

Guidelines

For

Small Business Micro Loan Program

Funded By

City of Stockton

Economic Development Department

With

Community Development Block Grant Funds

(CDBG)

Adopted by the Stockton City Council on June 29, 2010
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Revised November 2, 2011
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**CITY OF STOCKTON
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
SMALL BUSINESS MICRO LOAN PROGRAM GUIDELINES**

1.0 INTRODUCTION

The City of Stockton has established a Small Business Micro Loan Program, here after called “the Program”. The Program is 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 that are not able to receive funding elsewhere. Businesses receiving these funds will in turn be required to produce a sufficient number of net new jobs, or in the case of business retention, retain existing jobs. The Program guidelines have been formally adopted by the City of Stockton 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.

2.0 BUSINESS ASSISTANCE PROGRAM OVERVIEW

2.1 PROGRAM CITY OF STOCKTON

In general, the City of Stockton will market the Program, accept and process applications, underwrite and recommend approval of loans, ensure proper loan closing and disbursement of funds, maintain loan files and fiscal records and support the City of Stockton’s staff in administration of federal grants and program income used to fund this program. The City of Stockton will follow and ensure compliance with these guidelines.

2.2 PROGRAM SERVICE AREA

Financing under this Program is available to all eligible businesses located in the jurisdictional limits of the City of Stockton.

2.3 SOURCE OF PROGRAM FUNDS

The Program is capitalized with Community Development Block Grant (CDBG) funds provided by HUD to the City of Stockton. CDBG funds are federal funds and as such have a number of federal requirements that must be met, as described below.

2.4 ELIGIBLE LOAN APPLICANTS

Loan applicants for the Program must be existing legal businesses, located within the City of Stockton, with a proper local business license, insurance, and required permits per local, state, and federal requirements. If an applicant is a new start-up business and does not have proper licenses or insurance, then these items can be made a condition of funding the loan. The business can be a tenant leasing space or an owner of property where the business is located. The existing business must create one or more new permanent full time equivalent (FTE) jobs. The business may also qualify by demonstrating job retention such that the business may be closing down or reducing staff if not for investment of CDBG funding.

3.0 CDBG PROGRAM REQUIREMENTS

3.1 ELIGIBLE ACTIVITIES

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

- Operating capital (including rent, utilities, supplies, 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)

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 of Stockton with the requirements to create or retain jobs and meet other CDBG program requirements. The City of Stockton will work closely with the eligible businesses to ensure they understand the requirements of the Program and the benefits of participating.

3.2 INELIGIBLE USE OF FUNDS

- Projects that do not create or retain permanent jobs
- Projects that are primarily housing in nature
- Projects not meeting a CDBG national objective or public benefit or federal CDBG underwriting standards
- Projects that are not located within the City of Stockton limits
- Subsidy of interest payment on existing loans
- Refinancing of existing debt
- Acquisition of real property

Funds under this Program will not pay for reimbursement of expenses incurred prior to the City of Stockton's formal loan approval, executed loan agreement, and/or completion of project's environmental review. Projects must have reasonable assurance of repayment of loan funds. Program funds will not be used to facilitate the movement of a business from one labor market area to another, as per job pirating restriction under HUD's regulations. Once approved, loan funds cannot be shifted from one approved type of cost to another without formal written approval by the Economic Development Department. Funds cannot be used to support other businesses in which the borrower may have an interest. Nonprofit organizations are not eligible for funding under this Program. Funding a project without City review of loan underwriting and formal written approval will make the project ineligible.

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3.3 MEETING A NATIONAL OBJECTIVE

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

First, use of funds meeting the National Objective of “low and moderate job creation or retention” will require that the businesses receiving CDBG financing provide fifty-one percent (51%) of the jobs created or 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 of Stockton will require low/moderate income job creation or retention in the CDBG loan documents signed at loan closing. In order to report that low/moderate income jobs have been retained, the business must document that the jobs would have been lost without the CDBG assistance and that the job is known to be held by a low/moderate income person or that the job may be considered available to a low/moderate income person if it does not require any special skills or education. All employee information is confidential and will not be released.

Second, use of funds meeting the National Objective of “elimination of slums and blight on an area basis” must show that the business being assisted is located in a former redevelopment agency project area (meets state redevelopment law definition of blighted area) or an area formally designated as blighted by the City of Stockton based on a survey of properties in the area. Documentation of meeting this national objective is done by providing a map of the redevelopment area or area designated locally as blighted, as well as showing the business’s address/location within the designated redevelopment or blighted area. In addition, as part of loan approval, CDBG assistance must be documented as directly assisting the project such that area blight is eliminated or prevented.

3.4 MEETING PROPER PUBLIC BENEFIT REQUIREMENT

When a private business is receiving public funds, CDBG regulations require the creation or retention of jobs by the business to show public benefit. Under the HUD federal regulations one full-time equivalent (FTE) job must be created or retained 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 of Stockton 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 of Stockton then no further monitoring of 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 as a result of CDBG loan funds, must complete a Self-Certification Family Income Verification form. This form must be completed and provided to the City of Stockton 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.

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3.5 OTHER FEDERAL REQUIREMENTS

There are a number of other federal laws and requirements that are triggered by the use of CDBG funding. The City of Stockton will take the lead and ensure compliance 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.

National Environmental Policy Act (NEPA) regulations require an Environmental Review Record (ERR) to be submitted for each project/business funded with CDBG monies prior to award or approval of funds. The City of Stockton 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 of Stockton 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.

Required DUNS number, verification of not being on federal debarred list, and insurance. All businesses who wish to receive funds under this Program will be required to obtain a DUN's number. The DUN's number is free and can be obtained online at www.dnb.com. In addition, and prior to funding, the City of Stockton will require that each business be checked to confirm they are not on the federal debarred contractors list. As noted earlier, HUD also requires that the City of Stockton collect certain income and demographic data from the business and any new hires resulting from the investment of CDBG funds. Applicants will be required to obtain all proper licenses and insurance to operate legally within the community.

Federal and/or State Labor standards and provisions may apply for projects assisted with CDBG funds. The Borrower attests that all applicable standards and provisions will be strictly adhered to.

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. See **Exhibit "C"** for a comprehensive list of federal requirements associated with the use of CDBG funds.

HUD Loan Underwriting Standards are required to be met by each CDBG loan. There is some flexibility in how the underwriting criteria are used so the funds under this program are more advantageous than commercial business loans. 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"** of these program guidelines for a list of the additional criteria and how to comply with them.

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4.0 LOAN PROCESSING AND APPROVAL

4.1 FAIR LENDING COMPLIANCE

This program will be implemented consistent with the City of Stockton'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 (number or ages of children), physical or mental disability, sexual orientation, or other arbitrary cause. All personal information of loan applicants will be kept confidential.

4.2 LOAN APPLICATION PROCESSING

Loan applications will be processed on a first-come, first-served basis. 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. The City of Stockton will also meet with business owners and visit the site of the business.

Once City staff has compiled a complete loan file with all the credit, financial, and underwriting information needed to show the loan is eligible under these guidelines, a loan advisory memo will be drafted recommending one of the following actions: 1) approve the loan application as submitted, 2) approve the loan application with special modification of loan covenants, or 3) deny the loan application. The loan advisory memo, with proper documentation, will be submitted to the City of Stockton's Economic Development Director, or designee, for review and approval/denial. If the loan is approved, then 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.

4.3 LOAN APPLICANT CONFIDENTIALITY

Persons serving as a City of Stockton representative for this Program will not disclose any of the Borrowers 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. If the City of Stockton receives a request for public records for a loan applicant then only non-confidential information, as verified by legal counsel, will be provided.

4.4 APPLICANT DISPUTE RESOLUTION/APEALS PROCEDURE

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 of Stockton within thirty (30) days of receiving notification that the loan was denied. All appeals will be directed to the City Manager for a final decision.

The City of Stockton is responsible to assure that the Program is implemented in compliance with state and federal regulations. In addition, loans must be underwritten in accordance with proper program guidelines in a timely and responsible manner. This includes developing accurate and professional files, work write-ups and contract documents. The City of Stockton or its representatives will ensure the funded activities are completed and the jobs are created in accordance with federal regulations.

4.5 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 to this policy can be made only after public disclosure and formal approval by the governing body and authorized in writing by the City of Stockton's legal counsel.

4.6 EXCEPTIONS/SPECIAL CIRCUMSTANCES

Exceptions are defined as any action which would depart from policy and procedures stated in the guidelines.

The City of Stockton may consider an exceptional/special circumstance. A report on the situation will be prepared. This report shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The City of Stockton's Economic Development Director, or designee, shall make a determination of the exceptional/special circumstances 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 of Stockton based on the break-even point of the business in the future and the ability of the owner to pay his or herself for his or her efforts.

4.7 LOAN CLOSING PROCESS

Upon loan approval, City staff will prepare all documentation necessary for loan closing. The Borrower will sign all the necessary documents and agreements. The City of Stockton will prepare the loan closing documents; prepare title and lien searches, and UCC-1 filings, if appropriate. City of Stockton legal counsel will review all agreements and documents, as necessary.

5.0 DESCRIPTION OF LOANS

5.1 DETERMINATION OF LOAN AMOUNT

The Program has a maximum loan amount of \$35,000, but typical loans are anticipated to be below \$20,000 per applicant. The minimum loan amount will generally not be less than \$3,000. Loans requested above \$35,000 will require City Manager approval or his/her designee.

Loan amounts will be determined based on number of jobs created or retained, the ability of the business to service the new CDBG loan payment, and the reasonableness of the costs to be paid for by the loan. If there are not sufficient CDBG funds for the project, then the City of Stockton may be able to assist in identifying other public or private funding to leverage the CDBG funding.

5.2 DETERMINATION OF LOAN TERM

The loan term is tied directly to what is being funded and what security is being pledged for the loan. A loan's maturity should take into consideration 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, ability to repay, and collateral being provided.

5.3 DETERMINATION OF LOAN INTEREST RATE

The loan will have deferred interest and payments for the first six (6) months. After the six-month duration, the loan will have a fixed interest rate of 2-4% (depending on credit standing) for the balance of the loan term until repaid in full.

5.4 LOAN PROCESSING FEES

The CDBG program provides administration funds to pay for loan processing costs. No direct loan fees will be charged to the borrower. The \$50 application fee (effective 7/1/2015) which covers the cost of a credit report will be waived until 12/31/2020. After 12/31/2020, the City's current application fee will be required. This amount will not pay for any costs already paid for by program activity delivery. There is no pre-payment penalty on the loans under this program.

6.0 LOAN UNDERWRITING STANDARDS

6.1 INITIAL LOAN EVALUATION

Each project/business will be evaluated based on how it has performed in the past and its future financial and operational forecast. Specifically, the following questions will be asked upon receipt of a loan application:

- Will the business create or retain jobs?
- Will the project meet a CDBG national objective?
- Are the business and owners' 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 a solid business plan or summary?
- 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 debt)?
- Are there reasonable financial assumptions for future viability/success?
- Is there enough collateral available to secure the loan funds, if required?

By collecting enough initial application information from the borrower(s) to answer the above questions, the City of Stockton will have a good sense of how strong a borrower is and how successful they will be if given a CDBG loan. Most of this information is verbally collected at the initial site visit with the owner. By meeting the borrower and asking these questions the City of Stockton will know what additional information/documentation needs to be collected to provide a clear picture of how CDBG funds can be used to assist the applicant. These questions demonstrate the need for CDBG funds.

After the initial review, the City of Stockton will collect the proper information required for loan underwriting. The required documentation is listed in the City of Stockton Small Business Micro Loan Program Application, included as **Exhibit "C"**. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start-up) and whether job creation or retention is used. Additional documentation may be required to clarify special circumstances of the business. Below are some to the basic underwriting requirements for a typical loan applicant.

6.2 PERSONAL AND BUSINESS CREDIT REQUIREMENTS

Each applicant will have third party credit reports obtained for them. All owners of the business with twenty percent (20%) or more interest will have credit reports provided for them. Most

credit reporting services will provide credit scores. For this program, credit scores of 550 and above are generally considered acceptable credit. If no credit scores are available, then a narrative must be summarized by the City of Stockton to give a justification for making a determination of good or bad credit. This same narrative process will be used for the business credit reports to demonstrate the good standing or poor standing of the business being evaluated. The credit report shall display no outstanding collection accounts and if a bankruptcy is present within a credit report, it must show that it has been fully discharged.

6.3 PERSONAL AND BUSINESS FINANCIAL INFORMATION

FINANCIAL STATEMENTS: Personal financial statements will be 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. For the business, historic financial statements will be required. These will consist of the most recent past year's balance sheets and cash flow statements. These statements should be prepared by the person responsible for doing the bookkeeping and finance management for the business. Based on these statements, the City of Stockton can develop ratios for debt service and payment history.

PRO-FORMAS: The business will also need to provide 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 two (2) 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 is receiving 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 CDBG debt service.

SOURCE AND USE OF FUNDS: A project sources and uses form must be provided to show what funding is required to complete the proposed loan activity. This form will show the owners' equity as well as 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 documents, along with any back up documentation required, will allow the City of Stockton to conduct the project's underwriting analysis. This analysis will be conducted per HUD required underwriting guidelines as outlined in **Exhibit "A"**.

Free and confidential assistance is available through the San Joaquin Delta College Small Business Development Center to prepare the documentation discussed above.

6.4 COLLATERAL REQUIREMENTS

All loans under this program that exceed \$20,000 will require collateral. Collateral coverage in the form of real property is required for all loans exceeding \$20,000 and 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.

Appraisal of assets may be required as part of determining how to obtain the best lien positions for the CDBG loan. As applicable, borrower shall provide and maintain hazard insurance on all real and personal property collateral for the loan.

6.5 BUSINESS EXPERIENCE AND MANAGEMENT CAPACITY

The City of Stockton will obtain resumes and management histories 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.

It is recommended, but not required, that all businesses receive up to five (5) hours of business counseling with a business service provider such as the San Joaquin Delta College Small Business Development Center (SBDC). In addition, it is highly recommended but not required, that the business attend a “Start-up Workshop” hosted by the SBDC.

7.0 LOAN SERVICING

The City of Stockton has adopted a set of loan servicing policies that outline how the City (or loan servicing agent) will proceed if payments are late or no payments are received. 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.

8.0 PROGRAM OVERSIGHT BY CITY OF STOCKTON

The City of Stockton’s Economic Development staff will serve as the primary contact for the Program. Once a loan is at the point of approval, the City of Stockton’s staff will prepare the loan package and coordinate submittal for review and approval by the Economic Development Director or designee. City staff will ensure all loan documents are properly reviewed by legal counsel and meet CDBG requirements prior to signing by the Borrower.

In addition, the City staff will make the final decisions regarding loan collection, in the case of default, in conjunction with legal counsel.

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 of Stockton to the appropriate HUD representative.

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 the recipient 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. These guidelines are composed of two components: guidelines for evaluating project costs and financial requirements; and standards for evaluation public benefit. The standards for evaluating public benefit are *mandatory*, but the guidelines for evaluation project costs and financial requirements are not.

The City of Stockton 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; and
6. That to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.

Standards for Evaluating Public Benefit

The grantee is responsible for making sure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds under the categories of eligibility governed by these guidelines. The standards set forth below identify the types of public benefit that will be recognized for this purpose and the minimum level of each that must be obtained for the amount of CDBG funds used. The use of the standards for public benefit is mandatory.

Activities covered by these guidelines must, in aggregate, either:

1. Create or retain at least one full-time equivalent, permanent job per \$35,000 of CDBG funds used; or

2. Provide goods and services to residents of an area, such that the number of low-and moderate-income persons residing in the area served by the assisted business amounts to at least one low-and moderate-income person per \$350 of CDBG funds used.

Project Costs are Reasonable

Reviewing costs for reasonableness is important. It will help the recipient 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 the recipient expends evaluating the reasonableness of a cost element should 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 recipient does not use third-party price quotations to verify cost elements, then the recipient would need to conduct its own cost analysis using appropriate cost estimating manuals or services.

The recipient should pay particular attention to any cost element of the project that will be carried out through a non-arms-length transaction. A non-arms-length transaction occurs when the entity implementing the CDBG assisted activity procures goods or services 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

The recipient should review all projected sources of financing necessary to carry out the economic development project. This is 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 recipient 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 recipient should review the economic development project 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 recipient to make the most efficient use of its CDBG funds for economic development.

To reach this determination, the recipient's reviewer would 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 do not finance commercial projects that are less than \$100,000. A recipient should familiarize itself with the lending practices of the financial institutions in its community. If the project's total cost is one that would normally fall within the range that financial institutions participate, then the recipient should normally determine the following:

1. Private Debt Financing: Whether or not the participating private, for-profit 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 recipient is assisting a micro enterprise owned by a low-or moderate-income person(s), in conducting its review under this paragraph, the recipient 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 (the subject of separate eligibility standards) will not materialize if the project is not financially feasible. To determine if there is a reasonable chance for the project's success, the recipient 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, but 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 recipient 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 recipient 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 recipient 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. Recipients 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 recipient 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 recipient determines that it is not practicable to disburse CDBG funds on a pro-rate basis, the recipient should consider taking other steps to safeguard CDBG funds in the event of default, such as insisting on securitizing assets of the project.

EXHIBIT "B"**CITY OF STOCKTON
SELF-CERTIFICATION FAMILY INCOME VERIFICATION****Following to be completed by the EMPLOYER**

Business Name: _____

Business Location: _____, Stockton CA

Contact Name: _____ Title: _____

Telephone: _____ Email: _____

Date Employee was hired: _____ Number of hours worked weekly: _____

Please check appropriate box: ☐ New Employee ☐ Retained Employee

Indicate Type of Position Being Filled or Retained:

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

Signature: _____ Date: _____

Following to 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 which has, as one of its objectives, the creation of jobs for low- and moderate-income persons. Whether you are from a **low/moderate-income family** depends on the size of the household and your total family household income.

Please check the income you estimate was your total family income and the number of family members residing in your household for the past 12-month period. 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.

Check estimated family income for
the past 12 months

____ Below \$42,000
 ____ \$42,000 to \$48,000
 ____ \$48,001 to \$54,000
 ____ \$54,001 to \$60,000
 ____ \$60,001 to \$64,800
 ____ \$64,801 to \$69,600
 ____ \$69,601 to \$74,400
 ____ \$74,401 to \$79,200
 ____ Over \$79,200

Check the number of family members living
in your household during the past 12 months

____ 1 Person
 ____ 2 Persons
 ____ 3 Persons
 ____ 4 Persons
 ____ 5 Persons
 ____ 6 Persons
 ____ 7 Persons
 ____ 8 Persons

EMPLOYMENT STATUS☐ Part-time or ☐ Full-time**POSITION CURRENTLY HELD:** _____**OTHER DEMOGRAPHIC INFORMATION**

Ethnicity: ☐ Hispanic or ☐ Non-Hispanic

Following to be completed by the EMPLOYEE (Cont'd)

Race (please check one):

- | | |
|-----------------------------------------------------------------|-----------------------------------------------------------------|
| <input type="checkbox"/> White (Caucasian) | <input type="checkbox"/> Black/African American |
| <input type="checkbox"/> Asian | <input type="checkbox"/> American Indian/Alaskan Native |
| <input type="checkbox"/> Native Hawaiian/Other Pacific Islander | <input type="checkbox"/> American Indian/Alaskan Native & White |
| <input type="checkbox"/> Asian & White | <input type="checkbox"/> American Indian/Alaskan Native & Black |
| <input type="checkbox"/> Black/African American & White | <input type="checkbox"/> Other |

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

If this is a new position, were you previously **unemployed**? ☐ Yes or ☐ 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 Stockton, 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 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 Stockton
Economic Development Department
400 E Main Street, 4th Floor
Stockton, CA 95202
Phone: (209) 937-8539***

Income levels current as published by HUD effective 2020 (80% of median – low income)