

**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**ITEM**  
9.1  
(ID # 2895)

**MEETING DATE:**

Tuesday, December 13, 2016

**FROM :** ECONOMIC DEVELOPMENT AGENCY (EDA):

**SUBJECT:** ECONOMIC DEVELOPMENT AGENCY (EDA): Public Hearing to Approve Formation of Microenterprise Business Loan Program and Small Business Loan Programs, All Districts, [\$800,000] Community Development Block Grant 100%; not a project under CEQA

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Find that the Microenterprise Business Loan Program and Small Business Loan Program are not projects under the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15378 (b)(4);
2. Find that the Microenterprise Business Loan Program and Small Business Loan Program are categorically excluded under the National Environmental Policy Act (NEPA) in accordance with 24 CFR Section 58.34(b)(4);
3. Approve the formation of the Microenterprise Business Loan Program and Small Business Loan Program to benefit eligible small businesses in the County of Riverside;

**ACTION: Policy**

  
Robert Foster, Assistant County Director of Economic Development

11/22/2016

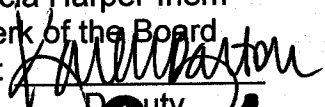
FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
<b>COST</b>	\$ 800,000	\$ 0	\$ 800,000	\$ 0
<b>NET COUNTY COST</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>SOURCE OF FUNDS:</b> Grant funds 100%	\$800,000 HUD-Community Development Block		<b>Budget Adjustment:</b>	No
			<b>For Fiscal Year:</b>	2016-17

**C.E.O. RECOMMENDATION:** [CEO use]

**MINUTES OF THE BOARD OF SUPERVISORS**

On motion of Supervisor Ashley, seconded by Supervisor Jeffries and duly carried, IT WAS ORDERED that the above matter is approved as recommended.

**Ayes:** Jeffries, Tavaglione Washington and Ashley  
**Nays:** None  
**Absent:** Benoit  
**Date:** December 13, 2016  
**xc:** EDA

Kecia Harper-Ihem  
 Clerk of the Board  
 By:   
 Deputy  
**9-1**

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**RECOMMENDED MOTION:** That the Board of Supervisors:

4. Approve the attached County of Riverside Microenterprise Business Loan Program Guidelines (Microenterprise Guidelines), which govern the use and operation of the Microenterprise Business Loan Program, and authorize the Assistant County Executive Officer/EDA, or designee, to make any non-substantive modifications to the Microenterprise Guidelines that do not increase the maximum loan amount or modify lending terms, subject to applicable Community Development Block Grant (CDBG) regulation, and subject to approval by County Counsel;
5. Approve the attached County of Riverside Small Business Loan Program Guidelines (Small Business Guidelines), which govern the use and operation of the Small Business Loan Program, and authorize the Assistant County Executive Officer/EDA, or designee, to make any non-substantive modifications to the Small Business Loan Guidelines that do not increase the maximum loan amount or modify lending terms, subject to applicable CDBG regulation, and subject to approval by County Counsel;
6. Authorize the Assistant County Executive Officer/EDA, or his designee, to take all necessary steps to implement the Microenterprise Business Loan Program and Small Business Loan Program, pursuant to their respective guidelines and applicable CDBG regulations, including, but not limited to, drafting, negotiating, and executing, subsequent essential and relevant documents, including, but not limited to, loan applications, loan agreements, promissory notes, deeds of trust, security agreements, and other documents, subject to approval by County Counsel; and
7. Authorize the Assistant County Executive Officer/EDA, or his designee, to approve, issue, and modify loans derived from the Microenterprise Business Loan Program and Small Business Loan Program, in accordance with the approved Microenterprise Guidelines and Small Business Guidelines, subject to applicable CDBG regulations and County Counsel approval.

**BACKGROUND:**

**Summary**

County of Riverside (County) staff recommends establishing a Community Development Block Grant (CDBG) funded Microenterprise Business Loan Program and Small Business Loan Program to provide technical assistance and necessary capital at affordable rates and terms to small businesses in the County. The intent of the two programs is to provide "appropriate"

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assistance to small businesses which in turn will create or retain jobs and expand the commercial and industrial base of the County.

The programs are designed for small businesses that cannot access commercial or private sector financing; consequently, these programs will not compete with banks and other lenders. Rather, these programs will address the financing "gaps" that hinder small businesses and allow small businesses and microenterprises to "graduate" to commercial and private sector lending.

The proposed programs will prioritize assistance to small businesses that:

1. create or retain jobs;
2. are located within the unincorporated communities of the County or within the cities participating in the County's Urban County CDBG program; and
3. improve the skills and wages of employees working for the small businesses.

The attached Small Business Loan Program Guidelines and Microenterprise Business Loan Program Guidelines outline the policies and procedures for the two programs including, but not limited to, eligibility, job creation requirements, application processing, underwriting, loan review and approval, loan terms and limits, and other pertinent information. The maximum loan amount for the Small Business Loan Program is \$50,000; the maximum loan amount for the Microenterprise Business Loan Program is \$25,000. It is anticipated that 30-40 small businesses will be assisted through the programs under the initial funding amount. CDBG funds will also be used to pay for program administrative costs including outreach, application review, underwriting, and other necessary activities.

Staff recommends that the Board of Supervisors approve the establishment of the CDBG-funded Small Business Loan Program and Microenterprise Business Loan Program, and approve respective proposed guidelines for each which are attached to this item. Further, staff recommends the Board authorize the Assistant County Executive Officer/EDA, or designee, to approve, issue, service, and modify all financial assistance awarded under the two programs, in accordance with the respective proposed program guidelines, applicable CDBG regulations, and County Counsel review and approval.

Funding for the Microenterprise Business Loan Program and Small Business Loan Program was approved by the Board of Supervisors as part of the 2014-2015 One Year Action Plan (Item 9.1, 5/6/14) and the 2015-2016 One Year Action Plan (item 9.1, 4/28/15). If formation of the loan programs is approved by the Board, staff will apply for future CDBG funding to recapitalize the loan funds and cover administrative expenses.

The Microenterprise Business Loan Program and Small Business Loan Program were evaluated under the California Environmental Quality Act (CEQA) and determined not to be projects under CEQA pursuant to State CEQA Guidelines Section 15378 (b)(4) because they are simply programs that create government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a

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potentially significant physical impact on the environment. The two programs just allow the County to provide commercial loans to small businesses. No specific projects have been identified and committed in connection with the approval of the Microenterprise Business Loan Program and Small Business Loan Program. The Microenterprise Business Loan Program and Small Business Loan Program are also categorically excluded under the National Environmental Policy Act (NEPA) in accordance with 24 CFR Section 58.34(b)(4) as these are services providing financial assistance to businesses and are therefore activities are exempt under this section. Each loan derived from The Microenterprise Business Loan Program and Small Business Loan Program will be subject to separate CEQA and/or NEPA environmental review, as applicable, prior to taking any choice limiting action or discretionary action on those specific loans.

The Small Business Loan Program Guidelines and Microenterprise Business Loan Program Guidelines have been approved as to form by County Counsel.

**Impact on Residents and Businesses**

The Small Business Loan Program and Microenterprise Business Loan Program will provide needed access to affordable capital and other business support services to small businesses in the County of Riverside. These programs, together with the U.S. EDA funded Revolving Loan Fund (RLF), demonstrates the County of Riverside's efforts to provide access to affordable financing for small and medium size businesses.

**SUPPLEMENTAL:**

**Additional Fiscal Information**

The proposed Small Business Loan Program and Microenterprise Business Loan Program will be funded entirely by Community Development Block Grant (CDBG) funds and will not impact the County's General Fund.

**ATTACHMENTS:**

- Small Business Loan Program Guidelines
- Microenterprise Loan Program Guidelines

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RF:SH:JT:SO

Economic Development-Small Business and Microenterprise F11.docx

  
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Gregory F. Priamos, Director County Counsel      11/22/2016

## **COUNTY OF RIVERSIDE SMALL BUSINESS LOAN FUND GUIDELINES**

The County of Riverside Small Business Loan Fund (SBL) is designed to provide the critical and necessary assistance to small businesses in the County of Riverside (County). The intent of the SBL is to provide "appropriate" assistance to small businesses, at affordable rates and terms, which in turn will create jobs, along with increasing the commercial and industrial base of the community.

Loans will not be made to small businesses that are not based in Riverside County, nor will loans be made if the loan underwriting criteria cannot be met or if the loan committee denies the application.

Companies applying for the program must have already investigated traditional financing programs such as Industrial Development Bonds, Small Business Administration (SBA) loans, and commercial lending institutions. The Community Development Block Grant (CDBG) program is designed and intended for those businesses that may not qualify for conventional or commercial business loans but have the potential for growth, diversification, and job creation.

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

- Existence of a "financial gap" that hinders the business or project from obtaining or affording the project without the SBL;
- The terms and conditions of the project are "appropriate";
- The project meets a National Objective of the CDBG program by providing benefit (employment opportunities) to low and moderate income persons. A minimum of 51% of the jobs created by the CDBG assistance, must be filled by, or made available to, low and moderate income persons; and
- The loan meets the SBL's underwriting criteria.

### **SBL Target Areas**

The SBL will be used to provide loans to qualified businesses, with growth potential, that are located within the Riverside County Urban CDBG program area. The target area includes the unincorporated communities as well as the Cooperating Cities of:

Banning	Beaumont	Blythe
Canyon Lake	Coachella	Desert Hot Springs
Eastvale	Indian Wells	Lake Elsinore
La Quinta	Murrieta	Norco
San Jacinto	Wildomar	Jurupa Valley

### **ELIGIBLE TYPES OF SBL BUSINESSES**

- Manufacturing
- Innovation/Technology
- Medical/Professional Services
- Services
- Automotive
- Office
- Renewable and Advanced Energy
- Retail
- Restaurant/Food Service

## INELIGIBLE INDUSTRY SECTORS/TYPES

- Logistics
- Residential or Real Estate projects
- Start-up companies\*
- Entertainment/Night Clubs (*includes Adult entertainment*)
- Casinos/gaming establishments
- Medical Marijuana
- Gun Shops
- Photovoltaic arrays (aka "Solar Farms")
- Construction related firms
- Non-profit companies

\* Defined as a company with no historical track record

## ELIGIBLE USES OF SBL FUNDING

- Building acquisition/renovation
- New building construction
- Machinery/Equipment purchases
- Working capital
- Environmental, Health & Safety, and Regulatory Compliance
- Technical Assistance, Permitting, Assessments, and Fees

## SOURCE OF SBL FUNDING

The source of funding for the SBL is the Community Block Grant Program (CDBG) through the U.S. Department of Housing and Urban Development (HUD). Loans are not financed through the County's General Fund.

## UNDERWRITING GUIDELINES

The SBL requires the use of HUD underwriting guidelines to determine whether a proposed CDBG subsidy is appropriate to assist a business expansion project. The objectives of the underwriting guidelines are to ensure that:

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

See **Exhibit B** for a complete explanation of HUD Guidelines and Objectives for Evaluating a CDBG Economic Development Project.

## SBL RATES AND TERMS

Lending Limits: Minimum loan amount \$25,000, Maximum loan amount \$50,000.

Terms of Loans: The term of working capital loans will not exceed five (5) years.  
The term of a fixed asset loan will not be greater than the weighted

average useful life of the fixed asset being financed. In no case will a fixed asset loan be made for a term of more than ten (10) years; however, the loan may be amortized for a maximum twenty (20) year term. All other SBL loans will be amortized in full during the term. In order to accelerate the use of SBL dollars, the SBL will minimize the loan terms where feasible.

- Equity Requirement:** Varies - 10%-20% of project costs
- Interest Rate:** 4-10%: The SBL interest rate will be based upon the creditworthiness of the borrower as well as the financial needs and viability of the business.
- Fees:** Borrowers will pay for any direct costs incurred in loan processing and closing, such as recording fees, UCC-1 fees, attorney fees, escrow fees, etc. A late fee of 5% of the payment will be assessed on payments made later than thirty (30) days from payment date.
- Collateral Requirement:** All SBF loans shall be fully secured by collateral in order to maintain the SBF Program. No unsecured loans shall be made. The collateral will usually be in the form of liens of the assets financed including fixed assets such as machinery, accounts receivable, inventory, and lease assignments. Liens upon other non-project assets of the borrower may also be used to secure the loan. Personal guarantees will be required of all persons/entities holding a 50% or more interest in the applicant's business. One or more cosigner(s) may be required in order to obtain an SBL loan. Types of collateral may include:
- Deeds of Trust on real property;
  - Liens/UCC-1 statements on machinery, equipment, or other fixtures;
  - Lease assignments, as appropriate,
  - Personal and/or corporate guarantees, as appropriate, and
  - Other collateral, as appropriate.
- Returned Check Fee:** \$30 first occurrence / \$35 thereafter
- Prepayment Penalty:** None.
- Job Creation/Retention:** One full time equivalent position (1,750 hours annually) per \$35,000 loaned shall be achieved for each SBL loan. Two permanent part-time jobs (at least 875 annually) can be aggregated to count as one full time equivalent job. At least 51% of the jobs created/retained shall be held by Target Income group persons.

## **ELIGIBILITY FOR LOANS**

In order to be considered for financing through the Small Business Loan Fund, applicants must meet the following requirements:

- Have a completed business plan which includes a competitive market analysis and create at least one or two FTE positions based upon the final loan amount.
- Be an on-going, for profit small business concern, partnership, sole proprietorship licensed and located (or planning to locate) within the boundaries of the County of Riverside. Businesses operating out of a residence are eligible.
- Be in compliance with all County, State and Federal financial obligations, including taxes, land use, zoning, and health & safety.
- Be a U.S. Citizen or legally admitted resident alien.
- Be unable to obtain sufficient credit elsewhere for the proposed project.
- Loan monies may NOT be used to satisfy any existing debts.

## **ELIGIBLE USES OF LOAN FUNDS:**

Loan proceeds can be used for purchase of equipment, machinery, furniture and fixtures supplies, working capital.

## **ELIGIBLE COSTS:**

- Working capital, inventory, furniture, fixtures, machinery and equipment.

## **INELIGIBLE USES OF LOAN FUNDS:**

Projects must be located in the County of Riverside. 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 §87100 et seq for any current County of Riverside employee or Loan Committee member. Projects must create or retain jobs, primarily for the Targeted Income Group, and must leverage equity funds.

## **INELIGIBLE COSTS:**

- Costs incurred prior to submittal of the loan application and approval.
- Costs other than those listed as eligible.

## **GENERAL ADMINISTRATIVE FEATURES:**

- Confidentiality of Client Financial Information, as allowed by law.
- Equal Opportunity/Affirmative Action Policy.
- Monitoring and Reporting Forms.
- Compliance with HUD regulations.
- The County of Riverside, Economic Development Agency (EDA) will be responsible for overall project marketing, loan evaluation, loan packaging, and monitoring.



## **PROJECT EVALUATION CRITERIA:**

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

## **STRENGTH OF BUSINESS**

- Strength of business plan.
- Experience of business owner and management.
- Business skills and experience of business owner(s).
- Repayment ability.
- Available collateral.
- Equity participation.
- Acceptable financials.
- Reasonableness of costs and financial feasibility.
- Acceptable risk.
- Job creation potential.

## **ROLE OF STAFF:**

The Classroom-Based Business training classes and One-On-One Business Counseling sessions will be implemented by consultants under contract with local Technical Assistance providers.

The SBL Loan program Fund will be administered by the County of Riverside Economic Development Agency and will be under the management of the CDBG program. Daily program operation/loan servicing and monitoring will be the responsibility of the Loan Officer. Decisions to foreclose and declare defaults will be the responsibility of the loan committee and EDA staff, in consultation with legal counsel.

All other activities to be accomplished under this program not specifically mentioned above will be implemented by EDA staff.

## **LOAN PACKAGING:**

The Loan Officer will be responsible for loan packaging activities, including review of all proposals presented to the Loan Review Committee (LRC). The Loan Officer will evaluate initial loan applications and make a recommendation for applicant technical assistance, applicant completing the loan application, and/or packaging for the LRC.

The Loan Officer will work with the applicant on assessment of the application's adherence to SBL requirements and eligible use of funds. The Loan Officer will then prepare an advisory report recommending one of the following actions:

- Approve the loan application as submitted.
- Approve the loan application with special modification of loan covenants.
- Deny the loan application.

## **LOAN REVIEW:**

The loan review process can take anywhere from 8-10 weeks from the time a complete application is submitted to the time the loan is approved/denied by the LRC. Staff will make every effort to insure the timely review of loan applications and execution of funds.

## **LINKING JOBS WITH LONG-TERM UNEMPLOYED:**

The County of Riverside Economic Development Agency works closely with the County's Workforce Development Centers (WDC) to support programs and services that provides assistance to the unemployed and low-to-moderate income persons. The agencies regularly promote training activities and the labor market to potential employers in the area. Early and continued involvement with each participant will be a consistent policy of the Small Business Financial Assistance Program (SBFAP).

## **MARKETING:**

Multiple methods will be used to promote and publicize the program, generating interest and SBL applicants. Outreach will be conducted to the media, existing program service providers, and business professionals within the region. Staff will make numerous public appearances to inform chambers of commerce, bankers and business development organizations of the availability of the SBL. Staff will use the existing information networks which have been developed with the business and finance community through the County's Small Business Center that offer business programs and workshops. Local newspapers will publish articles regarding the SBL on a regular basis.

## **LOAN UNDERWRITING:**

Before an application can be submitted to the Loan Committee, it will be reviewed for loan underwriting. Underwriting can be completed through one of two methods:

### **a. CDC Small Business Finance Corporation (CDC)**

The loan application package will be sent to EDA's contracted underwriting partner, the CDC Small Business Finance Corporation (CDC). The CDC is an SBA Certified Development Corporation that offers direct lending as well as partner loans with commercial lending institutions. The CDC has provided services in Riverside County for many years and has funded many loans in the region.

The CDC will perform basic credit analysis and underwriting for each loan on a fee-for-service basis. They will issue an opinion on the risk of each loan application to the County. EDA will utilize the CDC's opinion in making its final staff level decision whether or not to forward the application to the Board of Supervisors for final approval. CDBG staff will notify the applicant of staff's final recommendation within seven working days.

### **b. EDA Internal Staff Underwriting and Credit Analysis**

The loan application package will be reviewed by EDA staff to perform the credit analysis and underwriting. EDA will utilize the staff's opinion in making its decision whether or not to forward the application to the Loan Review Committee for final approval. CDBG staff will notify the applicant of staff's final recommendation within twenty (20) working days.

The SBL underwriting policies are designed to insure the SBL's on-going viability, assist

businesses that could not proceed without the SBL, and insure that any financial assistance is "appropriate".

## **UNDERWRITING CRITERIA**

The objectives of the underwriting guidelines are to insure:

- Project costs are reasonable.
- Sources of project financing are committed.
- The project is financially feasible.
- Sufficient public benefit will be received from the expenditure of SBL funds.

### **Credit Requirements:**

- Cash flow must be sufficient to service debt.
- Must attain a minimum score of 15 out of 20 points in each category of the application scoring system.
- Personal guarantees of any person having 50% or more ownership in the business.
- Adequate collateral of a form acceptable to the Loan Review Committee may be pledged as security.
- Must have completed loan application and a satisfactory explanation of credit history.

Coverage and Leverage Ratios: Equity: 10%-20%  
Cash Flow: 1:1  
Collateral: 1:1  
Debt Coverage: 1.25:1  
Loan to Value: 80%-90%

Borrower must provide a minimum of 10% contribution to the total project cost. Participation of other conventional or private sources in the financed project is encouraged.

### **Application Scoring System:**

Applications will be reviewed and evaluated based upon credit, cash-flow, collateral, character, capacity, conditions, social benefit, and building plan. The scale ranges from 0-10 in each of the eight (8) categories. Application viability will require that an application receive a minimum score of seven (7) in each category. The credit score will take into consideration the applicant's explanation(s) for any derogatory information listed on the credit report.

### **Loan Limits, Repayment Terms, and Interest Rates:**

- Loans range from \$25,000 to \$50,000 with a maximum repayment term of 10 years;
- Interest rate determined by LRC (4-10% dependent upon applicant's creditworthiness);
- Equipment or fixed asset loans will be for up to 10 years, but no more than 80% of the asset's useful life;
- Loan funds may be used to purchase machinery, real property, equipment, furniture & fixtures, and working capital;
- Factoring or Accounts Receivable loans will be for no more than 90 days and no more

- than 70% of the collateral value (i.e., purchase order, receivable, contract, etc.); and
- Closing fees are to be paid by the borrower, but may be deducted from the loan proceeds as needed at closing.

## **LOAN REVIEW COMMITTEE**

The Small Business Loan Fund will have a Loan Review Committee (LRC) consisting of three (3) voting members that may include: EDA employees, County representatives, banking and finance representatives, and other members. The LRC will meet on an as-needed basis. The LRC will be responsible for reviewing funding proposals and making the final decision to approve or deny all loan applications submitted including terms and conditions of loan agreements. A quorum of two members is required for all meetings. Legal counsel will be available to the LRC and utilized on an as-needed basis.

All projects meeting the established criteria shall be brought before the LRC.

## **LOAN CLOSING**

EDA staff will brief each applicant on their obligations and requirements of the SBL. All borrowers will be offered post-loan technical assistance. Loan conditions will mandate that a late or partial payment will require the borrower to immediately participate in post-loan technical assistance.

## **LOAN MONITORING**

EDA staff will monitor on-going operations of the loan recipient. EDA staff will review all reports, financial information, and performance reports on each loan during the term of the loan. Staff will meet with each SBL applicant to ensure that the applicant maintains the documentation required.

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 EDA's file cabinet for safekeeping. The second is the 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
- General Security Agreement
- Personal Guaranty

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

## **REPORTING**

All SBL loan recipients will be required to report to job creation, job retention, economic impact data, and other milestones to EDA as determined in the loan conditions.

## **LOAN REPAYMENT**

All SBL borrowers will be instructed as to the repayment requirements of the loans due dates and location.

The Finance Director will establish individual loan accounts for receiving and depositing all loan payments and for input into the County of Riverside existing collection system.

The Loan Fund will be operated aggressively with loan servicing support for borrowers to insure early intervention and assistance before loan quality is impacted. The Finance Director will notify EDA staff regarding late payments and non-payment collection services.

### **FEDERAL OVERLAY REQUIREMENTS**

All loans made through the SBL program must comply with applicable federal requirements including CDBG regulations (24 CFR Part 570); Environmental Review (24 CFR Part 58), HUD Labor Standards (HUD 4010), Uniform Administrative Requirements (2 CFR Part 200); and other regulations.

CDBG regulations require that every assisted business must create or retain at least one FTE position for every \$35,000 of CDBG assistance provided. NOTE: the County will only consider the creation of new FTE positions. At a minimum, the FTE created must be in place for at least one year from the date of the loan. EDA reserves the right to place further conditions upon the loan assistance by requiring additional job creation performance measures (e.g., one position per \$20,000 of CDBG assistance). See example below:

<u>CDBG Loan Amount</u>	<u>Federal Requirement Minimum Jobs Created</u>	<u>County Required Jobs Created</u>
\$20,000	0	1
\$35,000	1	1
\$50,000	1	2

### **LOAN PRINCIPAL REDUCTION PROVISIONS**

On a case-by-case basis, the County may determine that it is appropriate to reduce portions of a borrower's outstanding principal loan balance when the borrower's FTE job creation performance exceeds that established in the loan agreement. If approved by the County, the borrower's principal loan balance may be reduced up to \$15,000 for each additional full-time equivalent job created above the required amount.

## EXHIBIT B

### GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

Housing and Urban Development (HUD) requires that the state or local government conduct basic financial underwriting prior to the provision of Community Development Block Grant (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, which are financially viable and will make the most effective use of the CDBG funds. 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 microenterprise 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 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; and
- (6) that to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project;
- (7) that the projected level of public benefit is reasonable.

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.

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 third-party price quotations to verify cost elements, then the reviewer would need to conduct a cost 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-arm-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 the 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:

- A. 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
- B. 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 business owned by a low- or moderate-income person(s) (Targeted Income Group person), 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:

- 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.

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 that 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 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. When the grantee determines that it is not practicable to disburse CDBG funds on a pro rata basis, the grantee should consider taking other steps to safeguard CDBG funds in the event of a 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 standards for each type of public benefit are as follows:

- A. The project must lead to the creation or retention of at least one full-time equivalent job per \$35,000 of CDBG funds used; or
- B. Provide goods or services to residents of an area, such that the number of Targeted Income Group persons residing in the areas served by the assisted business amounts to at least one Targeted Income Group person per \$35,000 of CDBG funds used.

**COUNTY OF RIVERSIDE**  
**MICROENTERPRISE LOAN FUND GUIDELINES**

The County of Riverside Microenterprise Loan Program (MLP) is designed to provide critical and necessary business financing, at affordable rates and terms, to Microenterprise businesses (*a small business that employs no more than 5 employees, and is operates with a small amount of capital, that may specialize in providing goods or services for their local areas*) in the County of Riverside. The intent of the MLP is to provide "appropriate" assistance to businesses, which in turn will allow them to expand and diversify, create and/or retain jobs, and increase the commercial and industrial base of the community.

MLP priority will be given to microenterprises that:

1. create or retain jobs;
2. are located in, and serve, very low-income communities;
3. have potential for growth and expansion; and
4. have the potential to greatly upgrade the skills and wages of employees.

Loans will not be made to microenterprises that are **not** located within the eligible target areas within the County of Riverside, nor will loans be made if the loan underwriting criteria cannot be met or if the loan committee denies the application. Loans will be disbursed until all funds are exhausted for existing year.

Owners of microenterprises applying for the program must have already unsuccessfully applies for traditional financing programs such as Small Business Administration (SBA) loans and commercial lending institutions. The Community Development Block Grant (CDBG) program is designed and intended for those businesses that may not qualify for conventional or commercial business loans but have the potential for growth and job creation.

The following elements are essential for the consideration of applications for the MLP program:

- The microenterprise must meet all CDBG program requirements pursuant to 24 CFR 570.201 (o);
- At the time of application, the microenterprise can have no more than five (5) full-time employees including the owner (s);
- At the time of application, the microenterprise must meet one of the following CDBG National Objectives:
  - The owner(s) must have total household incomes that do not exceed the Target Income Group (TIG) income limits (80% of the median household income); or
  - The microenterprise is located in and primarily serves an eligible low-income community (based upon 2010 Census).
- The owner(s) of the microenterprise can demonstrate the existence of a "financial gap" that prevents the business from securing the necessary financing at affordable rates and terms;
- The terms and conditions of the proposed MLP are appropriate
- The owner(s) must demonstrate acceptable creditworthiness and both applicable experience and knowledge to successfully carry out the proposed activities;
- The proposed loan meets the MLP's underwriting criteria; and
- The owner(s) must meet the 5% equity requirement.

## **ELIGIBLE MLP TARGET AREAS**

CDBG funds will be used to provide MLP loans to qualified microenterprise businesses that are located within the County of Riverside's Urban County CDBG Program area. The program area includes all of the unincorporated areas as well as the following Cooperating Cities:

Banning	Beaumont	Blythe
Canyon Lake	Coachella	Desert Hot Springs
Eastvale	Indian Wells	Lake Elsinore
La Quinta	Murrieta	Norco
San Jacinto	Wildomar	Jurupa Valley

The larger unincorporated communities within the County of Riverside include but are not limited to the following:

Cabazon	Mecca	Ripley	Mesa Verde
Highgrove	Mead Valley	Good Hope	Lakeland Village
Anza	Winchester	Idyllwild	Thousand Palms

## **ELIGIBLE MLP BUSINESS TYPES (NOTE: *this is not an exact list*)**

- Manufacturing
- Innovation/Technology
- Services
- Agricultural
- Automotive
- Office
- Renewable and Advanced Energy
- Retail
- Restaurants, Food Service

## **ELIGIBLE USES OF MLP FUNDS**

- Owner and Employee training
- Machinery, vehicle, equipment purchases
- Working capital
- Environmental, Health & Safety, and Regulatory Compliance
- Technical Assistance, Permitting, Assessments, and Fees

## **INELIGIBLE MLP BUSINESS TYPES (SUBJECT TO CHANGE)**

- Logistics and distribution
- Photovoltaic arrays (aka "Solar Farms")
- Residential or real estate projects
- Construction related firms
- Non-profit companies
- Casinos/gaming establishments
- Medical marijuana
- Gun Shops
- Adult-entertainment related businesses

## **SOURCE OF FUNDING**

The source of funding for the MLP is the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) program. Loans are not funded with the County's General Fund.

The MLP program will generally adhere to HUD's underwriting guidelines to determine whether a proposed loan is appropriate to assist a microenterprise business. The objectives of the underwriting guidelines are to ensure:

- project costs, projections, and capital needs are reasonable;
- alternative sources of project financing are available and committed;
- to the extent practicable, the CDBG funds are not substituted for non-Federal financial support;
- project is financially feasible;
- to the extent practicable, the return on the owner's equity investment will not be unreasonably high;
- to the extent practicable, CDBG MLP funds are disbursed on a pro rata basis with other financing provided to the project; and
- the projected level of public benefit is reasonable.

See **Exhibit A** for a complete explanation of HUD Guidelines and Objectives for Evaluating a CDBG Economic Development Project under this MLP.

#### **MLP LOAN FEATURES:**

Lending Limits:	MLP Loans will not be made in amounts less than \$2,500 or more than \$25,000.
Terms of Loans:	The term of working capital loans will not exceed five (5) years. The term of a fixed asset loan will not be greater than the weighted average useful life of the fixed asset being financed. In no case will a fixed asset loan be made for a term of more than ten (10) years. In order to accelerate the use and repayment of MLP loan funds, the MLP program will minimize the MLP loan terms where feasible.
Equity Requirement:	5% minimum of total project costs. Higher owner equity investment may be required.
Interest Rate:	2%-5% depending on the creditworthiness of the potential borrower. 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.

Fees: \$25 Application Fee. The County of Riverside will pay, for any direct costs incurred, in loan processing and closing, such as recording fees, attorney fees, escrow fees, etc., which cost will then be added to the principle amount of the MLP loan amount.

Collateral Requirement: All MLP loans shall be fully secured by adequate collateral to protect the County of Riverside's investments in the microenterprise business. No unsecured loans shall be made. Collateral liens of the assets financed including fixed assets such as machinery, accounts receivable, inventory, and lease assignments. Liens upon other non-project assets of the borrower may also be used to secure the loan. Personal guarantees will be required of all persons/entities holding a 50% or more interest in the borrower's business. One or more co-signer(s) may be required in order to obtain an MLP loan. Types of collateral may include, but are not limited to:

- Liens on real property;
- Deeds of Trust;
- Liens or UCC-1 statements on machinery, equipment, or other fixtures and chattel;
- Lease assignments, as appropriate;
- Accounts Receivable;
- Personal and/or corporate guarantees, as appropriate; and
- Other collateral, as appropriate.

Returned Check Fee: \$30 first occurrence / \$35 thereafter

Prepayment Penalty: None.

## **ELIGIBILITY FOR LOANS**

In order to be considered for financing through the Microenterprise Loan Program, borrowers must meet the following requirements:

- Submit a minimum completed business plan which includes a competitive market analysis and qualify as a microenterprise (no more than five (5) full-time employees including the owner);
- Borrower is an on-going private, for profit microenterprise business concern, partnership, or sole proprietorship that is properly licensed/permitted with the County of Riverside and/or the State of California Secretary of State, and located (or planning to locate) within the boundaries of the County of Riverside;
- Home-based businesses are eligible for the MLP if the business is in compliance with local zoning, land use, and health & safety requirements;
- Borrower must be in compliance with all County, State and Federal financial obligations, including taxes with zoning regulations;
- Business owner(s) must qualify as a Targeted Income Group (*family income does not exceed 80% of the median income for Riverside County*) individual or the business must be located within, and primary serve, an eligible low-income community;
- Business shall be comprised of five (5) or fewer employees including the owner;

- Be a U.S. Citizen or legally admitted resident alien;
- Borrower is unable to obtain sufficient credit elsewhere for the proposed project; and
- Loan monies may NOT be used to satisfy any existing debts.

**INELIGIBLE COSTS:**

- Costs incurred by borrower prior to submittal of the loan application and MLP approval.
- Costs other than those listed as eligible.

**GENERAL ADMINISTRATIVE FEATURES:**

- Confidentiality of Client Financial Information, as allowed by law
- Equal Opportunity/Affirmative Action Policy
- Monitoring and Reporting Forms
- Compliance with Housing & Urban Development (HUD) regulations
- The County of Riverside, Economic Development Agency (EDA) will be responsible for overall MLP marketing, loan evaluation, loan packaging, and monitoring

**PROJECT EVALUATION CRITERIA:**

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

**STRENGTH OF BUSINESS:**

- Strength of business plan
- Experience of business owner and management
- Business skills and experience of business owner(s)
- Repayment ability
- Available collateral
- Equity participation
- Acceptable financials
- Reasonableness of costs and financial feasibility.
- Acceptable risk
- Job creation potential

**PUBLIC BENEFIT:**

The Microenterprise Loan Fund program is intended to provide a public benefit to low and moderate income entrepreneurs or businesses located in eligible low-income communities. In order to ensure our goals are being met, all participants must be screened thoroughly. Loan borrowers will be evaluated in an extensive process which includes scrutiny of personal financial statements, as business financial statements. In addition, loan recipients must submit a number of documents throughout the course of the loan period proving that they are complying with the MLP loan standards. Every effort is made to keep the reporting requirements minimal, however, borrowers are forewarned that the public benefit portion of the loan is strictly enforced and will result in immediate repayment of loan amounts funded if the loan recipient fails to meet the reporting requirements.

## **LOAN TYPES AND TERMS:**

County of Riverside Economic Development Agency (EDA) reserves the right to modify or suspend the MLP at any time pursuant to financial constraints and other programmatic considerations.

**Microenterprise Loan: \$2,500 to \$25,000**

**Maximum Loan Amounts: CDBG loan assistance \$25,000:**

- Building /Renovation - **\$25,000**
- Machinery/Equipment Purchases - **\$25,000**
- Working Capital - **\$25,000**

## **LOAN PACKAGING:**

County of Riverside EDA staff will be responsible for loan packaging activities. Staff will evaluate initial loan applications, and make a recommendation for borrower to attend technical assistance program to assist the borrower with completing the loan application, and/or packaging.

## **APPLICATION PROCESS:**

Interested borrowers will first submit an application to the Economic Development Agency (EDA) through the CDBG Program. CDBG staff will conduct an initial review of the application to ensure it meets the parameters of the program including the following:

- Business is an eligible industry sector and is requesting funding for an eligible use;
- CDBG funds will be utilized pursuant to 24 CFR 570.209;
- Business is located within the County's Urban County CDBG Program area; and
- Borrower meets owner equity requirements.

MLP loan application can be obtained online at: [www.rivcobiz.com](http://www.rivcobiz.com) or directly from County of Riverside EDA staff. EDA staff will work with the borrower to assure that the MLP requirements are met. EDA staff will then prepare an advisory report recommending one of the following actions:

- Approve the loan application as submitted;
- Approve the loan application with special modification of loan covenants; or
- Deny the loan application.

## **LOAN REVIEW:**

The loan review process can take anywhere from 8-10 weeks from the time a complete application is submitted to County of Riverside EDA Assistant County Executive Officer or Designee. Please be advised that this is a public process, and it does take longer than a typical commercial lender. EDA staff will make every effort to insure the timely review of loan applications and execution of funds.

## **LINKING JOBS WITH LONG-TERM UNEMPLOYED:**

The County of Riverside Economic Development Agency works closely with the County's Workforce Development Centers (WDC) to support programs and services that provide assistance to the unemployed and low- to moderate-income persons. The agencies regularly promote training activities and the labor market to potential employers in the area.

### **MARKETING:**

Multiple methods will be used to promote and publicize the program, generating interest and MLP borrowers. Outreach will be conducted to the media, existing program service providers, and business professionals within the region. EDA staff will make numerous public appearances to inform chambers of commerce, bankers and business development organizations of the availability of the MLP. EDA Staff will use the existing information networks which have been developed with the business and finance community through the County's Small Business Center that offer business programs and workshops. EDA staff will contact local newspapers requesting that these publish articles regarding the MLP on a regular basis.

### **LOAN UNDERWRITING:**

The loan underwriting policies are designed to insure the MLP's on-going viability, assist businesses that may not maintain financial viability without funding from the MLP, and ensure that the MLP assistance is "appropriate" to HUD's Underwriting Guidelines (exhibit A).

The loan application package will be reviewed by EDA staff to perform the credit analysis and underwriting. EDA Management staff will review complete Loan Package results and determine whether or not to forward the application to the Loan Review Committee for final approval. EDA staff will notify the borrower of staff's final recommendation within fourteen (14) working days.

The objectives of the underwriting guidelines are to insure:

- Project costs are reasonable;
- Sources of project financing are committed;
- The project is financially feasible; and
- Sufficient public benefit will be received from the expenditure of MLP funds.

### **UNDERWRITING CRITERIA:**

Credit Requirements:

Minimum 600 Credit Score

Submit a Complete Business Plan

Cash flow must be sufficient to service debt

Must attain a minimum score of 10 out of 20 points in each category of the application scoring system

Personal guarantees of any person having 50% or more ownership in the business

Adequate collateral of a form acceptable to the County of Riverside may be pledged as security

Must have completed loan application and a satisfactory explanation of credit history



## **GENERAL UNDERWRITING COVERAGE AND LEVERAGE RATIOS**

Equity:	5-10%
Operating Cash Flow:	1:1
Collateral:	1:1
Debt Coverage:	1.25:1
Loan to Value:	Not to exceed 95%

Borrower must provide a minimum of 5% contribution to the total project cost. Participation of other conventional or private sources in the financed project is encouraged.

### **APPLICATION SCORING SYSTEM:**

Applications will be reviewed and evaluated based upon credit, cash-flow, collateral, and character, business plan. The scale ranges from 0-20 in each category. Application viability will require that an application receive a minimum score of 10 in each category. The credit score will take into consideration the borrower's explanation(s) for any derogatory information listed on the credit report.

### **LOAN REVIEW COMMITTEE:**

Upon EDA Management staff review and decision, some projects meeting the established criteria may be brought before the LRC.

The MLP will have a Loan Review Committee (LRC) consisting of three (3) voting members: a Riverside County's Economic Development Agency Manager, Workforce Development Representative, Community Development Manager, and as an option, a CDC local business professional. The LRC will meet on an as-needed basis. A quorum of two members is required for all meetings. County Counsel will be available to the LRC and utilized on an as-needed basis. Approval from the U.S. Department of Housing and Urban Development (HUD) will be required prior to any revisions to these guidelines.

### **LOAN LIMITS AND TERMS:**

- Minimum loan terms is one (1) year; maximum loan term is ten (10) years;
- Interest rate will be limited based on the current Federal Funds Rate not to exceed 5%. Factors to be considered in determining interest rates include: economic impact; credit worthiness; return on investment/equity; and other factors.
- Equipment or fixed asset loans will be amortized for up to 10 years, but no more than 80% of the asset's useful life
- Closing fees are to be paid by the borrower, but may be deducted from the loan proceeds as needed for closing.
- Payment of interest and/or principal may be deferred during the implementation period of the assisted activity if merited in the loan application. Interest shall accrue during the deferment period and may be paid in full or added to the principal amount of the loan. Following the deferral period, interest and principal shall be paid for the remaining term of

the loan.

## **LOAN PERFORMANCE INCENTIVES**

The County may consider various loan term incentives, on a case-by-case basis, for MLP borrowers that exceed loan performance expectations. The incentives may include interest reductions, principal reduction, and other loan modifications.

## **LOAN CLOSING:**

EDA staff will brief each borrower on their obligations and requirements under the MLP. All successful borrowers will be offered post-loan technical assistance. Loan conditions will mandate that a late or partial payment will require the borrower to immediately participate in post-loan technical assistance.

## **LOAN MONITORING:**

EDA staff will monitor on-going operations of the successful borrower. EDA staff will review all reports, financial information, and performance reports on each loan during the term of the loan. EDA staff will meet with each MLP successful borrower to ensure that the borrower maintains the documentation required.

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

- Promissory Note
- Loan Executed Agreement, including Non-Financial Employment Plan
- General Security Agreement
- Personal Guaranty

## **LOAN PAYMENTS**

Each borrower will be instructed as to the process for submitting loan payments to the County of Riverside.

The MLP Program Manager will establish individual loan accounts for receiving and depositing all loan payments and for input into the County of Riverside's existing collection system.

The MLP will be operated aggressively with loan servicing support for borrowers to insure early intervention and assistance before loan quality is impacted. The MLP Program Manager will notify EDA staff regarding late payments and non-payment collection activities.

## **ROLE OF EDA STAFF:**

The MLP will be administered and operated by the County of Riverside Economic Development Agency. The County EDA Assistant Chief Executive Officer or designee shall administer and implement daily program operation/loan servicing and monitoring. Decisions to foreclose and

declare defaults will be the responsibility of the Loan Review Committee and EDA staff, in consultation with County Counsel. All other activities to be accomplished under this program not specifically mentioned above will be implemented by EDA staff.

**FEDERAL OVERLAY REQUIREMENTS:**

All loans made through the MLP program must comply with applicable federal requirements including CDBG regulations (24 CFR Part 570); Environmental Review (24 CFR Part 58), HUD Labor Standards (HUD 4010), Uniform Administrative Requirements (2 CFR Part 200); and other applicable regulations.

## EXHIBIT A

### GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

Housing and Urban Development (HUD) requires that the state or local government conduct basic financial underwriting prior to the provision of Community Development Block Grant (CDBG) financial assistance to a business. HUD has developed guidelines that are designed to provide grantees (County of Riverside) 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 Federal CDBG program 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 microenterprise 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 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 project; and
- (7) that the projected level of public benefit is reasonable.

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.

*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 third-party price quotations to verify cost elements, then the reviewer would need to conduct a cost 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-arm-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 the 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:

- A. 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
- B. 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 microenterprise owned by a low- or

moderate-income person(s) (Targeted Income Group person), 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:

- 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.

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 that 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 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. When the grantee determines that it is not practicable to disburse CDBG funds on a pro rata basis, the grantee should consider taking other steps to safeguard CDBG funds in the event of a 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 standards for each type of public benefit are as follows:

- A. Enterprise owner must qualify as a Targeted Income Group individual and Business shall be comprised of five (5) or fewer employees including the owner.