



AGENCY:	City Council
MEETING DATE:	March 13, 2017
DEPARTMENT:	Community Devel.
PRESENTED BY:	J. Owen

## AGENDA ITEM SUMMARY

### **TITLE:**

**RECEIVE REPORT, CONDUCT PUBLIC HEARING AND ADOPT CITY COUNCIL RESOLUTIONS TO REVISE PROGRAM GUIDELINES FOR TWO LOAN PROGRAMS FUNDED BY COMMUNITY DEVELOPMENT BLOCK GRANT 16-CDBG-11140**

### **ISSUE:**

The City's 2016 Community Development Block Grant (CDBG) #16-CDBG-11140 includes funding to implement a Business Assistance Loan Program and a Microenterprise Financial Assistance Program. Both programs provide funding for new or operating businesses but have different program requirements and funding levels. Pursuant to CDBG regulations, Program Guidelines must be adopted before any program funding will be released by CDBG. Program Guidelines for each activity were adopted in prior years, but existing guidelines do not conform to current CDBG formats. Staff was provided with templates for Program Guidelines from CDBG. The templates have been thoroughly reviewed and edited by staff to reflect local practice as well as CDBG and federal regulations.

Prior to considering adoption of a resolution authorizing each set of the Program Guidelines, City Council must hold a public hearing to receive comments about the Program Guidelines. Upon local adoption of the Program Guidelines, the Authorizing Resolutions will be sent to CDBG so that program funding may be released.

### **RECOMMENDED ACTION:**

Adopt City Council Resolutions to revise Program Guidelines for Two Loan Programs Funded by CDBG 16-CDBG-11140.

### **ALTERNATIVE ACTION(S):**

Provide direction to staff regarding further modifications to either the Business Assistance Loan Program Guidelines or the Microenterprise Financial Assistance Program Guidelines and continue action on the matter. This action will result in delay in program launch until Program Guidelines are finalized.

### **ANALYSIS:**

The City's 2016 grant award includes funding to implement two CDBG loan programs as follows:

- \$155,349 for a Business Assistance Loan Program, including \$20,263 (15%) Activity Delivery funds for loan development tasks and \$135,086 for loans.
- \$23,255 for a Microenterprise Financial Assistance Program including \$3,033 (15%) Activity Delivery funds and \$20,222 for loans or grants.

Before activities can commence, General Conditions specific to each activity must be cleared by CDBG. One of the General Conditions for each activity is that CDBG-compliant Program Guidelines must be adopted. The City's Business Assistance Loan Program Guidelines were last updated in 2009 and must be revised to conform to current CDBG regulations and practices. Microenterprise Financial Assistance Program Guidelines were last adopted by the City in 2014, so

recommended changes are minor.

The Program Guidelines provide a comprehensive statement of the City's policies and procedures related to each program, and they also document conformity with State and federal CDBG regulations. The Program Guidelines are intended to be used by both program participants and program operators to convey important information about program specifics.

In June 2015, the State CDBG began requiring use of their templates for Program Guidelines. Jurisdictions may edit the templates to insert local preferences and practices as long as these do not conflict with State or federal regulations. Jurisdictions are to keep "redline" versions of the original CDBG template that show all deviations from the CDBG template. Redline versions of the Business Assistance Loan Program Guidelines and Microenterprise Financial Assistance Program Guidelines showing all changes from the template will be maintained in the grant Public Information binder. Program Guidelines without redline edits but with explanatory comments regarding substantive changes to the template Program Guidelines are attached.

The Program Guideline formats are similar for each program. A summary of the significant components of each program is provided below.

<b>Topic</b>	<b>BA Loan Program</b>	<b>Micro Financial Assist. Program</b>
<b>Program Operator</b>	Community Development Services	TBD (currently West Company)
<b>Service Area</b>	Within city limits	Within city limits
<b>Eligible applicants</b>	Existing or start-up for-profit businesses located within city limits.	Existing or start-up, for-profit, micro businesses <sup>1</sup> in city limits that are owned by LMI <sup>2</sup> individual(s).
<b>Eligible uses of funds</b>	Operating capital, inventory, equipment, site improvements, property/business acquisition, debt restructure.	
<b>National Objective</b>	At least 51% of jobs created or retained must be LMI <sup>2</sup> ; OR business must provide "area benefit" for LMI individuals.	Owner(s) must be documented to be LMI.
<b>Public Benefit</b>	Loans limited to either \$35,000 per LMI job created/retained OR to \$350 per LMI person in city limits.	Not applicable.
<b>Applicable laws (applicability depends on use of loan funds/project)</b>	Environmental review -NEPA and CEQA; Davis Bacon/Prevailing Wage; Relocation; no job pirating; no conflict of interest; equal opportunity compliance.	
<b>Other requirements</b>	HUD's six Underwriting rules must be followed.	Owner(s) must complete Business Plan & demonstrate management capacity.
<b>Loan amounts</b>	\$35,000 to \$300,000 depending on availability of funds	Up to \$50,000 depending on availability of funds.
<b>Loan term</b>	Depends on purpose and collateral; typically 5 years (equipment) to 30 years (real property).	Depends on purpose; typically 5 years to 25 years, depending on project and cash flow needs.
<b>Interest rate</b>	Minimum of 2%; depends on cash flow needs.	Rates vary depending on cash-flow needs.
<b>Credit requirements</b>	No set criteria. Credit scores & payment histories reviewed; low scores must be explained/justified.	FICO scores below 620 require risk assessment & mitigation prior to funding.
<b>Collateral</b>	"Best possible" but subordinate position is allowed.	
<b>Grants</b>	Not allowed.	Up to \$10,000 to eligible existing micro-businesses.

Topic	BA Loan Program	Micro Financial Assist. Program
<b>Approval Process: Local</b>	Borrower's application is reviewed and underwriting steps performed by Program Operator. Loan proposal presented to City Loan Advisory Committee (LAC) for recommendation. City Manager provides final approval or denial.	
<b>Approval Process: CDBG</b>	CDBG approval not required. Prior to funding loans, a Loan Certification Form must be signed by city Manager and submitted to CDBG.	

1. A Microenterprise is a business with 5 or fewer employees including the owner(s).
2. LMI: Low or moderate income, per CDBG Income Limit tables.

#### **FISCAL IMPACT:**

There is no immediate cost related to approval of the Program Guidelines. The CDBG program generally provides adequate funding for administrative support of CDBG activities. Activity Delivery funding is generally adequate to cover loan development costs.

#### **CONSISTENCY:**

The State CDBG mission is to improve the lives of low- and moderate-income residents through the creation and expansion of community and economic development opportunities, which supports livable communities for all residents. This mission is consistent with City Priority Areas established in City Council's February 2015 Goal Setting process including Priority Area 2 "A Prosperous Economy". In addition, the City's 2014 Economic Development Strategy includes growing and retaining businesses with business technical support and resources (Strategies 1.1 and 1.2).

#### **IMPLEMENTATION/TIMEFRAMES:**

If City Council adopts Resolutions to approve the Program Guidelines, staff will compile the appropriate General Conditions checklist for each loan activity, including the Authorizing Resolutions, and submit General Conditions documents to CDBG staff for review and approval. Once the General Conditions are approved by CDBG, program expenditures may commence. Staff expects compilation and submittal of the General Conditions package will be completed within one week of City Council approval. The CDBG approval process generally takes at least two weeks.

#### **ATTACHMENTS:**

1. Public Hearing Notice.
2. Resolution to Adopt Microenterprise Financial Assistance Program Guidelines.
3. Draft Microenterprise Financial Assistance Program Guidelines (redline version)
4. Resolution to Adopt Business Assistance Loan Program Guidelines
5. Draft Business Assistance Loan Program Guidelines (redline version)

#### **NOTIFICATION:**

1. Jeff Lucas, CDS
2. Mary Anne Petrillo

#### **City Clerk's Office Use Only**

Agency Action	<input type="checkbox"/> Approved	<input type="checkbox"/> Denied	<input type="checkbox"/> Approved as Amended
Resolution No.:	Ordinance No.:		
Moved by:	Seconded by:		
Vote: _____			
<input type="checkbox"/> Deferred/Continued to meeting of: _____			
<input type="checkbox"/> Referred to: _____			