

**RESOLUTION NO. 2014-221**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE  
ESTABLISHING THE SMALL BUSINESS LOAN PROGRAM**

**WHEREAS**, the City Council of the City of Elk Grove desires to encourage the development of new employment opportunities within the City; and

**WHEREAS**, the development of new employment-generating projects is often a costly and lengthy burden on the private sector, particularly small businesses; and

**WHEREAS**, the City Council seeks to expedite and assist small business owners in the creation of new jobs; and

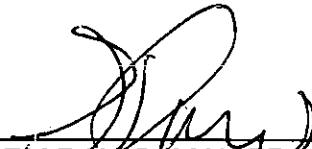
**WHEREAS**, offering a low-cost Small Business Loan Program to local businesses may encourage them to expand or create new jobs resulting in new employment opportunities for residents; and

**WHEREAS**, the federal Community Development Block Grant (CDBG) program allows for the use of CDBG funds for small business loan programs; and

**WHEREAS**, using CDBG funds to create a Small Business Loan Program represents a low-cost, low-risk way for the City to encourage new employment opportunities.

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Elk Grove hereby establishes the City of Elk Grove Small Business Loan Program included herewith as Exhibit A.

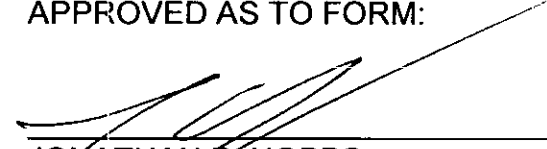
**PASSED AND ADOPTED** by the City Council of the City of Elk Grove this 24<sup>th</sup> day of September 2014.

  
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GARY DAVIS, MAYOR of the  
CITY OF ELK GROVE

ATTEST:

  
\_\_\_\_\_  
JASON LINDGREN, CITY CLERK

APPROVED AS TO FORM:

  
\_\_\_\_\_  
JONATHAN P. HOBBS,  
CITY ATTORNEY



## Small Business Loan Program Guide



[www.OpenUpToElkGrove.org](http://www.OpenUpToElkGrove.org) Phone: 916.691.2489 Fax: 916.691.3168

Funded by  
City of Elk Grove

With  
Community Development Block Grant (CDBG) Funds

## Introduction

The City of Elk Grove ("City") has established a Small Business Loan Program ("Program") designed to stimulate economic growth and create jobs that will improve the living conditions of residents in the community. The Program provides affordable, non-conventional financing to eligible businesses and development projects that are not able to receive sufficient funding elsewhere. Businesses receiving these funds will in turn be required to produce a minimum number of net new jobs. The Program guidelines have been formally adopted by the City and are in conformance with the U.S. Department of Housing and Urban Development (HUD) regulations pertaining to the use of Community Development Block Grant (CDBG) funds.

### ***Eligible Applicants***

Funding under this Program is available to all eligible businesses located within the incorporated City limits of Elk Grove. Applicants must be an existing legal business located within the City with a valid City business license, insurance, and all applicable required permits. Start-up or new businesses are eligible to apply but possession of proper licenses, permits, and insurance, will be a condition of funding the loan. In order to receive funds, applicants must create one or more new full- or part-time permanent jobs. The business may also qualify for job retention if the business is in danger of closing down or reducing staff if not for the investment of CDBG funding.

## I. Program Requirements

### ***1.1 Eligible Activities***

Funds under this Program are restricted to certain eligible costs. Some common eligible costs are:

- Operating capital (including license and permit fees)
- Furniture, fixtures and equipment (FF&E)
- Rehabilitation of leased space or owned buildings (including engineering, architectural, and local permits or fees)
- Purchase of manufacturing equipment (with or without installation costs)

In most cases, loan funds will be disbursed incrementally on a reimbursement basis, or direct payment of vendor/contractor invoices, as eligible costs are verified. Funds under this Program are provided to eligible businesses as loans. CDBG underwriting (see **Exhibit A**) can be more flexible than conventional loans in some instances, depending on the business and amounts requested. The terms of the loan are typically more favorable than conventional commercial lenders, with lower interest rates and longer terms for repayment. These more favorable terms must be balanced by the borrower and City with the requirements to create jobs and meet other CDBG Program requirements.

## **1.2 Ineligible Activities**

Businesses will be ineligible for this program if they do not satisfy the intention of this program, which is to stimulate economic growth and create high quality jobs that will improve the living conditions of residents in the community.

Additionally, Funds under this Program will not pay for:

- Reimbursement of expenses incurred prior to the City's formal loan approval and/or completion of project's environmental review;
- Support to another businesses in which the borrower may have an interest;
- Subsidy of interest payment on existing loans;
- Refinancing or consolidating existing debt;
- Relocation of a business from another jurisdiction;
- Reimbursement for expenditures prior to loan approval; or
- Reimbursement for legal or accounting expenditures.

Once approved, loan funds cannot be shifted from one approved type of cost to another without formal written approval signed by the City Manager.

## **1.3 Ineligible Applicants**

Loans shall not be available for the following types of businesses:

- Speculative investment companies;
- Real estate investment companies;
- Lending institutions;
- Gambling operations;
- Non-profit organizations; and
- Other businesses not serving the interest of the City.

## **1.4 Meeting a National Objective**

All CDBG funded loans must meet a CDBG "National Objective" as described in the federal regulations (24 CFR 570.208).

Use of loan funds under this Program must meet the National Objective of "low and moderate job creation or retention" by providing fifty-one percent (51%) of the total jobs created/retained to low and moderate income persons. In order to meet this requirement, the business must certify family-household income levels of newly hired or retained employees to document that over half of them are qualified as low or moderate income. To ensure this requirement is met, the City will require creation of new jobs for low/moderate income persons in the CDBG loan documents signed at loan closing. The business will be required to report that new jobs have been created/retained and filled by low/moderate income individuals by submitting a self-certification form (**Exhibit B**) completed by the employee holding each of the new/retained positions. Additionally, in the case of job retention the

business must document that the jobs would have been lost without the CDBG assistance. All employee information is confidential and will not be released unless disclosure is required by law.

### **1.5 Meeting Proper Public Benefit Requirement**

Because a private business is receiving public funds, CDBG regulations require the creation of jobs by the business to show public benefit. Under the HUD federal regulations one full-time equivalent (FTE) job must be created for each \$35,000 in CDBG assistance provided. Part-time staff may be combined to make up one FTE. One FTE consists of 2,080 staff hours per year.

As with the national objective requirement outlined above, the CDBG public benefit requirement will be enforced via a loan agreement that the borrower executes at loan closing. The loan agreement requires that the business provide payroll documentation to the City showing job creation sufficient to meet the \$35,000 per FTE requirement. Once sufficient jobs have been created and documentation is supplied to the City then no more monitoring for jobs will be required. CDBG loans are meant to create long term employment opportunities but ongoing long term monitoring is not required.

Each person who is a new hire, or is in a position retained because of CDBG loan funds, must complete a Self-Certification Family Income Verification form. This form must be completed and provided to the City so that the demographic and income information can be included in the annual report submitted to HUD. See **Exhibit B** - Self-Certification Family Income Verification form.

### **1.6 Other Federal Requirements**

There are a number of other federal laws and requirements that are triggered by the use of CDBG funding. The City will require borrowers to comply with these CDBG regulations in conformance with standards set by HUD. Impacts these federal regulations will have on a proposed project will be explained to the borrower at the time of loan application.

Environmental Review Record (ERR) – National Environmental Policy Act (NEPA) regulations require an ERR to be submitted for each project/business funded with CDBG monies prior to award or approval of funds. The City is required to complete the proper NEPA review, along with any state review under California's Environmental Quality Act (CEQA) review. The ERR level of review is based on the type of project proposed and all aggregated activities to be undertaken.

Applicants will be informed of any additional time required for loan processing due to environmental review. The ERR will be done as soon as the City determines that the project is eligible for funding. No costs will be charged to the borrower for this process. Once an application is submitted, no activities can be performed on the project until completion of the ERR and CEQA, as applicable.

DUNs Number, Insurance, & Federal Debarred List – All businesses who wish to receive funds under this Program will be required to obtain a DUNS number. The DUNS number is free and can be

obtained online at [www.dnb.com](http://www.dnb.com). In addition, and prior to funding, the City will require that each business be checked to confirm they are not on the federal debarred contractors list. Applicants will be required to obtain all proper licenses and insurance to operate legally within the community.

Federal and/or State Labor standards – Federal and/or State Labor standards and provisions may apply for projects assisted with CDBG and/or other public funds. The Borrower attests that all applicable standards and provisions will be strictly adhered to, including, if applicable, prevailing wage requirements.

Other requirements related to CDBG funds – The Borrower agrees to comply with all other requirements associated with the use of CDBG funds, including but not limited to, Acquisition, Anti-Displacement, and Relocation provisions, Equal Opportunity and “Section 3” regulations, Procurement regulations, and Contractor Eligibility and Certification provisions.

Underwriting Standards – HUD Loan Underwriting Standards are required to be met by each CDBG loan. In addition to the commercial lending underwriting criteria, HUD requires that additional underwriting criteria be used because CDBG funds are public funds being provided to private for profit businesses. See **Exhibit A** for a list of the additional criteria and how to comply with them.

### **1.7 Special Considerations**

Although all loans that meet the minimum requirements will be considered, preference will be given to applicants that meet one or more of the following:

- a) Demonstrate that funds are not available from other sources (e.g. SBA or bank financing);
- b) Show that the minimum requirements of job creation will be exceeded while maintaining the ability to make loan payments;
- c) Able to secure loan funds via a lien on real property;
- d) Complete an approved entrepreneurial training course or other businesses training.

## **II. Loan Processing**

### **2.1 Fair Lending Compliance**

This Program will be implemented consistent with the City’s commitment to fair lending laws. No person or business shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Program funds on the basis of his or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status, physical or mental disability, sexual orientation, or other arbitrary cause. All personal information of loan applicants will be kept confidential unless disclosure is required by law.

## **2.2 Loan Application Processing**

Loan applications will be processed on a first-come, first-served basis unless identified as a “preferred loan” per section 1.7. Applications will generally follow these procedures:

- 1) The City will accept loan applications and review them for initial eligibility. Applications that do not meet basic requirements of the Program will be returned with an explanation of requirements needing to be met.
- 2) Applications that do meet basic eligibility requirements will be sent to the City’s Finance Department for review. The City may also meet with the business owner(s) and visit the site of the business.
- 3) The Finance Department will analyze the loan using the HUD criteria detailed in **Exhibit A** and make a recommendation for approval or denial of the loan.
- 4) The City will then compile a complete loan file with all the credit, financial, and other information needed to show the loan is eligible under these guidelines.
- 5) A loan advisory memorandum will be drafted recommending one of the following actions:
  - a. approve the loan application as submitted;
  - b. approve the loan application with special modification of loan covenants; or
  - c. deny the loan application.
- 6) The loan advisory memorandum and all documentation will then be submitted to current members of the City’s Small Business Loan Advisory Group (LAG) for a final recommendation of approval or denial. The LAG will be comprised of representatives from local private-sector banks.
- 7) The staff and LAG recommendations will be presented to the City Manager for a final determination of approval or denial.
- 8) If the loan is approved, then the applicant will be notified and loan documents will be drawn for loan closing. Applications that do not meet the Program guidelines will receive a written denial letter explaining the reason(s) for the denial.

## **2.3 Loan Applicant Confidentiality**

Persons serving as a City representative for this Program will not disclose any of the Borrower’s personal, confidential information as part of the loan approval process. All confidential information of businesses will only be disclosed to persons required to view the information as part of loan review and approval. Notwithstanding the foregoing, records and information may be disclosed if required by law.

## **2.4 Dispute Resolution/Appeals Process**

Any business applying for assistance through this CDBG Program has the right to appeal if their application is denied. The appeal must be made in writing to the City within thirty (30) days of receiving notification that the loan was denied. The appeal process shall follow the City’s established procedure

for appeals of department or City Manager level reviews pursuant to Section 1.11 of the Elk Grove Municipal Code.

### ***2.5 No Conflict of Interest Allowed***

In accordance with Title 24, Section 570.611 of the Code of Federal Regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities in connection with the planning and implementation of the CDBG Program shall directly or indirectly be eligible for this Program. Exceptions shall only be made as permitted, and in accordance with, Federal and California State law.

### ***2.6 Exceptions and Special Circumstances***

Except as otherwise stated herein, the City may consider requests for an exception in special circumstances if doing so would further the City's progress in meeting its Economic Development goals. A report on the request for an exception will be prepared, which shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The City's Economic Development Director, or his/her designee, shall make a determination of the exception request.

Loan payments may, on a case by case basis, be deferred for a period of time to allow a start-up or expansion of a business to take place. This payment deferral determination is made by the City based on the break-even point of the business in the future and the ability of the owner to pay his or herself a regular salary.

### ***2.7 Loan Closing Process***

Upon loan approval, City staff will prepare all documentation necessary for loan closing. The Borrower shall sign all the necessary documents and agreements within 30 days of receipt. If signed documents are not received within 30 days, the application will be considered withdrawn. The City will prepare the loan closing documents, prepare title and lien searches, and UCC-1 filings, if appropriate. All documents shall be approved as to form by the City Attorney and signed by the City Manager. Escrow companies may be used to close loans and secure liens.

## **III. Description of Loans**

### ***3.1 Loan Amount***

The Program has a maximum loan amount of \$25,000, but typical loans are anticipated to be below \$10,000 per applicant. The minimum loan amount will generally not be less than \$3,000. Loan amounts



will be determined based on number of jobs to be created or retained, the ability of the business to repay the loan, and the reasonableness of the costs to be paid for by the loan.

### **3.2 Loan Term**

The loan term will be determined by what is being funded and what security is being pledged for the loan. It will also take into account the use of proceeds, the useful life of the assets being financed, and the borrower's ability to repay the loan.

If a business only needs operating capital, then the term of the loan is normally two (2) to three (3) years, but in no case may it exceed five (5) years. If a business wishes to pay for equipment and supplies, then the term of the loan can be extended out to five (5) years. Staff will confirm that the proper term is given based upon the use of the funds and collateral being provided.

### **3.3 Interest Rate**

The loans will have a fixed interest based upon the Local Agency Investment Fund rate, as posted by the California State Treasurer, plus an additional maximum of two percent (2%), determined by the City at the time of loan approval. The loan's interest rate will be determined based on the underwriting analysis done by the City's underwriter. Some of the factors that will drive the interest rate are: (1) the amount of equity the business brings into the proposed project; (2) the ability of business to service the loan; (3) the rate of return the borrower will receive with a lower interest rate; and (4) credit risk factors and management experience. By allowing the City the discretion to set an interest rate for each applicant, the City can best tailor the loans under this Program to meet the needs of different businesses in the community.

### **3.4 Fees**

The CDBG Program provides administration funds to pay for loan processing costs. No direct loan fees will be charged to the borrower other than the application fee, which will cover the cost of a credit report (currently \$35). This amount will not pay for any costs already paid for by the CDBG Program activity delivery funds. There is no pre-payment penalty on the loans under this Program.

## **IV. Underwriting Standards**

### **4.1 Initial Evaluation**

Each project and business will be evaluated based on how it has performed in the past and its future financial forecast. Specifically, the following questions will be asked of the applicant through the loan application process:



- Will the business create or retain jobs?
- Will the project meet a CDBG national objective?
- Are the costs to be paid CDBG eligible?
- Are the business and its owner(s) credit worthy?
- Do they have good “character” (pay bills on time, collect on time)?
- Does the business have management capacity?
- Does the start-up have solid business plan and document market demand?
- Does the business have financial expertise to expand or start-up?
- Is the owner(s) contributing a reasonable amount of equity?
- Is the owner able to get conventional bank financing, if not, why not?
- Was the business financially viable in the past (net income covers expenses including debt)?
- Are there reasonable financial assumptions for future viability/success?
- Is there enough collateral available to secure the loan funds?

By collecting enough initial application information from the borrower(s) to answer the above list of questions, the City will understand the strength of the borrower and how successful they will be if given a CDBG loan. By asking these questions the City will know what additional information and documentation needs to be collected to provide a clear picture of how CDBG funds can be used to assist the applicant.

After the initial review, the City will collect any additional information not included in the original application that may be required for loan underwriting. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start-up) and whether the project will create or retain jobs. Additional documentation may be required to clarify special circumstances of the business. Below are some of the basic underwriting requirements for a typical loan applicant (Sections 4.2 – 4.5).

#### **4.2 Credit Requirements**

The City will obtain a credit report for all owners of the business with twenty percent (20%) or more interest. For this Program, credit scores of 600 and above are generally considered acceptable credit.

#### **4.3 Financial Information**

In order to evaluate the credit-worthiness of each applicant, the City requires submittal of the following financial information:

Personal financial statements – required for each person who owns 20% or more of the business. Financial statements need to show all assets and liabilities of the interest holder.



Federal tax return statements – required for the business and for owners who own 20% or more of the business for the past two (2) years.

Business financial statements – This includes a business debt schedule, business income statement, a statement of cash flows, and a balance sheet. All financial documents should reflect the last 12 months and should be prepared by the person normally responsible for doing the bookkeeping and finance management for the business. The City may require audited financial statements and applicants shall provide these to the City upon request.

Future projected financials – these will consist of pro formas showing projected revenue and costs for the business on a monthly basis for each fiscal year from one (1) to three (3) years out. These pro formas should include projected cash flows, as well as how the City's loan will be repaid. This will provide evidence of the benefit/increased profit the business will receive by using the more affordable CDBG loan. These pro formas must also show the increased costs of the business due to the new jobs created and the additional loan payments to the City.

Project sources and uses – applicant must demonstrate how the loan funds will be used and the amount and source of all funding used, including the loan from the City. Other sources may include the owner's equity, private bank financing, and any other investments from other sources. The sources and uses give a clear idea of what costs the CDBG loan will cover and its information must be reflected in the pro-formas as described above.

Using the information in these financial statements, along with any back up documentation required, the City will conduct an analysis of the project and the creditworthiness of the business per HUD required underwriting guidelines as outlined in **Exhibit A**.

Free and confidential assistance may be available through the Northeastern California Small Business Development Center to prepare the documentation discussed above.

#### **4.4 Collateral**

All loans under this Program that exceed \$5,000 will be collateralized using normal commercial lending standards. Collateral coverage will be assessed based on assets available as security and the level at which liens already exist. CDBG funding is typically in a subordinate position to banks and other lenders. It is the goal of the Program to get the best lien position possible to ensure loan repayments and permanent job creation. Types of collateral that may be used are listed below in preferential order:

- Secured liens on real property
- Standby Letter of Credit
- UCC liens on vehicles, machinery, equipment, inventory, or other fixtures
- Lease assignments, as appropriate
- Life insurance and other collateral, as appropriate



- Personal guarantees, as appropriate (if acceptable to the Loan Advisory Group and the City Manager in his/her sole discretion). If this option is used, a higher interest rate may apply (see Section 3.3)
- Corporate guarantees, as appropriate

Appraisal of assets may be required as part of determining how to obtain the best lien positions for the CDBG loan. Equipment and inventory secured should be properly discounted to reflect actual resale value when doing loan to value calculations. As applicable, borrower shall provide and maintain hazard insurance on all real and personal property collateral for the loan.

#### **4.5 Experience/Management Capacity**

Applicants may be required to submit resumes with their application packets to show the experience of business owners and their management staff in successful operation of the existing business or a comparable business. This will be most important with start-up businesses or with applicants that wish to use CDBG funds to purchase an existing business that is closing. All start-up businesses and those open for less than one (1) year will be required to receive five (5) hours of business counseling from the Northeastern California Small Business Development Center (SBDC) or take a minimum of two (2) classes offered by the (SBDC) as a condition of loan approval.

## **V. Loan Servicing**

Servicing of loans will include monitoring payment performance, periodic reviews of the conditions of the loan approval, including but not limited to, financial data, job creation, collecting and posting payments, personal inspections and site visits, as deemed appropriate. In addition, any loan servicing costs incurred by the City may be charged to the borrower at the City's discretion. Any such costs will be determined at the time of loan approval.

## **VI. Breach of Loan Agreement**

The loan shall be considered in material default when payments are more than 30 days past due. In the event of a default, the Loan shall become due and immediately payable and the City shall promptly issue a notice of default to the business owner. The City may exercise its right to foreclose on the security on the loan after the date of default.

In the event of sale or transfer of the business, closure of the business, refinancing, or failure to occupy the premises, the Loan shall become due and immediately payable. In the event of a sale, transfer, or closure of the business the business owner, subject to the City's discretion, may have the option to continue making payments, pay off the loan, or transfer the loan to the new owner. For a transfer to be

considered, the new owner must meet all eligibility requirements and possess sufficient collateral to securitize the remaining balance of the loan.

## VII. Program Oversight

The City's Economic Development staff will serve as the primary contact for the Program. Once a loan is at the point of approval, City Finance staff will prepare the loan package and coordinate submittal for review and approval. City staff will ensure all loan documents are properly reviewed by the City Attorney, signed by the City Manager, and meet CDBG requirements prior to signing by the borrower.

In addition, the City staff will provide oversight regarding loan collection in the case of default, in conjunction with the City Attorney.

City staff will complete required HUD CDBG financial reports for Program income. City staff will complete the proper quarterly and annual reports for review, approval, signature and submittal by the City to the appropriate HUD representative.

## VIII. City Contacts

Questions regarding this Program should be directed to:

Economic Development Department  
8401 Laguna Palms Way  
Elk Grove, CA 95758  
(916) 691-CITY (2489)

[www.OpenUpToElkGrove.org](http://www.OpenUpToElkGrove.org)

***Note to Applicants: Use of this program may trigger a requirement to pay prevailing wage on any construction, capital improvements, or other applicable activities. You should seek legal and or other professional advice regarding the application of prevailing wage requirements prior to applying for a loan.***

**EXHIBIT "A"**  
**GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC  
DEVELOPMENT PROJECT**

The U.S. Department of Housing and Urban Development (HUD) requires that the state or local government conduct basic financial and underwriting prior to the provision of CDBG financial assistance to a business (24 CFR Part 5, Appendix A). HUD has developed guidelines that are designed to provide grantees with a framework for financially underwriting and selecting CDBG-assisted economic development projects, which are financially viable and will make the most effective use of the CDBG funds. The City requires that these HUD underwriting guidelines be utilized 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 will be obtained from the expenditure of the CDBG funds in support of the project.

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 micro enterprise or other small business, to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

The objectives of the underwriting guidelines are to ensure:

1. That the project costs are reasonable
2. That all sources of project financing are committed
3. That to the extent practicable, CDBG funds are not substituted for non-Federal financial support
4. That the project is financially feasible
5. That to the extent practicable, the return on the owner's equity investment will not be unreasonably high
6. That to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the projected
7. That the projected level of public benefit is reasonable

**Project Costs are Reasonable**

Reviewing costs for reasonableness is important. It will help avoid 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 cost element should be commensurate with its cost.

For example, it would be appropriate for an experienced reviewer looking at a cost element of less than \$10,000 to judge the reasonableness of that cost based upon his or her knowledge and common sense. For a cost element in excess of \$10,000, it would be more appropriate for the reviewer to compare the cost element with a third-party, fair-market price quotation for that cost element. Third-party price quotations may also be used by a reviewer to help determine the reasonableness of cost elements below \$10,000 when the reviewer evaluates projects infrequently or if the reviewer is less experienced in cost estimations. If a reviewer does not use analysis using appropriate cost estimating manuals or services.

Particular attention should be paid to any cost element of the project that will be carried out through a non-arms-length transaction. A non-arms-length transaction can occur when the business entity receiving the CDBG assistance procures goods or services or acquires property from itself or from another party with whom there is a financial interest or family relationship. If abused, non-arms-length transactions misrepresent the true cost of the project.

### **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.

To the extent practicable, prior to the commitment of CDBG funds to the project, the project review should verify that: sufficient sources of funds have been identified to finance the project; all participating parties providing those funds have affirmed their intention to make the funds available; and, the participating parties have the financial capacity to provide the funds.

### **Avoid Substitution of CDBG Funds for Non-Federal Financial Support**

The proposed CDBG economic development project should be reviewed to ensure that, to the extent practicable, CDBG funds will not be used to substantially reduce the amount of non-Federal financial support for the activity. 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.

Because of this high cost of underwriting and processing loans, many private financial lenders may not finance commercial projects that are less than \$100,000. A reviewer should familiarize themselves with the lending practices of the financial institutions in the community. If the project's total cost is one that would normally fall within the range within which financial institutions participate, then the project review should determine the following:

1. Private Debt Financing: Whether or not the participating business (or other entity having an equity interest) has applied for private debt financing from a commercial lending institution and whether that institution has completed all of its financial underwriting and loan approval actions resulting in either a firm commitment of its funds or a decision not to participate in the project; and
2. Equity Participation: Whether or not the degree of equity participation is reasonable given general industry standards for rates of return on equity for similar projects with similar risks and given the financial capacity of the entrepreneur(s) to make additional financial investments.

If the project involves providing assistance to a micro enterprise owned by a low or moderate income person(s), then the reviewer might only need to determine that non-Federal sources of financing are not

available (at terms appropriate for such financing) in the community to serve the low or moderate income entrepreneur.

### **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:

1. 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
2. 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.

In addition to the financial underwriting reviews carried out earlier, the reviewer should evaluate the experience and capacity of the assisted business owners to manage an assisted business to achieve the projections. Based upon its analysis of these factors, the reviewer should identify those elements, if any, that pose the greatest risks contributing to the project's lack of financial feasibility.

### **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. However, care should also be taken to avoid the situation where the owner is likely to receive too small a return on his/her investment, so that his/her motivation remains high to pursue the business with vigor. 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 the investment, local conditions and the risk of the project.

### **Disbursement of CDBG Funds on a Pro-rata Basis**

To the extent practicable, CDBG funds used to finance economic development activities should be disbursed on a pro-rata basis with other funding sources. 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 into the project has 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. When the grantee determines that it is not practicable to disburse CDBG funds on a pro-rate basis, the grantee should consider taking other steps to safeguard CDBG funds in the event of default, such as insisting on securitizing assets of the project.

### **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 standard of public benefit is as follows:

1. The project must lead to the creation or retention of at least one full-time equivalent (FTE) job per \$35,000 of CDBG funds used. Part-time staff may be combined to make up one FTE. One FTE consists of 2,080 staff hours per year.



**Exhibit "B"**  
**City of Elk Grove - Small Business Loan Program**  
**Self-Certification Family Income Verification**

**SECTION 1** The following section should be completed by the **EMPLOYER**

Business Name: \_\_\_\_\_  
Address, City, State: \_\_\_\_\_  
Contact Name: \_\_\_\_\_ Title: \_\_\_\_\_  
Telephone: \_\_\_\_\_ Email: \_\_\_\_\_  
Date employee was hired: \_\_\_\_\_ Number of hours worked weekly: \_\_\_\_\_

Please check one:

New Employee       Retained Employee

Indicate Type of Position Being Filled:

Supervisor/Manager       Craft/Skilled Worker       Sales  
 Professional       Operative/Semi-skilled       Service  
 Technician       Laborer/Unskilled       Office/Clerical

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**SECTION 2** The following section should be completed by the **EMPLOYEE**

The company you are applying to for employment, or are currently employed with, was assisted under a Federal funding program intended to create or retain jobs for low and moderate income persons. Whether you are from a low or moderate income family depends on the size of your household and your total family income.

Please estimate your total family income and the number of family members residing in your household for the past 12-month period and select the appropriate boxes below. Income is defined as the total annual gross income of all family members 18 years of age or older residing within the home. Students away at college but still reported as a dependent on a family member's tax return should also be included. Family means all persons living in the same household who are related by birth, marriage, or adoption.

**Employment Status:**

Full-time       Part-time

Position currently held: \_\_\_\_\_

The following section should be completed by the EMPLOYEE (continued):

**Income & Household Size:**

| Estimated family income for last 12 months |
|--|
| <input type="radio"/> Below \$40,000       |
| <input type="radio"/> \$40,000 - \$44,999  |
| <input type="radio"/> \$45,000 - \$49,999  |
| <input type="radio"/> \$50,000 - \$54,999  |
| <input type="radio"/> \$55,000 - \$59,999  |
| <input type="radio"/> \$60,000 - \$64,999  |
| <input type="radio"/> \$65,000 - \$69,999  |
| <input type="radio"/> \$70,000 - \$74,999  |
| <input type="radio"/> \$75,000 - \$79,999  |
| <input type="radio"/> Over \$80,000        |

| Number of family members living in your household during the last 12 months |
|---|
| <input type="radio"/> 1 Person  |
| <input type="radio"/> 2 Persons   |
| <input type="radio"/> 3 Persons   |
| <input type="radio"/> 4 Persons   |
| <input type="radio"/> 5 Persons   |
| <input type="radio"/> 6 Persons   |
| <input type="radio"/> 7 Persons   |
| <input type="radio"/> 8 Persons   |

**Demographic Information:**

Ethnicity:

- |  |   |
|--|---|
| <input type="radio"/> White, Non-Hispanic              | <input type="radio"/> Native American                       |
| <input type="radio"/> White, Hispanic                  | <input type="radio"/> Native Alaskan                        |
| <input type="radio"/> Black/African American           | <input type="radio"/> Mixed Race (please describe)<br>_____ |
| <input type="radio"/> Asian                            | <input type="radio"/> Other (please describe)<br>_____      |
| <input type="radio"/> Pacific Islander/Native Hawaiian |   |

Does your family have a **Female Head of Household**?  Yes  No

If this is a new position, were you **previously unemployed**?  Yes  No

*I hereby certify that the information on this form is accurate and complete. I understand that this self-certification may be subject to further verification by the agency providing services, the City of Elk Grove, or the U.S. Department of Housing and Urban Development. I, therefore, authorize such verification, and I will provide supporting documents, if necessary. Warning: Title 18, Section 1001 of the U.S. Code states that a person is guilty of a felony for knowingly and willingly making false statements or fraudulent statements to any department of the U.S. Government.*

Participant/Employee Name (please print) \_\_\_\_\_

\_\_\_\_\_  
Signature (Parent/ Guardian if under 18 years old)

\_\_\_\_\_  
Date

Please return completed, signed form to:

City of Elk Grove  
Economic Development Department  
8401 Laguna Palms Way  
Elk Grove, CA 95758

Phone: (916) 691-CITY (2489)

**FOR REFERENCE ONLY:**

**Income Limits 2014**

U.S. Department of Housing and Urban Development (HUD)  
Sacramento – Arden-Arcade – Roseville, CA MSA

| Household Size  | Income Limits - 2014 |          |          |          |          |          |          |          |
|-----------------|----------------------|----------|----------|----------|----------|----------|----------|----------|
|                 | 1                    | 2        | 3        | 4        | 5        | 6        | 7        | 8        |
| 30% of Median   | \$14,450             | \$16,500 | \$19,790 | \$23,850 | \$27,910 | \$31,970 | \$36,030 | \$40,090 |
| Very Low Income | \$24,050             | \$27,500 | \$30,950 | \$34,350 | \$37,100 | \$39,850 | \$42,600 | \$45,350 |
| Low Income      | \$38,550             | \$44,050 | \$49,550 | \$55,050 | \$59,500 | \$63,900 | \$68,300 | \$72,700 |

**CERTIFICATION  
ELK GROVE CITY COUNCIL RESOLUTION NO. 2014-221**

STATE OF CALIFORNIA        )  
COUNTY OF SACRAMENTO    )       ss  
CITY OF ELK GROVE         )

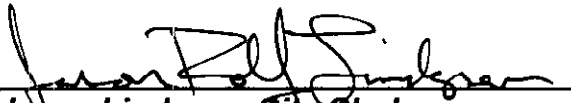
*I, Jason Lindgren, City Clerk of the City of Elk Grove, California, do hereby certify that the foregoing resolution was duly introduced, approved, and adopted by the City Council of the City of Elk Grove at a regular meeting of said Council held on September 24, 2014 by the following vote:*

**AYES :**       **COUNCILMEMBERS:**       *Davis, Cooper, Detrick, Hume, Trigg*

**NOES:**       **COUNCILMEMBERS:**       *None*

**ABSTAIN :**   **COUNCILMEMBERS:**       *None*

**ABSENT:**    **COUNCILMEMBERS:**       *None*

  
**Jason Lindgren, City Clerk  
City of Elk Grove, California**