateral or render it unusable, without notice, except as required by law, provided that said self-help shall be done without breach of peace;
   iii. Request and demand that Borrower assemble the collateral at an acceptable location for delivery to Lender;
   iv. Sell or dispose of collateral by sale and pursuant to the law;
   v. Specifically enforce the terms of the Note and related agreements;
   vi. Foreclose on any real property or appropriate personal property by strict foreclosure in equity;
   vii. Pursue any and all other remedies available under law to enforce the terms of this Agreement and Lender's rights to the real and personal property identified herein, and in collateral security documents of the Lender.

j. SALE/REFINANCING/CHANGE OF OWNERSHIP: The Loan shall be due and payable upon the sale of the business, sale or refinance of any real property financed with this Loan or as part of the project in which funds from this loan where used, sale or refinancing, of any real property used as collateral for this loan, change in ownership of the business involving any guarantees of this loan, or wherein Borrower ceases to be a majority owner of the business.

4. OTHER DOCUMENTS

Lender may require and Borrower agrees to execute such other documents as may be required by the Lender in its sole discretion in order to comply with State and federal regulations governing (a) the loan proceeds and (b) prudent lending practices.

5. COLLECTION AGENT

Borrower hereby appoints the Lender as its agent to appoint a loan collection agent to provide loan servicing in accordance with this agreement and other loan documents. Lender may remove or replace the loan agent in its sole discretion. Lender shall provide or cause to be provided notice to Borrower of change in the loan collection agent.

6. WAIVER

No failure or delay on the part of the Lender in exercising any right, power or remedy hereunder shall operate as a waiver thereof.

7. **ATTORNEY FEES**

If any of the Parties to this Agreement breaches any provision of this Agreement, or becomes Party to litigation concerning this Loan or the security for this Loan, then the other Party may institute legal action against the defaulting Party for specific performance, injunction, declaratory relief, damages, or any other remedy provided by law. In addition to the recovery of any such sum or sums expended on behalf of the defaulting Party, the prevailing Party shall be entitled to recover from the losing Party such amount as the court may adjudge to be reasonable attorneys' fees for the services rendered to the prevailing Party in such action. The Parties each waive the applicability of Davis-Sterling Common Interest Development Act, Civil Code Section 1350.

8. **EXHIBITS INCORPORATED BY REFERENCE**

Borrower agrees to each of the covenants and commitments contained in Exhibits A through E are attached hereto and by this reference incorporated herein.

9. **NOTICES:**

Notices shall be sent to :

Borrower: _________________________ Lender: ______________________

Name: City of Sample
Address: 1111 Main St.
Room 3
Sample, CA
Phone:

With Copies to:

10 **HEIRS, SUCCESSORS AND ASSIGNS**

This agreement shall be binding upon and inure to the benefit of the heirs, successors and assigns of the parties to this agreement.

11. **AMENDMENTS**

Any amendments or modifications to this agreement must be in writing and signed by both parties.

Acceptance

IN WITNESS WHEREOF, the parties hereto have each caused this Loan Agreement to be duly executed as of the date first written above.

BORROWER:______________________	LENDER:____________________
By:______________________________	By:__________________________
______________________________ Title	______________________________ Title
BORROWER:______________________	LENDER:____________________
By:______________________________	By:__________________________
______________________________ Title	______________________________ Title

Date:___________________________ Date:______________________

Blank Page

EXHIBIT III-A

LOAN AGREEMENT REPRESENTATIONS AND WARRANTIES

The borrower represents and covenants the following:

a. DULY ORGANIZED: The Borrower is a (corporation, partnership, or sole proprietorship) duly organized, validly existing, and in good standing under the laws of the State of California and has the power to enter into this Agreement and to borrow hereunder.

b. DULY AUTHORIZED: The making and performance by the Borrower of this Agreement, and the execution and delivery of the Note, and any Security Agreements and Instruments have been duly authorized by all necessary corporate actions and will not violate any law, rule, regulation, order, writ, judgment, decree, determination, or award presently in effect or result in a breach of or constitute a default under any bank loan or any other agreement or instrument to which the Borrower is a party or by which is or its property may be bound or affected.

c. LEGALLY BINDING INSTRUMENTS: This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors. The parties agree to execute such further documents and instruments as shall be necessary to carry out the terms of this Agreement, and such documents and agreements shall likewise be binding upon the parties and their successors.

d. NO LEGAL SUITS: There are no legal actions, suits, or proceedings pending, or to the knowledge of the Borrower, threatened against the Borrower before any court or administrative agency, which if determined adversely to the Borrower, would have a material adverse affect on the financial condition or business of the Borrower.

e. NOT IN DEFAULT: The Borrower is not in default of any obligation, covenant, or condition contained in any bond, debenture, note, or other evidence of indebtedness or any mortgage or collateral instrument securing the same.

f. TAXES ARE PAID: Borrower has paid in full all taxes and assessments levied by any taxing agency, federal, state, or local against Borrower or its personal or real property.

g. NO ADVERSE CHANGE: The Borrower certifies that there has been no adverse change since the date of loan application in the financial conditions, organization, operation, business prospects, fixed properties, or personnel of the Borrower.

h. EVIDENCE OF PROJECT FUNDING: The Borrower has submitted to the Lender acceptable evidence (e.g., bank commitment letter) of financing or liquidity for the balance of project cost.

i. HAZARDOUS SUBSTANCES: The Borrower does not know or believe or have reason to know or believe, that hazardous substances are now, or have been, generated, stored, treated, handled, disposed of, released or otherwise located on the property.

BORROWER:

By:______________________________

____
Title

____
____
Title

Date:____________________________

LOAN AGREEMENT EXHIBIT B

AFFIRMATIVE COVENANTS OF THE BORROWER

The Borrower agrees to comply with the following covenants from the date hereof until the Lender has been fully repaid with interest, unless the Lender shall otherwise consent in writing:

a. PAYMENT OF THE LOAN: To pay punctually the principal and interest on the Note according to its terms and conditions and to pay punctually any other amounts that may become due and payable to the Lender pursuant to the terms of this Agreement or Note.

b. PAYMENT OF OTHER INDEBTEDNESS: To pay punctually the principal and interest due on any other indebtedness now or hereafter owing the Borrower to the Lender or any other lender.

c. INSURANCE: To obtain at its sole cost and keep in full force and effect during the term of this agreement broad form property damage, hazard insurance covering fire and extended coverage in amounts at least equal to the unpaid balance of the note naming the CITY as a loss payee, personal injury, employers, and comprehensive form liability insurance in the amount of $1,000,000 per occurrence providing that the CITY, its officers, agents, and employees shall be named insured under the policy, and that the policy shall stipulate that this insurance will operate as primary insurance, and that no other insurance effected by the CITY or other named insured will be called upon to cover a loss covered thereunder. To obtain evidence of fire and extended coverage insurance in the amount of at least the fair market value of the real property and any and all improvements which are the subject of the security described in Paragraph 1 of the Loan Agreement shall be submitted to the CITY within 15 days of the execution of this Agreement naming the CITY as a loss payee under such policy. Such evidence shall be acceptable to Lender in its sole discretion. A title policy, acceptable to the Lender in its sole discretion, with endorsements required be Lender shall be provided by Borrower.

d. CERTIFICATES OF INSURANCE: To file with CITY within 15 days of the execution of this agreement, a certificate of insurance and an endorsement which shall provide that no cancellation, major change in coverage, or expiration will be made during the term of this agreement, without 30 days written notice to the CITY prior to the effective date of such cancellation, or change in coverage.

e. PAY ALL TAXES: To pay and discharge all personal property taxes, assessments, and governmental charges upon it or against its properties prior to the date on which the penalties attached thereto apply, except that the Borrower shall not be required to pay any such tax, assessment, or governmental charge which is being contested in good faith and by appropriate proceedings. If so requested by Lender, Borrower will provide a bond guaranteeing payment of such taxes or assessments in any case in which Borrower contests any tax and refuses to pay under this section.

f. PROVIDE ADDITIONAL EQUITY: To provide additional equity funds to cover additional project costs incurred as a result of overruns or unanticipated expenses or changes in work orders in the project as specified in the Loan Commitment Letter.

g. MAINTAIN EXISTENCE: To maintain its existence, rights, privilege, and franchises within the State of California and qualify and remain qualified in each jurisdiction in which its present or future operations or its ownership of property requires such qualifications.

h. PROVIDE FINANCIAL AND JOB INFORMATION: To maintain adequate records and books of account, in which all of its business and financial transactions will be entered in accordance with generally accepted accounting principles.

In addition, the Borrower agrees to deliver to the Lender financial statements certified by an authorized officer of the Borrower to be true and accurate copies within sixty (60) days of the close of the period and annual financial statements, prepared by an independent accountant and certified by an authorized officer of the Borrower to be true and accurate copies within ninety (90) days of the close of the period. The Lender retains the right to request audited statements from the Borrower, to be obtained at the Borrower's expense.

The Borrower's Agent, the Job Training Agency, has agreed by separate Agreement to provide job hiring or saving data to the Lender every (3) months for the period of the Loan or five (5) years, whichever is less. This job data will include but not be limited to the number of new hires, wages, title, starting date or jobs retained that directly relate to this loan.

The Borrower will comply with record keeping requirements. All records concerning the construction, including invoices, receipts and contracts will be kept for a period of not less than four years from the closing of the loan or completion of construction, whichever is later. All relevant records pertaining to the project shall be accessible and available for inspection or audit by Lender for the same time period. If directed so by the Lender, Borrower shall deliver to the Lender all records, accounts, documentation and other relevant materials relating to the receipt and disbursement of loan funds.

The Borrower further agrees to provide written notice to the Lender of any public hearing or meeting before any administrative or other public agency which may in any manner affect the chattel, personal property, or real estate securing the Loan.

i. RIGHT TO INSPECTION: To grant the Lender, until the Note has been fully repaid with interest, the right at all reasonable hours to inspect the chattel, personal property, and real estate used to secure the Loan, and to provide the Lender free access to the Borrower's premises for the purpose of such inspection.

j. NOTICE OF DEFAULT: To give written notice to the Lender of any event within 15 days of the event that constitutes an Event of Default under this Loan Agreement as described in Article VI herein or that would, with notice or lapse of time or both, constitute an Event of Default under this Loan.

k. INDEMNIFY AND HOLD HARMLESS: Borrower shall indemnify and hold harmless the City, its officers, agents and employees from all claims, suits, or actions of every name, kind and description, brought forth on account of injuries to or death of any person or damage to property arising from or connected with the willful misconduct, negligent acts, errors or omissions, activities giving rise to strict liability, or defects in design by the Borrower or any person directly or indirectly employed by or acting as agent for Borrower in the performance of this Agreement, including the concurrent or successive passive negligence of the City, its officers, agents or employees.

It is understood that the duty of Borrower to indemnify and hold harmless includes the duty to defend as set forth in Section 2778 of the California Civil Code.

Acceptance of insurance certificates and endorsements required under this Agreement does not relieve Borrower from liability under this indemnification and hold harmless clause. This indemnification and hold harmless clause shall apply whether or not such insurance policies shall have been determined to be applicable to any of such damages or claims for damages.

l. EXPENSES OF COLLECTION OR ENFORCEMENT: To pay the Lender, if the Borrower defaults on any provision of this Agreement, in addition to any other amounts that my be due, an amount equal to the costs and expenses of collection, enforcement, or correction or waiver of the default incurred by the Lender's rights under the Note and this Agreement; the prevailing party shall be entitled to its reasonable attorney's fees.

m. OTHER INSURANCE: To maintain life insurance on______________________ ____ in the amount of $______________. The life insurance policy will be a term policy. The Borrower will assign the amount of insurance to the Lender and submit an acknowledged copy from the insurance company of the assignment.

n. NULL AND VOID COVENANTS: In the event that any provision of this Loan Agreement or any other instrument executed at closing or the application thereof to any person or circumstances shall be declared null and void, invalid, or held for any reason to be unenforceable by a Court of competent jurisdiction, the remainder of such agreement shall nevertheless remain in full force and effect, and to this end, all covenants, conditions, and agreements described herein are deemed separate.

o. JOBS: To create or maintain the number of jobs described in and comply with the conditions of the Non-Financial Employment Plan Agreement.

p. COLLATERAL: To provide and maintain all collateral property or equipment in good condition and at the original site identified in the loan application.

q. HAZARDOUS SUBSTANCES: Neither Borrower nor any tenant of space in the real property shall generate, sell, treat, store, handle, dispose of or otherwise deal with hazardous material on the property. The Borrower shall comply with all applicable laws, regulations, ordinances, licenses, permits, rules and other codes pertaining to hazardous materials. The Borrower shall indemnify and hold harmless from all liability, claims, penalties, fines, losses damages and expenses of any kind, including, without limitation, clean-up costs and reasonable attorney fees, incurred by Lender as a result of Borrowers breach of the provisions of the Deed of Trust, as a result of Borrower's breach of warranty regarding hazardous substances, or as a result of the presence of hazardous substances on the property.

<u>BORROWER:</u>

By: ______________________________

____
Title

____

____
Title

Date: ______________________________

EXHIBIT C LOAN AGREEMENT

NEGATIVE COVENANTS OF THE BORROWER

The Borrower covenants and agrees that, from the date hereof until payment in full of the Note, unless the Lender shall otherwise consent in writing, the Borrower will not enter into any agreement or other commitment the performance of which would constitute a breach of any of the covenants contained in this Loan Agreement including, but no limited to, the following covenants. Any breach of these covenants would constitute an Event of Default, and the rights of default by the Lender may be executed.

a. ENCUMBER THE BORROWER'S ASSETS: The Borrower will not further encumber its assets or incur indebtedness in addition to that now existing and that provided for in this Loan Agreement, except indebtedness incurred in the ordinary course of business and payable within one year.

b. SELL THE BORROWER'S ASSETS: The Borrower will not sell or transfer all or a substantial part of its assets except those usually sold in the ordinary course of the business. The following items will not be sold, transferred, or removed from the site during the life of this loan.

c. LEASE OR SUBLEASE PROPERTY: The Borrower will not lease or sublease all or any portion of the property to be acquired, constructed, or rehabilitated as described in Section 1.03, with the proceeds of this Loan.

d. CHANGE OWNERSHIPS: The principles of the Borrower will not permit, without the written permission of the Lender, any material change in the ownership structure, control, or operation of the Borrower including, but not limited to: (1) merger into or consolidation with any other person, firm, or corporation; (2) changing the nature of its business as carried on at the date hereof; (3) substantial distribution, liquidation, or other disposal of the Borrower's assets to the stockholders or any other party.

e. CHANGE THE PROJECT: The Borrower will neither permit nor suffer to exist, without prior written Lender consent, any material change in the project's plans and/or specifications submitted to the Lender as per the Preliminary Loan Application. Material change will include any significant variance in the accepted plans and specifications, increases in contract prices, and/or additional financial obligations with respect to the construction and acquisition of assets.

BORROWER:

By: ______________________________ ______________________________

______________________________ ______________________________
Title Title

Date:______________________________ Date: ______________________________

LOAN AGREEMENT EXHIBIT D

MISCELLANEOUS

a. WAIVER OF NOTICE: No failure or delay on the part of the Lender in exercising any right, power, or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power, or remedy preclude any other or further exercise thereof or the exercise of any other right, power, or remedy hereunder. No modification or waiver or any provision of this Loan Agreement or of the Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

b. AMENDMENTS - WRITING REQUIRED: The Lender hereby expressly reserves all rights to amend any provisions of this Agreement, to consent to or waive any departure from the provisions of this Loan Agreement, to amend or consent to, or waive departure from the provisions of the note, and to release or otherwise deal with any collateral security for payment of the Note provided, however, that <u>all such amendments be in writing</u> and executed by the Lender and the Borrower.

c. NOTICES: All notices, consents, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given to a party hereto if mailed by certified mail, prepaid, to the Lender at its address set forth a the beginning of this Loan Agreement, and to the Borrower at the address set forth at the end of this Loan Agreement or at such other addresses as any party may have designated in writing to any other party hereto. This section does not limit other means of delivering written notice if said notices are actually received.

d. PAYMENTS: The Borrower will make payments to the Lender in accordance with the terms and conditions and instructions contained in this Loan Agreement and the Promissory Note.

e. SURVIVAL OF REPRESENTATIONS AND WARRANTIES: All agreements, representations, and warranties made by the Borrowers herein or any other document or certificate delivered to the Lender in this transaction survive the delivery of this Agreement, the Note and the Security Agreements hereunder, and shall continue in full force and effect so long as the Note is outstanding.

f. SUCCESSORS AND ASSIGNS: This Loan Agreement shall be binding upon the Borrower, its successors, and assigns, except that the Borrower may not assign or transfer its rights without prior written consent of the Lender. This Agreement shall inure to the benefit of the Lender and, except as otherwise expressly provided in particular provisions hereof, all subsequent holders of the Note. Borrower acknowledges that Lender contemplates and may assign the Note and this Agreement and consents to such assignments.

g. COUNTERPARTS: This Loan Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

h. GOVERNING LAW: This Loan Agreement and the Note and Security Agreements, Financing Statements, and Deed of Trust shall be deemed contracts made under the laws of the State of California and for all purposes shall be construed in accordance with the laws of said State.

i. WAIVER: Failure by Lender at any time to require performance by Borrower of any of the provisions of this Agreement shall in no way affect Lender's rights hereunder to enforce the same, nor shall any waiver by Lender of any breach hereof be held to be a waiver of any succeeding breaches or a waiver of this non-waiver clause.

BORROWER:

BORROWER:

By: ______________________________

____
Title

____

____
Title

Date: ______________________________

LOAN AGREEMENT EXHIBIT E

PROJECT ASSURANCE

The Borrower hereby assures and certifies that he/she will comply with all regulations, policies, guidelines, and requirements as they relate to the Sample Revolving Loan Fund (RLF). Also, the Borrower assures and certifies to the Sample Revolving Loan Fund that the project:

a. Will comply with Title VI of the Civil Rights Act of 9164 (P.L. 88-352) whereby no person in the United States shall on the grounds of race, color, or national origin be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination under the Sample RLF by which the Borrower receives Federal financial assistance and will immediately take any measures necessary to effectuate this agreement.

b. Will comply with Title VI of the Civil Rights Act of 1964 (42-USE 2000d) prohibiting employment discrimination where: 1) the primary purpose of the financial assistance is to provide employment, or 2) discriminatory employment practices will result in unequal treatment of persons who are or should be benefiting from the loan-aided activities.

c. Will comply with Section 112 of the Public Law 92-65 and Title III of Public Law 94-135 whereby the borrower assures that no person in the United States shall on the grounds of sex or of age be excluded from participating in, be denied the benefits of, or otherwise be subject to discrimination in connection with loan-aided activities.

d. Will comply with the flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973, Public Law 93-234, 87 State. 975, approved December 31, 1976. Section 102 (a) requires, on and after March 2, 1975, the purchase of flood insurance in communities where such insurance is available on a condition for the receipt of any purposes for use in any area that has been identified by the Secretary of the Department of Housing and Urban Development as an area having special flood hazards. The phrase "Federal financial assistance" includes any form of loan, grant, or any other form of direct or indirect federal assistance.

e. Will comply with Section 106 of the National Historic Preservation Act of 1966 as amended (16 USC 47 0), Executive Order 11593, and the Archeological and Historic Preservation Act of 1966 (16 USC 469a-1 et seq.) by: a) consulting with the State's Historic Preservation Officer on the conduct of investigation, as necessary to identify properties listed in or eligible for inclusion in the National Register (see 36 CFR Part 880.8) by the activity, and notifying of existence of any such properties; and b) complying with all requirements established by the State to avoid or mitigate adverse missing effects.

f. Will give the City of Sample through any authorized representative the access to the right to examine all records, books, papers, or documents related to the loan.

g. Will comply with Section 2, of the Public Works and Economic Development Act which state that under the provisions of this Act new employment opportunities should be created by developing and expanding new and existing facilities and resources rather than by merely transferring jobs from one labor area to another.

h. Will assure that any building or facility financed in whole or in part by any funds provided under the Sample RLF will be designed, construed or altered so as to assure ready access to and use of such building or facility by the physically handicapped. This provision applies only to firms which deal directly with the general public in the normal and usual course of their business, and to facilities in which business is customarily transacted by and with members of the general public.

i. Will insure that the facilities under its ownership, lease or supervision which shall be utilized in the accomplishment of the project are not listed on the Environmental Protection Agency's (EPA) list of Violating Facilities and that it will notify the City of Sample Department of Community Development of the receipt of any communication from the Director of the EPA Office of Federal Activities indicating that a facility to be used in the project is under consideration for listing by the EPA.

j. Will comply with all requirements imposed by the Federal sponsoring agency concerning special requirements of law, program, and other administrative requirements.

k. Will comply with the Davis Bacon Act, as amended (40 U.S.C.276a--5).

BORROWER:

By: ______________________________

____
Title

____

____
Title

Date: ______________________________

LOAN AGREEMENT EXHIBIT F

CITY OF SAMPLE
LOAN ADVISORY BOARD

Project Evaluation Form
RLF General Guidelines and Criteria

Company Name:____
Address: ____
Telephone: ( )_______________ Applicant Loan # ____________

1. Recommendation:

2. a) Description of Business/Project:

   b) Resume:

   c) Comment:

3. RLF CRITERIA

   a) Creation of at least one job per every $35,000 loaned.
   b) Leveraging ratio of at least ______ private to every one RLF dollar.
   c) Availability of jobs; availability of 51% jobs created to low/moderate income persons
   d) Confirmation of existence of financing gap.
   e) Business/Project located at or relocating to.
   f) Environmental Assessment completed or scheduled to be completed.

4. Does the project result in an expansion?

   of space?
   of sales?

5. Does the cash flow projection account for the new jobs?

6. What is the time frame for new jobs to start in relation to disbursement of loan proceeds and is it appropriate?

7. Does the project demonstrate a public benefit?

8. Can this gap be met with equity?

9. What are the uses and sources of fund?

10. Program Status

    a) Total Funds Available for Lending $
    b) Total Funds Loaned $
       Current RLF Balance $

11. Financing Policy

    a) Applicant Request $ ____________
    b) Applicant number of years requested ___________________
       Type of Loan ____

       Comment:
    c) Interest rate for loans will be _______________________
    d) Security required to adequately collateralize loan.
       Value of Collateral Available: $ __________________

       Project Cost: $ __________________

       Prior Liens: $ __________________

       Collateral Surplus $ __________________

       Additional Collateral: $ __________________
       TOTAL ADDITIONAL COLLATERAL $ __________________

       RLF Loan: $ __________________

       Collateral Coverage: $ __________________

LOAN AGREEMENT EXHIBIT G

CITY OF SAMPLE
REVOLVING LOAN PROGRAM

(PRELIMINARY) LOAN APPLICATION

I. COMPANY INFORMATION

NAME: ____

ADDRESS: ____

____

TELEPHONE NO.: ____

CONTACT PERSON: ____

PROJECT ADDRESS: ____

____

PROJECT ASSESSOR PARCEL NUMBER(S):______________________

CURRENT NUMBER OF EMPLOYEES:____________________________

PROJECTED NUMBER OF EMPLOYEES AFTER COMPLETION OF PROJECT:____
___

NUMBER OF EMPLOYEES TO BE HIRED DURING YEAR ONE: ________
(Also indicate which month(s) jobs begin)

NUMBER OF EMPLOYEES TO BE HIRED DURING YEAR TWO: ________
(Also indicate which month(s) jobs begin)

TOTAL NUMBER OF NEW EMPLOYEES: ________________________

TOTAL NUMBER OF EMPLOYEES TWO YEARS FROM COMPLETION OF PROJECT (or 24th month of State grant term):
____

II. PRINCIPAL(S) INFORMATION

NAME: ____

POSITION: ____

% OF
OWNERSHIP:____

YEARS OF
EXPERIENCE:____

III. EXISTING FACILITY

SIZE: ____________________ SQ.FT.

OWNED OR LEASED? ______________________________________

IF OWNED:

PURCHASE PRICE $ ________________________

EXISTING MORTGAGE $ ________________________

RECENT APPRAISED VALUE $ ________________________

ANNUAL MORTGAGE PAYMENTS $________________________

IF LEASED:

MONTHLY RENT $ ________________________

ANNUAL RENT $ ________________________

EXPIRATION DATE OF LEASE ________________________

IV. NEW/EXPANDED INFORMATION (IF APPLICABLE)

SIZE:_________________SQ.FT.

WILL NEW FACILITY REPLACE EXISTING FACILITY? ________________
IF REPLACED, WILL RENT BE SAVED OR WILL EXISTING FACILITY BE SOLD?

____
CURRENT MARKET VALUE OF EXISTING FACILITY? $ _____________

PURCHASE PRICE OF NEW FACILITY $ ____________

APPRAISED VALUE $ ____________

WILL PURCHASER OCCUPY ENTIRE SPACE? ____________________
IF NO:

EXPLAIN OTHER USES: ____
____

% TO BE OCCUPIED BY PURCHASER:
____

RENTAL INCOME GENERATED: $
____

V. PRINCIPAL BANK INFORMATION

NAME OF BANK:
____

CONTACT PERSON:
____

TELEPHONE NUMBER:
____

AVAILABLE LINE OF CREDIT:
____

VI. PROJECT COSTS

NEW CONSTRUCTION $ __________________

REHABILITATION $ __________________

OFF-SITE IMPROVEMENTS $ __________________

ACQUISITION $ __________________

OTHER: $ __________________

TOTAL: $ __________________

VII. PROJECT FUNDING

RLF	$ ____________________
BANK	$ ____________________
COMPANY	$ ____________________
OTHER	$ ____________________
TOTAL	$ ____________________

VIII PROJECT DESCRIPTION

IX. ADDITIONAL INFORMATION

X. INFORMATION REQUESTED BY LAB

________ BUSINESS INCOME STATEMENTS (CURRENT & LAST THREE (3) YEARS)

________ BUSINESS BALANCE SHEETS (CURRENT & LAST THREE (3) YEARS)

________ PERSONAL FINANCIAL STATEMENTS

________ INCOME TAX RETURNS

(LAST THREE YEARS)

________ DEBT SCHEDULE

________ RESUME(S)OF OWNER(S) AND BUSINESS HISTORY

________ ITEMIZED THIRD PARTY COST ESTIMATE

________ PRELIMINARY PLANS INCLUDING FACADE RENDERING

________ SIGNED ASSISTANCE AGREEMENT

________ ____

I/WE HEREBY ACKNOWLEDGE THAT LAB DOES NOT AND CANNOT GUARANTEE THAT I/WE WILL RECEIVE FINANCING FROM THE RLF, OR PUBLIC OR PRIVATE LENDERS. IN ADDITION, RLF FINANCING WILL NOT BE PROVIDED WITHOUT ADEQUATE DOCUMENTATION REGARDING FUNDING OF THE BALANCE OF PROJECT COSTS.

APPLICANT SIGNATURE: ____

DATE: ____

APPLICANT SIGNATURE: ____

DATE: ____

LOAN AGREEMENT EXHIBIT H

REVOLVING LOAN FUND

PROJECT CHECKLIST

1. Business Information:

____ Business Plan
____ Resume(s) of Principal(s)(normally those with 20% ownership or more)
____ Articles of Incorporation/By-Laws
____ Certificate of Good Standing (obtained for Corporations from Secretary of State)
____ Partnership Agreement
____ Franchise Agreement
____ Fictitious Name Statement

2. Project Information:

____ Purchase Agreement (Deposit Receipt)
____ Preliminary Title Report on Property to be Acquired
____ Preliminary Plans and Specifications
____ Cost Estimates (Construction, Machinery & Equipment)
____ Lease Agreement, Existing of Future
____ Project Appraisal
____ Applicable Permits and Licenses
____ Copy of Equity Capital/Buy-Out Agreement
____ Summary of Collateral

3. Financial Information:

a. Business

____ Income Statement - past three years plus current (within 60 days)
____ Balance Sheet - past three years plus current (within 60 days)
____ Aging Schedules of Accounts Receivable/Payable (same date as current Balance Sheet)
____ Schedule of Existing Debt (same date as current Balance Sheet)
____ Business Federal Tax Returns (past three (3) years) (Used to verify/supplement Financial Statements)
____ Income and Cash Flow Projections (next two (2) years)
____ Pro Forma Balance Sheet

b. Personal:

____ Personal Financial Statements of Principal Owner(s) (normally those with 20% Ownership or more)
____ Individual Federal Tax Returns of Principal(s)

4. Other Information:

____ Corporate Resolution to Borrow

____ Letter of Assurance from Business as to Hiring Policy, Training Agreements, Location, Use of Proceeds, etc.

____ Three-Party Employment Agreement

____ Other

LOAN AGREEMENT EXHIBIT I

REVOLVING LOAN PROGRAM

PRE-CLOSING CHECKLIST

____ A copy of the construction contract between the business and the general contractor.

____ A copy of final construction/rehabilitation plans stamped by the appropriate local agency - city building permit department.

____ A copy of the Construction Contractors Performance Bond (100% Performance, Labor and Material Bond - owner as obligee).

____ A copy of the building permit.

____ A letter from an insurance agent, stating that hazard insurance will be in effect upon closing of the loan, naming the Lender as mortgagee. Insurance should be for the total amount of the project.

____ A copy of the contractor's workers' compensation and Builders Risk Policy.

____ A lien form (UCC-1) on all machinery and equipment to be held as collateral.

____ Copy of the purchase agreement between buyer and seller.

Blank Page

LOAN AGREEMENT EXHIBIT J

REVOLVING LOAN PROGRAM

SAMPLE ESCROW INSTRUCTIONS

Send to Title Company or Bank Escrow Officer. Reference the Escrow number obtained from Preliminary Title Report. Put in letter format.

OUTLINE

1. Identify parties of the transaction. Give Escrow Number if you have had one assigned in Preliminary Title Report.

    - Names
    - Legal Structure (if business)
    - Address

2. Recite intentions of above parties.

    - Identify Buyers and Sellers
    - Identify Sources and Amounts of Financing
    - Identify Role and Duties of all Parties
    - Identify Order of Priority of Parties to security or collateral

3. Identify all Documents submitted.

    - Loan Agreement(s)
    - Promissory Note(s)
    - Deed(s) of Trust (Identify position for filing)
    - Assignment(s) of Deed(s) of Trust
    - Notice(s) of Default
    - Personal and Corporate Guarantee(s)
    - Checks - including maker, amount, and payee
    - Any other appropriate documents

4. Instructions and Authorizations to Escrow Officer.

    - Delivery of Checks and/or documents
    - Insertion of dates and conforming of documents - all dates same
    - Recordation of Documents after signatures obtained
    - Disbursement of Checks and/or funds
    - Insurance and delivery of policies of Title Insurance

- Delivery of other documents
- Return of original documents
- Bill the borrower for any charges incurred for your services

5. Conditions to be met prior to Recordation

   - Sample language:

   "You are authorized to record the appropriate documents and disburse our deposited check when the following conditions have been met:"

   - Hazard Insurance on Fixed Assets, Specify amount and assignees
   - Signing of the construction contract
   - Project surety bonding, specify type and terms
   - Other policies of Insurance (eg. Life and Liability), specify amounts and assignees
   - Evidence of appropriate licenses and permits
   - Endorsements of Title Insurance
   - Evidence of execution of other loan agreements
   - Evidence of deposit of cash equity by borrower and/or investors
   - etc.

NOTE: It is essential that project escrow instructions be reviewed by an attorney prior to submittal to the Title/Escrow Company.

Date

Agent
Title Company
Address
City and State

Dear:

Your are in the process of closing an escrow for the purchase of ______________________. The purchasers are ___________________.

The City of Sample will be making a loan from the Sample Revolving Loan Fund in the amount of $___________. The term of the loan will be ____ years at _______ percent interest. The loan would be fully amortized over a __________ year period.

Prior to disbursing the funds from escrow you should complete the following list of items:

1. Have four (4) originals of the loan agreement signed and return them to me for City signature.

2. Prepare note and second Deed of Trust ______________________ ___________________________, California. This should also include assignment of rents. The City of Sample will subordinate to a $___________ loan from the ____________ Bank of _________________________.

3. Place a second Deed of Trust in the amount of $ ____________ on ____.

4. Have ___________________ sign both originals of the Guarantee Agreement provided and return them to me.

5. Obtain evidence of Life Insurance on _________________ in the amount of $__________, assigned to the City of Sample.

6. Obtain evidence of Fire and Liability insurance on both properties being used as collateral. A minimum of $________ on the _________________ property. The City of Sample is to be added as loss payee on all such properties.

7. Collect $__________ as a Loan Origination fee for the City of Sample.

8. All fees to be paid by the Borrowers.

After the above activities have been completed, and prior to the disbursement of the Funds, we would like to review the documentation for completeness.

Please let me know if you have any questions.

Sincerely,

LOAN AGREEMENT EXHIBIT K

REVOLVING LOAN FUND PROCEDURES

1. Discuss RLF program with potential clients and make a preliminary determination on eligibility . If they are expanding or locating their business in Sample, and can create one new full time job per $35,000 loaned, and can demonstrate a need for RLF financing ("gap"), they may be eligible (BDC).

2. Review financial statements and project information. See attached checklist for items required for a complete review (BDC).

3. Discuss project with City of Sample staff and City CDBG coordinator to determine eligibility.

4. If the project appears appropriate and necessary, prepare a preliminary application and a project evaluation. See attached sample for guidelines. (BDC).

5. Review preliminary application and project evaluation form (City).

6. If the project appears reasonable:
   a. return application with comments to BDC.
   b. prepare the environmental review
   c. schedule Loan Advisory Board (LAB) meeting (City).

7. Finalize application - 2 originals, 1 to City, 1 to Client, copy to BDC. (BDC)

8. Submit application to City (BDC). Distribute copies to LAB members in advance of meeting (City).

9. Present proposal to LAB (City).

10. Post public notice for environmental review and hold public comment period. Allow up to _____ days for comments. If environmental review is negative, terminate application and review process (City).

11. Record and transcribe minutes of meeting (City). Prepare a brief summary of the meeting (BDC).

12. LAB reviews project and makes recommendation (City).

13. City Manager approves/conditionally approves/denies application.

14. Obtain approval from City Manager, the authorized approver (City).

15. Send letter to client outlining conditions, LAB recommendation and Draft Loan Agreement (City/BDC).

16. Client accepts terms and conditions.

17. Confirm that conditions (obtaining insurance, bank loan, etc.) have been met or are likely to be met (City/BDC).

18. Prepare escrow closing instructions for Title Company (City).

19. Prepare loan agreement including employment agreement, guarantee agreement, security agreement and promissory note, if applicable. Have client sign 4 originals (3 to City, 1 to client) and give 1 copy to EDD for monitoring (City/BDC).

20. Meet with client to re-emphasize the employment agreement after loan agreement is signed. The client will be monitored for compliance on a quarterly basis for five years after loan closing or until the loan is repaid, whichever is less (BDC). The BDC shall submit reports to the City. Reports shall be in a mutually agreeable format.

21. Review closing documents (City).

22. Request funds disbursement. Funds will be released the Friday following the Friday of the week during which the request was submitted (City). Check should be made out to title company, with the escrow number on the check.

LOAN AGREEMENT EXHIBIT L

FORECLOSURE GUIDELINES

The collection function of servicing a loan is typically organized into several areas. This includes collection of past due payments, counseling of borrowers with financial difficulties and institute foreclosure actions when necessary. The collection effort is vital to the viability of the RLF Program, without collection of payments when due, the efforts of sound underwriting and originating the loan are fruitless.

Beyond solid underwriting and loan origination procedures, loan monitoring is critical. The Business Development Corporation (BDC) shall review the on-going financial statements submitted to early on detect problems. When problems or negative trends are noted, the business shall be referred to the College Small Business Development Center for business counseling. In addition, when the loan servicing agent notifies BDC of a late payment, business counseling will also be undertaken.

Dealing with loan collection and perhaps foreclosure is complicated and requires compliance with strict legal standards. Foreclosure must be invoked as a last result. Under the RLF Program, the loan collection agent (Bank) will provide loan collection, servicing and asset liquidation. Asset liquidation will only be undertaken with concurrence with the City's legal counseling.

The collection process will usually begin when a Borrower fails to remit payment. The first step is that the Bank will send a reminder notice. The notice will ask the Borrower to check their records and to disregard the notice if payment has been sent. If payment is still not received by the specified date, the Bank will inform BDC. The Bank will also send out notice that the payment is delinquent and due immediately. The Bank and/or SBDC will contact the business personally to determine the reason for the late payment. Business counseling will be set-up. If the business is experiencing financial difficulties and unable to meet their obligations, a meeting between the business, Bank, BDC and City staff will be set up.

Communication between the business and the Bank/BDC is critical and a required part of the loan collection process. Judicious personal contact at this stage can prevent future problems, including legal actions. Based upon the personal contact, review of the financial statements and business counseling a decision will be reached by the City, based upon Bank and SBDC advice. The decision is whether additional counseling will improve the problem. If not, then there are essentially two options. The first is debt restructuring. This arrangement may call for call for reduced payments for a period of time. These discussions shall involve other lenders in the project. Such arrangements require careful analysis of the Borrowers situation and cooperation. Any arrangement constitutes a legal modification to the loan and must therefore be reduced to a written agreement. If the new agreement is breached, the City has preserved its legal right to foreclose. There may be other options, such as recasting of the loan. However, any restructuring shall be made after consultation between the BDC, Bank and City, including legal counsel. The State of California Department of Housing and Community Development staff shall also be advised.

If nothing can be resolved with the above steps, the Bank will send a demand letter to the Borrower. This letter will give the Borrower a short time period upon which to respond. If no response is received or the response is not satisfactory, then foreclosure procedures shall be undertaken by the Bank (with City's legal advisor providing concurrence). Foreclosure is the last step due to legal and other costs. The Bank shall undertake their normal foreclosure procedures and liquidate the assets to recover all or a portion of the RLF funds.

APPENDIX C

INFRASTRUCTURE PROGRAM GUIDELINES

Blank Page

INFRASTRUCTURE PROGRAM GUIDELINES

In addition to the Guidelines and Objectives for Evaluating a CDBG Economic Development Project described in **Appendix A** of this Instruction Package, infrastructure projects entail additional requirements which include "Determining the Assessment Area" a "Fair Share Allocation Plan, and an Employment Plan Agreement (**Appendix E**) and Three-Way Employment Agreement (**Appendix G**)."

CDBG funds cannot be used for infrastructure improvements in support of speculative developments. A developer or business must be committed to the project and fulfilling the public benefit requirement. The financial documentation required of a business or developer is the same as required for a CDBG funded business loan, and similarly documents the ability of the enterprise to create or retain jobs. Depending on the needs of the business or developer, infrastructure assistance can be in the form of a loan or a grant.

Please Note: – An Infrastructure grant request of $250,000 or more will require a separate review by the Department's Economic Development Advisory Committee which convenes monthly upon request.

Determining the Assessment Area

The assessment area for an infrastructure project is generally the area served by the improvements. The assessment area contains the businesses from which data is to be collected to determine if the project has met a national objective. However, infrastructure projects are often sized to meet more than the infrastructure needs of the initial benefiting business or businesses. In such instances, the parameter of the assessment area is based upon the level of projected public benefit to be realized from the project.

If the ***projected*** cost per job from the initial benefiting business(es) is less than $10,000, the assessment area includes only the initially benefiting business(es). Data needs to be collected only from the initial business(es) for the purpose of confirming that the national objective of benefit to the targeted income group through job creation or retention has been achieved. This data includes the number of jobs created or retained, the number of jobs held by the targeted income group, and is to be collected until the end of the State grant term.

If the ***projected*** cost per job is $10,000 or more, the assessment area is defined as the area served by the infrastructure improvements, and includes all businesses in the service area of the improvements that create or retain jobs as a result of the infrastructure improvements, and any other businesses which locate or expand in the service area of the infrastructure improvements during the time period of the commitment of CDBG funds to the project until one year after the completion of the infrastructure improvements. Data needs to be collected from the identified businesses for purposes of confirming that the national objective of benefit to the targeted income group through job creation or retention has been achieved. This data includes the number of jobs created or retained, the number of jobs held by the targeted income group, and is to be collected until the end of the State grant term.

Note that these projects are subject to the individual and aggregate public benefit standards. And, if the aggregate cost of CDBG funds per job created or retained for the grantee's overall program (all projects combined) exceeds $35,000, the CDBG subsidy would be deemed to be excessive.

Grantees need to establish reporting mechanisms to compile the benefit data, track the jobs created or retained, and assess the level of benefit to the targeted income group within the assessment area. Grantees also need to be aware that if the actual cost per job is significantly higher than the projected cost per job realized from an infrastructure project, the grantee will be required to develop more accurate job creation/retention projection techniques for future CDBG Economic Development applications.

Fair Share Allocation Plan

A Fair Share Allocation Plan is a plan to levy the cost of the infrastructure improvements on the current and future beneficiaries of the infrastructure improvements. The plan ensures that other available sources of funds are maximized as required under CDBG underwriting guidelines, see Appendix A. When the project is in the design phase, the grantee must:

- Identify all of the current beneficiaries of the infrastructure improvements;
- Determine the fair share payment assigned to each beneficiary for the infrastructure costs based upon a pro-rata portion of the project costs; and,
- Conduct a good faith negotiation with each beneficiary to collect the fair share payment.

As noted above, the fair share process is required under the practice of meeting the underwriting guideline of avoiding the substitution of CDBG funds for other non-federal financial support (i.e. maximizing all available resources). In some instances, the benefiting business or land owner will pay the full amount of the fair share payment. In other instances, the beneficiary will refuse to pay, be unable to pay, or be willing and able to pay a partial amount of the fair share payment. A grantee may be able to secure the full amount of a fair share payment through a deferred or interest free loan, or may choose to forgive all, or a portion of, a loan if the business exceeds stated job creation goals. **All negotiation efforts and results must be in writing and fully documented in the infrastructure project file.**

The grantee must also document how fair share payments will be obtained from future beneficiaries (users) of the infrastructure project. Fair share payments and hook-up fees are distinct from ongoing operating fees; they are intended to capitalize a fund for

CDBG eligible activities in the same manner as the reuse of loan repayments. **A fair share plan for future users should be included in every infrastructure project file.**

Fair share payments collected up front are to be applied to total project costs and should be disbursed into the project prior to the drawdown and full disbursement of any CDBG funds. Fair share payments collected after the CDBG funds are disbursed are considered program income.

Employment Plan Agreement and Three-Party Employment Agreement

The Employment Plan Agreement and Three-Party Employment Agreement are required where jobs will be created. The Employment Plan Agreement is struck between the jurisdiction and the screening and referral agency and outlines the role of each party in insuring that the national objective (51% benefit to the TIG; slum and blight) is met. The Three-Party Employment Agreement is struck between the jurisdiction, the agency and the developer or each business that will be creating jobs, and is a condition of location in the development or hookup along the improvement being financed. The jurisdiction will use its own best judgment in determining who is ultimately responsible for the job creation, the developer or each individual business, but this relationship should be addressed in the Three-Party Agreement as an addendum the loan agreement.

The grantee should include a non-monetary default provision in the loan agreement with the business or developer that specifies income screening on all applicants for hire according to CDBG requirements, and that requires the business to provide regular reports to the Grantee on the number of hires and number of TIG hires.

Blank Page

APPENDIX D

MICROENTERPRISE ACTIVITY PROGRAM GUIDELINES AND STATEMENT OF PURPOSE

Blank Page

MICROENTERPRISE

A "microenterprise" is a business that has five or fewer employees, one or more of whom owns the enterprise. The size limitation applies only at the time the assistance is accessed. Additional services cannot be accessed when the business grows beyond five. A person "developing a microenterprise" is a person who has expressed interest and who is, or after an initial screening process is expected to be, actively working toward developing a microenterprise. Not all participants in a CDBG-funded microenterprise program will actually start a business. However, if there is excessive fallout from the program, future CDBG applications for microenterprise assistance funding will be closely scrutinized.

Microenterprise assistance activities include:

1. Loan funds to provide for the establishment, stabilization and expansion of a microenterprise.

2. Technical assistance, advice and business support services to owners of microenterprises and persons developing microenterprises.

3. General support to owners of microenterprises and persons developing microenterprises. Support services include, but are not limited to, peer support programs, counseling, child care, transportation and other similar services.

A microenterprise activity must meet the national objective of benefit to low-moderate income households. (See page 9 for a clear description of meeting a national objective for microenterprise programs) Microentrepreneurs and potential Microentrepreneurs who apply for assistance must be income verified prior to their initial participation in the program.

Tasks which can be funded under the microenterprise assistance category include:

1. Recruit, screen and test program applicants who are promising future business owners;

2. Recruit and assist program applicants throughout the entire cycle of business start-up through operation.

3 Assist program applicants in conducting market research to determine the types of small business products or services and market areas that would be economically feasible;

4 Assist program applicants in product or service design, marketing and financing and development;

5 Assist program applicants to secure private sector sources of capital for business start-up and operations;

6 Analyze the need for, and secure the supportive services such as daycare and transportation, readers and interpreters, to enable the program applicants to commit fully the time and energy required to start and operate a small business; and

7 Coordinate other available Federal, State and local assistance.

The foundation of a CDBG Microenterprise Assistance Activity is in the Statement of Purpose and. Beneficiary Tracking Plan. The Statement of Purpose outlines the proposed benefits, eligible activities and ongoing evaluation of program services. The Beneficiary Tracking Plan is the roadmap for the activity. It defines the goals, identifies the roles and responsibilities of service providers, identifies the market and focuses the outreach, defines the screening and referral process and tracks the beneficiaries through the programs levels of service. It includes the document tools necessary for defining the roles and responsibilities and meeting the reporting requirements of the State CDBG program.

Loans to microenterprises made with grant funds or program income funds must follow the overlay and underwriting guidelines introduced in **Appendices A and B** for the Enterprise Fund Business Assistance Activity.

MICROENTERPRISE STATEMENT OF PURPOSE
Beneficiary Tracking and Cost Allocation Plan

Project: (Description of funded activity and TIG beneficiaries, i.e. services and/or lending per grant agreement.) This **Plan** incorporates the **Microenterprise Statement of Purpose** as an attachment.

Benefit to Low-Mod Income Household: limited clientele

Goals: (As outlined in Enterprise Fund Application)

1. **Provide services to ______ (estimated) [city/county] residents** meeting Targeted Income Group (TIG) specifications as defined by the Department of Housing and Urban Development for the purpose of developing individual economic self-sufficiency **and/or to ______ microenterprise businesses** (5 or fewer employees including owner(s))
2. **Award _____ loans** to microenterprise program graduates to assist in starting or expanding micro-business in the [city/county]. ***(if applicable)***

Roles/Responsibilities of Participating Service Providers: (i.e. social services, job training and placement agency, WIB, SBDC, educational institution, consultant)

1.Organization or Individual and Service Provided:________________________
Contract for Services (to be submitted upon execution)
2. Organization or Individual and Service Provided;________________________
Contract for Services (to be submitted upon execution)
3. Organization or Individual and Service Provided;________________________
Contract for Services (to be submitted upon execution)

Marketing of Services: (brief narrative describing advertising of program availability, establishing an advisory board and board representation, outreach to and interface with social services and placement agencies including affordable housing agencies, family or women's service centers, local career centers and CDCs, coordination with service providers and timeline for delivery of services/programs)

Screening/Assessment/Referral Process: (narrative, referencing contracts for services identified above and data collection formats referenced below, for each of the following)

1. Coordination with social service eligibility/workforce investment agencies resulting in referral to the program
2. Intake of application for participation in the each phase of the program by individuals and business owners
3. Income screening procedures for participation by, and reimbursement for services to, TIG household individuals

4. Needs assessment and referral procedure between services and programs
5. Evaluation of services/programs by beneficiaries

Programs/Services Tracking System: (Narrative describing spreadsheet tracking system as highlighted in **Forms** below, outlining process for tracking beneficiaries through the each stage of the program of services identified in **Goals (1)** above.) (***Identify by eligible activity per Statement of Purpose Attachment*:** program or service description, service provider, location of program or service provided, number of anticipated participants per activity, number of times service or program is anticipated to be offered, format for tracking beneficiaries as identified below:)

Tracking/Reporting/Evaluation of Services Tools (tools attached)

(City/County) Microenterprise Program Application: Intake form distributed to individuals who will be participating in the program by microenterprise program staff. To be used to determine income eligibility, to identify applicant's business concept or entity and additional resources, to assess individual for readiness and to make appropriate referrals. Application includes:

1. Authorization Form For Family Income Certification: Included in beneficiary's submitted application for services. Certifies that information presented is accurate and that documentation will be provided upon request and authorizes representatives of the (city/county) and/or the State of California Housing and Community Development Department to verify household income through a release of information form.

2. Entrepreneurial Assessment Evaluation Form: Business readiness assessment to be reviewed by the [SBDC/Program administrator, lead staff, microenterprise trainer] to determine the feasibility of the business concept and appropriate entrance level for program services.

3. Income Verification Form: Certified by screening agency. Identifies income verification method to be used and required forms of documentation which will be attached. Will include public assistance or income tax information for each participant, as appropriate. Model to be submitted with executed Beneficiary and Employment Plan Agreement. Signed form to be kept in applicant's files.

<u>Cost Allocation Plan:</u> Submit an example and describe the accounting system, including narrative descriptions, that will be utilized to differentiate between CDBG funds utilized in support of TIG technical assistance clients and funds from non-CDBG sources utilized to pay for the costs of assistance utilized by non-TIG clients.

Each Beneficiary Tracking Plan should follow this basic format but should supplement or refine as the program dictates.

Blank Page

Beneficiary Tracking Plan
Statement of Purpose

Promoting self-sufficiency for Targeted Income Group population, Improving local economic climate through supporting entrepreneurship development and job creation.

Identify National Objective: (limited clientele)

Program Benefits

- Create local capacity for entrepreneurship development
- Support of Welfare to Work Initiatives
- Reduction on dependency of government programs
- Increase local tax base
- Creation of jobs, goods and services
- Build human capital through enhancing communications skills and business savvy
- Develop role models for aspiring entrepreneurs

Eligible Activities

__Resource center __ Business training

__Program Marketing/Outreach __ Loan Fund operation

__Screening for Eligibility __ Business support services

__Assessing Readiness __ One-on-one business counseling

__Making appropriate referrals __ Business start-up support

__Life skills and personal support __ Entrepreneur Mentoring

__ child care/transportation __ Business operations support/follow-up

Program Evaluation

- Beneficiary Tracking Plan
- Data collection process/system
- Program impact per desired outcomes
- Progress and Compliance Reporting

APPENDIX E

BENEFICIARY AND EMPLOYMENT PLAN AGREEMENT MODELS

Blank Page

BENEFICIARY AND EMPLOYMENT PLAN AGREEMENT MODELS

The following Beneficiary and Employment Plan Agreement is only a suggested format for jurisdictions intending to contract for placement and/or training services. However, the requirements contained within the agreement should be included in any contract for these services.

The State CDBG Program requires jurisdictions to use the HUD definition of family income eligibility where there is an executed contract with a Workforce Investment Act funded screening and referral agency. It is important to note that most screening and referral agencies do not require 100 percent verification of the income eligibility of applicants who are placed and it will therefore be necessary to contract for these additional required services prior to implementation of the program.

For Beneficiary Projects The CDBG Program requires **all** beneficiaries of a microenterprise assistance program to be income screened and Targeted Income Group verified.

For Job Retention Projects. The CDBG Program requires verification of income of **all** employees prior to the jurisdiction approving the CDBG assistance (loan or grant). The jurisdiction must also income verify employees hired through expansion or attrition.

For Job Creation Projects. The CDBG Program requires **all** targeted income group employees to be income screened to verify family income eligibility.

To ensure adequate income documentation, it is advisable to obtain income documentation for all beneficiaries/employees screened by the WIA-funded screening and referral agency. As such, CDBG administrative costs may be budgeted to include funds for income verification services.

The definition of Targeted Income Group eligibility is determined by using Department of Housing and Urban Development Income Eligibility limits per county and family size for the current year and applying them to the self-certifications submitted by the job applicants. Income verification must have been completed before the job applicant is hired for the position if the employee is being hired to meet the TIG national objective requirement under this grant.

The Department defines family income as all sources of income for one or more persons living in a single residence who are related by blood or marriage. (See Appendix K for guidelines on income inclusions and exclusions)

Blank Page

EMPLOYMENT PLAN AGREEMENT

The City/County of ABC [**City or County**] and the Screening and WIA Referral Agency [**Agency**] agree to the following terms and conditions relating to Grant Number ______________ also known as the ABC Main Street Project. This Agreement incorporates the Model Three Party Employment Agreement by reference.

1. **Agency** will work with businesses to be assisted to determine employment and training needs and to assist the business in utilizing various on-the-job training programs and job tax credits.

2. The following community organizations will be contacted by **Agency** regarding job opportunities created by the CDBG assistance.

Department of Rehabilitation	Educational or Training Institution
Regional Occupational Program	Department of Human Resources
Employment Development Department	Area Agency on Aging
Community Opportunity Center	Veteran's Services
Refugee Services	Others as identified

3. **Agency**, in coordination with the [**City/County**] and each business, will utilize any or all of the following methods to advertise job opportunities generated from the CDBG assistance.

Press Releases	Flyers
Newspaper Ads	Posters
Radio	Chambers of Commerce

4. The **Agency** recruiting office will work closely with the Workforce Investment Board, the [**City/County**] and the [Educational or Training Institution] in developing job recruiting efforts.

5. The [**City/County**] will be responsible for monitoring the contract between the business and the **Agency** and ensuring that at least 51% of **ALL** jobs created or retained as a result of the CDBG assistance are filled by persons who meet CDBG income eligibility requirements.

6. **Agency** will collect and maintain income client characteristic data relating to those eligible clients referred to and those referrals hired by each business. This data will be provided on a regular basis to the [**City/County**], per the reporting schedule.

7. The **Agency** will maintain a recruitment file on all CDBG assisted related activities and that file will be available to the [**City/County**] upon request.

8. **Agency** shall assist each business in recruiting, screening and/or referring eligible applicants for employment. Eligible applicants are defined as being eligible under the CDBG regulatory guidelines for household income, area benefit or limited clientele.

9. Each business shall work cooperatively with the **Agency** to provide employment data and allow access to its place of business for purpose of carrying out its responsibilities described herein. Each business shall also refer all direct hires to **Agency** for income screening to determine Target Income Group status on hiring date.

10. Compensation for income screening and employee training services is set forth in the attachment, which details unit costs for publicity, eligibility screening referral, training, etc. Maximum amount to be paid shall not exceed the total of all unit costs in payment detail.

11. Per attached payment detail, Forms Development/Modifications to meet additional HUD income verification requirements will consist of:

This agreement shall take effect when it has been executed by authorized representatives from all parties, and shall be in effect for a term of three years from the execution of the Standard Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year dated below.

Agency	**City/County of ABC**
By: ______________________________	By: _________________________
Date: ____________________________	Date: _______________________

Payment Detail

FOR AGREEMENTS WITH AGENCY

Forms Development/Modification: $__________

+

PUBLICITY/RECRUITMENT:______ @ $__________ ea.

ELIGIBILITY SCREENING:______ @ $__________ ea.

REFERRAL: ________ @ $____________ ea.

PLACEMENT/TRAINING (optional): _______ @ $__________ ea.

OTHER $__________

+

TOTAL $___________

FLAT FEE PER REFERRAL $____________ ea.

MAXIMUM AMOUNT TO BE PAID UNDER THIS AGREEMENT $________

Blank Page

APPENDIX F

THREE WAY EMPLOYMENT AGREEMENT MODELS

Blank Page

BUSINESS ASSISTANCE PROGRAM

THREE-PARTY EMPLOYMENT AGREEMENT

This agreement, between the ("City/County of Sample ") and _______________________ ("**Employer**") will be used to assure continuing employment opportunities to economically disadvantaged and unemployed residents of the (City/County). Under this Non-Financial Employment Agreement, the **Employer** intends to (create/retain) jobs at least 51% of which will be held by Targeted Income Group (TIG) persons. The **Employer** will use the _____________________ ("**Agency**")as its initial resource for recruitment, referral and placement in positions covered herein. This Agreement is ***not*** a loan agreement but will be referenced by attachment in any loan agreement between (City/County) and the **Employer**.

General Terms

a) The City/County seeks to provide Community Development Block Grant (CDBG) funded business assistance for business expansion. By virtue of this loan, the City/County expects to realize additional employment opportunities for lower income and unemployed persons.

b) In consideration for any loan described above, the **Employer** agrees to enter into this Agreement and agrees to use the **Agency** as its initial resource for recruitment, referral and placement disbursement.

c) The **Employer** agrees to hire or retain at least one permanent full-time employee (minimum of 1,750 work hours per year) per $35,000 in CDBG loan funds by _____________. The **Employer** also agrees that at least 51% of **all** jobs created will be filled by members of the targeted income group.

d) It is the Employer's declaration that the business assistance described in Section A above will result in additional employment opportunities (of a non-managerial, not highly technical, and/or non-professional variety), as follows, and as shall be further described in a Job Order Form provided by the **Agency** (attach additional sheets as necessary, microenterprises are defined as employing five or fewer):

Job Title	Number Of Positions	Anticipated Hiring Date

e) The **Agency** will provide employment recruitment, referral, and placement services to the Employer subject to the limitations set out in this Agreement.

f) The **City/County's** employment and training responsibilities under this Agreement, unless otherwise assigned, will be carried out by **Agency**.

g) This Agreement shall take effect when signed by the parties below; fulfillment of all specified requirements shall be by __(18th month of State grant term for business loans/24th month of State grant term for microenterprise).

2. Employment Recruitment

a) The **Employer** agrees "covered positions" for the purposes of this Agreement shall include **all Employer's** job openings in the **City /County** created as a result of internal promotions, termination's, and expansion of Employer's work force, within the positions listed under Section I (d), with the exception of those classified as "non-covered", as defined in Section 2 (c) below.

b) The **Employer** will timely notify the **Agency** of its needs for new employees in the covered positions. Notification shall be by Job Order Form provided by the **Agency**, and shall include, but not necessarily be limited to:

   i. Number of employees requested by job title.
   ii. Job description, including minimum qualifications stated in quantifiable and objective terms.
   iii. Work to be performed.
   iv. Hiring dates.
   v. Rates of pay.
   vi. Hours of work.
   vii. Anticipated duration of employment.

c) The following types of positions created by the **Employer** during the term of this Agreement shall also be regarded as covered by this Agreement: non-managerial, non-professional, and those not highly technical.

   The following types of positions are considered non-covered positions: those of a supervisory nature requiring two or more years of formal training; and those filled by internal promotion from the **Employer's** existing work force; and family members of the borrower/owner.

3. Referral

a) The **Agency** will refer job applicants eligible pursuant to Community Development Block Grant (CDBG) regulations to the **Employer** in response to the notification of need for new employees described in Section I (D). The **Agency** will maintain the documentation of applicant/employee household income required by the CDBG program, and provide such information to the **City/County**.

b) The **Agency** will screen applicants according to the qualifications agreed upon with the **Employer**.

c) The **Agency** will notify the **Employer** of the number of applicants it will refer and begin making referrals no later than five (5) working days prior to the anticipated hiring date. The **Agency** will make every reasonable effort to refer at least one qualified person(s) for each job opening.

d) In the event that the **Agency** is unable to refer any or all of the qualified personnel requested, the **Employer** will be notified by the **Agency**. The **Employer** will then be free to directly fill remaining positions. In this event, the **Employer** must fulfill the job creation\retention and national objective requirements through additional recruitment techniques in conformance with terms of the Grant Agreement. **Employer** will refer employee back to the **Agency** for the determination of targeted income group status.

4. Placement

a) All decisions on hiring new employees will be made by the **Employer**; the **Employer** agrees to provide priority consideration to prospective employees for covered positions from the qualified persons referred by the **Agency**. If the **Employer** does not find any of the persons so referred to qualify for the opening(s), the **Agency** will be notified.

b) The **Agency** will monitor job retention and employment performance of employees placed under the Agreement. The **Employer** agrees to cooperate in these follow-up efforts, and to provide four times annually hiring summaries until Grant Closeout, in a form acceptable to the **City/County**. This may include, but not be limited to, copies of employee rosters and payroll and tax information submitted to the State of California.

c) After the **Employer** has selected employees from referrals by the **Agency**, the **Agency** will not be responsible for the employee's actions and the **Employer** hereby releases the **Agency** of liability.

5. Training

a) The **Agency** and the **Employer** may agree to develop additional job training programs. The training specifications and the cost for such training will be mutually agreed upon by the **Employer** and the **Agency** and covered under separate training agreement(s).

6. Controlling Regulations & Laws

a) If this Agreement conflicts with any labor laws or other governmental regulations, those laws or regulations shall prevail.

b) If this Agreement conflicts with a collective bargaining agreement to which the **Employer** is a party, the bargaining agreement shall prevail.

c) The **Employer** shall not discriminate against any applicant for employment due to race, religion, age, color, sex, national origin, physical handicap, sexual preference, or political affiliation.

7. Indemnification, Assignment Modification and Renewal

a) The **Employer** and **City/County** shall defend and indemnify the **Agency** and its officers, agents and employees against and hold the same free and harmless from any and all claims, demands, damages, losses, costs, and/or expenses of liability due to or arising out of, either in whole or in part, whether directly or indirectly, the organization, development, construction, operation, or maintenance of the Project except for liability arising out of the concurrent or sole negligence of the **Agency**, its officers, agents or employees.

b) This Agreement may, upon mutual agreement, be modified in order to improve the working relationship described herein.

c) The **City/County** may terminate this Agreement at any time by written notification if its federal, state or local grants are suspended or terminated before or during the contract period.

8. Acceptance

The Undersigned hereby agree to terms and conditions listed herein.

EMPLOYER **CITY/COUNTY**

By: ____________________________ By: ________________________

____________________________ ________________________

____________________________ ________________________

Title Title

Date: ____________________________ Date: ________________________

AGENCY

By: ________________________

____

____

Title

Date:________________________

APPENDIX G

VERIFICATION OF FAMILY INCOME CERTIFICATION FORM

(For use in Business Assistance programs only. Not for use in Microenterprise Assistance programs)

Blank Page

SELF-CERTIFICATION FORM FOR FAMILY INCOME

Date:_______________ City/County:___________________

Community Development Block Grant request for fiscal year __________

The information you provide regarding your family income will be part of your request for state subsidy funds which will assist the economic development of _____(City/County)___. The information will be confidential, but may require verification.

Please indicate by circling the number that represents the number of persons in your family and write in your family household income. Please indicate whether your income is above or below the County* threshold amount noted below for your family size by initialing either the "over" or "under" column next to the household income amount you have provided here.. If your stay is seasonal and your permanent home is at a different place, use the number of family members who reside at the permanent residence.

FAMILY SIZE	COUNTY*	INCOME	ABOVE	UNDER
1	$________	$________	________	________
2	$________	$________	________	________
3	$________	$________	________	________
4	$________	$________	________	________
5	$________	$________	________	________
6	$________	$________	________	________
7	$________	$________	________	________
8	$________	$________	________	________

*Figure reflects 80% of Countywide median income per family household size

Please complete and initial information for each of the following categories:

How many hours do you work each month?________

Gender of head of household: ____ Male ____ Female ____ Over 62 years of age

Nationality and age of head of household: (initial ***all*** that apply)

RACE:____ White ____ Black Asian____ Alaska Native ____ Pacific Islander
____ American Indian____ *and* **ETHNICITY:** Hispanic yes____ no___

Income Verification

I certify that this income information is correct and I understand that the information I have provided on my family income is subject to verification by authorized representatives of the City/County of ________________, and the State of California Department of Housing and Community Development.

Signature:______________________________ Date:_______________________

Name:_________________________________ Home Address:______________

Printed Name: ___________________________

Self-Certification Form Instructions

At the application stage, a Self-Certification Form should be completed by every employee in all cases of job retention to document the jobs being retained, and document the TIG benefit for those applications applying under the national objective of benefit to the targeted income group.

For job creation applications, a Self-Certification is the basis for determining income at the time of hire or screening.

The jurisdiction or the business should complete the date, jurisdiction and grant information at the top of the certification form, including the current HUD income limits by family size for their County.

The employee should complete the remainder of the form and then sign and complete the signature block of the form. The employee is to circle the family size, supply the household income amount and indicate by initialing whether the family income is above or under the HUD indicated figure. The employee should also complete the remainder of the form by initialing gender, age and nationality (race and ethnicity) categories. According to HUD reporting requirements and census categories, the employee may check any box that applies. Please be sure to advise them accordingly as they are completing the form.

The Self-Certification Form should be translated into Spanish, if the employees do not read English.

Blank Page

FAMILY INCOME GUIDELINES

Household income is defined as family income: all sources of income for one or more persons living in a single residence who are related by blood or marriage.

1. Inclusions in Family Income

   a. Gross Wages and Salary: The total money earnings received from work performed as an employee. It represents the amount paid before deductions for income taxes, Social Security, bond purchases, Union dues, etc.
   b. Net Self-Employment Income: Net income (gross receipts minus operating expenses) from a business firm, farm, or other enterprises in which a person is engaged on his/her own account.
   c. Net rent income or, less frequently, rent receipts.
   d. Pensions or other retirement benefits.
   e. Alimony.
   f. Periodic insurance payments; frequently referred to as regular income from insurance policies, annuities.
   g. Government and/or military retirement, (other than compensation for disability or death per Title 38, United State Code, Chapter II).
   h. Contest or lottery income.
   i. Periodic gifts, including payment or rent and living expenses from persons outside the residence.
   j. Interest including interest paid on inheritance and trust accounts, and dividends.
   k. Public Assistance payments.
   l. Federal, State, or local unemployment insurance benefits.
   m. Cash payments received pursuant to a State Plan approved under Title I Old Age Assistance, IV Aid to Families with Dependent Children (AFDC), X Aid to the Blind, or XVI Supplemental Security Income for the Aged, Blind and Disabled of the Social Security Act, or disability insurance payments received under Title II, Section 423 of the Social Security Act, or disability insurance payments received under Title II, Section 423 of the Social Security Act of payments received under the Black Lung Benefits Reform Act of 1977 (Public Law 95-239).
   n. Social Security, old age and survivors insurance cash payments. (Social Security Act, Title II, Section 402).
   o. Child support payments including payments made by State or local government on behalf of foster children in the home.
   p. Educational assistance and compensation payments to veterans and other eligible persons under Title 38, United States Code, Chapters 11, Compensation for Service-Connected Disability or Death; 13, Dependence and Indemnity Compensation for Service-Connected Death; 31 Vocational Rehabilitation; 34, Veterans' Education Assistance; 35, War Orphans' and

Widows' Educational Benefits. In some cases, this item is simply referred to as "veterans' payments."

q. Payments or allowances received by veterans while serving on active duty in the Armed Forces. In some cases, this item includes National Guard or military, naval or air force reserve activities.

r. Payments made to participants in employment and training programs except wages paid for OJT, or Upgrading and Retraining. Exclude all compensation received under II-B.

s. Capital gains and losses.

t. Soil bank payments.

u. Agriculture Stabilization Payments.

v. Other income, except as indicated below.

2. Exclusions from Annual Family Income - Optional

a. Non-cash income, such as food stamps, or compensation received in the form of food or housing.

b. Imputed value of owner-occupied property or rental value of owner occupied property.

c. Trade Act or Trade Readjustment payments.

d. One-time unearned income, such as, but not limited to:

(1) Accident, health, and casualty insurance proceeds.

(2) One-time or fixed-term scholarship and fellowship grants.

(3) Payments received for a limited fixed term under income maintenance programs and supplemental (private) unemployment benefits plans.

(4) Lump sum inheritances including fixed-term annuities.

(5) One-time awards and gifts. Does not include contest or lottery income.

(6) Disability and death payments, including fixed-term (but not life time) life insurance annuities and death benefits.

(7) Fixed-term Worker's Compensation awards.

(8) Terminal Leave pay.

3. Verification of Annual Family Income

a. Family income should be supported with documentation from the income source. Determining the job holder’s income level will ensure that TIG benefit is measured and 51% TIG benefit is achieved for business assistance activities, and 100% for microenterprise assistance activities.

b. Maintenance of income verification records must be accessible for CDBG program review. Organize income verification records by each loan or funded activity.

APPENDIX H

TASKS MATRIX

Applicants should complete the task matrix for the appropriate activity: (1) Business Assistance, (2) Microenterprise Assistance, or both in the case where the applicant is applying for two activities.

Microenterprise Task Matrix

Note: “X” - identify organization responsible for task.

Task	General Admin	Activity Delivery	Microenterprise Assistance Activity
Approve RLF Guidelines	X		
Clear Special Conditions	X		
Prepare Funds Requests	X		
Monitor Grant Expenditures	X		
Generate Fiscal/Performance Reports	X		
Coordinate grant activities with Program Operator and Grantee	X		
Oversee program implementation and activities	X		
Compile official grant project files	X		
Monitor achievement of goals	X		
Report on progress to Grantee and local governing body	X		
Meet with local econ developers to solicit referrals		X	
Create and distribute program flyers and newsletters		X	
Write press releases; Market Microenterprise services		X	
Participate in Loan Advisory Review		X	
Loan Servicing and Accounting		X	
Create and update the program website		X	
Income screen for TIG status		X	
Determine business size and eligibility as a microenterprise		X	
Ascertain readiness of potential participant		X	
Ascertain readiness in eligible, enrolled participant			X
Gather baseline data on potential participant		X	
Gather baseline data on eligible, enrolled participant			X
Field calls from potential participant		X	
Create service plan for eligible, enrolled participant			X
Coordinate course offerings with community colleges and other providers		X	
Set up courses and schedules for eligible, enrolled participants			X
Assist in preparing business plan and marketing strategy			X

Task	General Admin	Activity Delivery	Microenterprise Assistance Activity
Conduct courses			X
Curriculum Development		X	
Class/Training Preparation		X	
Guide eligible, enrolled participants in resolving business issues			X
Field calls from enrolled, eligible participants			X
Meetings/counsel sessions with eligible, enrolled participants			X
Assist in preparing loan application		X	
Collect and input eligible, enrolled participant data		X	
Prepare and submit cost allocation plan	X		
Report on program outcomes	X		
Determine indicators for tracking	X		
Evaluate program effectiveness		X	
Create database to match participant data collection	X		
Attend HCD Workshops	X		

Note: “X” indicate party responsible for task.

Business Assistance Task Matrix

Note: “X” - identify organization responsible for task.

Task	Contract Program Operator	City	Contract Loan Servicer
Establish and Maintain Program Loan Files	X	X	
Legal Review of Loan Documents			
Approve RLF Guidelines		X	
Prepare Fiscal/Performance Reports		X	
Review Fiscal/Performance Reports		X	
Monitor Program Operator		X	
Conduct NEPA and CEQA Review		X	
Participate in LAB Review			X
Loan Servicing and Accounting			X
Provide Monthly Receipts of Loan Payments			X
Provide Quarterly Statements on Loans			X
Implement collections and foreclosures			X
Approve Reuse Plan		X	
Meet with Participating Lenders	X	X	
Publicize and Market the RLF	X	X	
Screen and Assist Loan Applicants	X		
Refer ineligible applicants to others	X		
Request preliminary Loan information	X		
Get Credit Report, other documentation	X		
Prepare loan package and recommendation with appropriate determination	X		
Present loan to LAB	X		
Close loan with other lenders	X	X	
Monitor loan and general compliance	X		
Preview and Sign all HCD Reports		X	
Prepare Cash Requests and HCD Reports		X	
Clear special conditions	X	X	
Site visits to borrowers	X		
Track jobs/benefit (EEO) Infrastructure Grants Business Loans	X		
Monitor Labor Standards	X		
Income Screening/TIG Benefit		X	X
Conduct Appeal Process		X	
Establish Fair Share Amount	X		
Develop Fair Share Agreement	X		
Execute & Implement Fair Share Agreement	X		

Task	Contract Program Operator	City	Contract Loan Servicer
Planning, Building & Public Works Reviews		X	
Attend HCD Workshops		X	
Provide Business Counseling – SBDC			
Provide Overall review and liaison between RLF components, City & CDBG program		X	

Note: "X" indicate party responsible for task.

APPENDIX I

DOCUMENT CHECKLIST FOR DRAWDOWN APPROVAL

(Reference Chapter 15 of the CDBG Grant Management Manual)

Blank Page

APPENDIX J

ELIGIBLE JURISDICTIONS WITH POVERTY INDEX

(Refer to NOFA, Appendix B)

Blank Page

APPENDIX K

LABOR FORCE DATA FOR COUNTIES

CDBG staff will use the 2006 Revised Annual Average Unemployment Rate provided by the Employment Development Department (EDD) to rate and rank each applicant jurisdiction. Attached is the April 2009 Report 400 C Monthly Labor Force Data for Counties from EDD.

The jurisdiction having the highest unemployment rate will receive full points for this rating criterion. All other jurisdictions will then be compared to the jurisdiction with the highest unemployment rate. Points will be assigned to all other jurisdictions based upon a ratio of each jurisdiction's unemployment rate as compared to the jurisdiction with the highest unemployment rate multiplied by the total number of points for this rating criterion.

(Note: The county unemployment rate will be used for both the county and any eligible cities located within the county.)

APPENDIX L

HUD INCOME ELIGIBILITY LIMITS BY COUNTY FOR 2007

The HUD Income Eligibility Limits by County for 2007 can be found in the 2006 CDBG Grant Management Manual (GMM), Appendix D, Income Eligibility and Income Limits. The website location for the GMM is www.hcd.ca.gov/ca/cdbg/gmm. It is important to read and understand the income eligibility requirements when designing your programs or projects. Please review this appendix before completing your application.

Directions in Appendix D of the GMM will refer you to the Departments website. Specifically the Housing Policy Division's pages. That is where the tables for determining eligibility will be located. The website for the tables is www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html the tables will be listed under item 2 – State CDBG and HOME's Table of 2007 Income Limits.

APPENDIX M

COST CATEGORIES FOR GENERAL ADMINISTRATION, ACTIVITY DELIVERY, AND PROGRAM ACTIVITY

COST CATEGORIES FOR GENERAL ADMINISTRATION, ACTIVITY DELIVERY, AND PROGRAM ACTIVITY

ACTIVITY DELIVERY, AND PROGRAM LOAN/ACTIVITY	General Administration	Activity Delivery	Program Loan/Activity
Advertisement	X	X	
Application Preparation	X	X	
Appropriate Fees		X	X
Attend Workshops (HCD)	X		
Bidders Conferences		X	
Use of Loan Proceeds			X
Engineering Draw/Design		X	
Environmental Studies	X		
Fiscal Reporting	X		
General Coordination	X		
Indirect Costs	X	X	
Insurance Premium		X	
Loan Processing*		X	
Meetings with Banks		X	
Meetings with Borrowers		X	
Personnel Office	X		
Planning Studies	X		
Procurement Office	X		
Program Reporting	X	X	
Loan Servicing		X	
Relocation Costs		X	
Legal Costs	X	X	
Loan Committee Meeting	X	X	

Blank Page