

CITY OF PLATTSBURGH, NEW YORK
GUIDELINES FOR ADMINISTRATION OF
ECONOMIC DEVELOPMENT REVOLVING LOAN PROGRAM
MICROENTERPRISE GRANT PROGRAM

Revised June 3, 2010
Second revision June 4, 2010

I. ECONOMIC DEVELOPMENT REVOLVING LOAN PROGRAM

A. PREFACE

The money in our **ECONOMIC DEVELOPMENT REVOLVING LOAN FUND**¹ (EDRLF) is from the repayment of loans made with Community Development Block Grants. The use of the money is regulated by rules for Program Income under Part 570 of the Code of Federal Regulations.²

The money in our **MICROENTERPRISE GRANT PROGRAM** is from a grant from the New York State Department of Housing and Community Renewal and is subject to its regulations.

B. GOALS OF THE PROGRAM

The goals of our Loan and Grant Programs are:

1. To create new employment opportunities for low or moderate-income residents of the City by assisting new and expanding businesses.
2. To retain and attract commercial businesses, particularly in the downtown area of Plattsburgh.
3. To retain and attract industrial businesses that create jobs with income growth potential for low and moderate income persons.
4. To make loans with a high probability of repayment so more businesses may be assisted over time.

¹ The moneys in the EDRLF are program income from CDBG funded loans made prior to 2000 when the CDBG funds and program income were subject to direct HUD regulation.

² Previous editions of the program guidelines were adopted by the Common Council on May 3, 1990, August 25, 1994, March 15, 2001. Copies are on file in the Community Development Office.

C. APPLICATIONS, REVIEW AND APPROVAL

1. Loan and grant applications are processed through the Office of Community Development.
2. Loan and grant applications are reviewed by a Loan Review Committee of the Lake City Local Development Corporation. Recommendations for approval are submitted to the Common Council.
3. The Common Council approves all loans and grants.

D. THE STEPS IN THE PROCESS

1. A new business applicant, or a business expanding into a new line of goods or services, begins by carefully researching the business venture. The applicant must understand the market, your capital and operating costs and realistically project income and operating expenses. The applicant should consult with professionals who can provide assistance such as the Small Business Development Center. Your understanding of these factors, or lack of understanding, will be a major factor in deciding whether to provide assistance.
2. The applicant prepares a complete application with all supporting documentation.
3. CD staff reviews the application and submits it to the Loan Review Committee.
4. The Loan Review Committee may interview the applicant or request additional information. If it recommends approval, the recommendation is sent to the Common Council for approval.
5. If assistance is approved, the applicant receives a commitment letter with conditions that must be met to close the loan or grant.
6. The loan or grant is closed which means loan or grant documents are signed and moneys are advanced.
7. Until the loan or grant is repaid, or the grant performance and reporting period expires, the applicant will be required to submit information on your business and the persons it employs to assure compliance with the financial assistance terms.

E. APPLICATION REQUIREMENTS

1. Loan or Grant Application

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2. Personal financial statements for the principals. Principals are persons with a 20% or greater share of profits and losses in the business.
3. For existing, expanding businesses, the previous 3 years: tax returns, profit and loss statements and a balance sheet.
4. For new and expanding businesses:
 - a. A description of your business plan.
 - b. A statement showing the source and use of funds. This statement itemizes the costs of starting up such as inventory, equipment, repairs and renovations, prepaid insurance, working capital needs. It shows the source of funds to pay these costs such as a bank loan, the loan or grant applied for, cash invested by the owner(s).
 - c. Cash flow projections for 3 years.
 - d. Profit and loss projections for 3 years
 - e. Pro forma year end balance sheets for 3 years.
5. Employment projections and wage rates for employees for 3 years
6. Evidence of required equity capital.
7. Documentation of ownership and value of collateral offered as security for loan.
8. A current personal credit report with credit score for all principals.
9. For all principals working substantially full time in the business, a household income and expense statement showing all household income and expenses. The purpose is to determine if there is sufficient income from other sources to pay your living expenses until the business is established.
10. The lease for where the business will be located, or a letter from the landlord confirming the lease terms. (The applicant should not sign a lease that commits the applicant to pay rent until the applicant is ready to open your business.)
11. Organizational documents for the business, i.e. a filed DBA certificate for sole proprietorships; Articles of Incorporation, By Laws and resolutions for corporations; Operating Agreement and resolutions for LLC's and LLP's.
12. Additional documents are required if the project involves a loan to purchase or renovate real property.
13. Additional documents and information may be required. Proof of worker's compensation, NYS disability insurance and casualty insurance on collateral naming the secured party (City of Plattsburgh) will be required as a condition of loan or grant closing.

II. LOAN AND GRANT UNDERWRITING

The decision whether to make a loan or grant is a judgment about the probability of your business succeeding and whether the project furthers the goals of the City. We review the above information to determine: (1) whether capital and operating costs are reasonable; (2) the business plan makes sense and market assumptions are credible, (3) management and financial record keeping capabilities are in place; (4) revenue and expense projections are reasonable, (5) other financing and owner equity is firmly committed.

The Loan Review Committee also considers how your project rates with others in achieving the following program objectives:

A. JOB CREATION

One new job for a low to moderate income person should be created for every \$25,000 in loan or grant funds. Inability to meet this goal will not disqualify the applicant from receiving a loan, but the applicant **must meet the goal to receive a microenterprise grant**. Loans needed to “save” or “retain” existing jobs, will be considered, but will be given a lower rating than businesses creating new jobs. Employment opportunities for City residents are encouraged.

B. BUSINESS LOCATION

Businesses that locate in the Downtown Area, and other areas of the city where substantial investments of public funds have been made to renovate existing buildings, will rate higher than those located elsewhere. (Grants can only be made in certain areas, see below). Landlords who commit to a lease for the loan or grant term and agree to rent at what we consider a below market rent, for at least the first 6 months of the lease term will enhance the financial feasibility of the project proposal and significantly increase the chances of loan or grant approval.

C. BUSINESS TYPE

No loans or grants will be made for the following types of businesses:

- Bars or Taverns
- Liquor Stores
- Adult entertainment establishments
- Franchised food or retail businesses

All other types of retail, commercial, service and industrial businesses are eligible to apply, but since loan and grant funds are limited the City has preferences or priorities that are considered in deciding whether to finance a project. As a general rule the City wants to encourage retail, commercial and service businesses in the downtown area and other areas of the City that are “underserved” which means areas that do not have goods and services convenient to neighborhood residents. Retail businesses that sell new or hand crafted merchandise are preferred over those that sell used goods.

Service businesses are eligible, but we presume that businesses that require professional licenses can obtain private financing, therefore they are likely to rank much lower than other businesses.

Although restaurants are eligible, the historically high failure rate for this type of business will cause the Loan Review Committee to be very careful in reviewing the owners’ restaurant operating experience and loan collateral. It is unlikely the City will provide sufficient financing for all restaurant start up costs; therefore, financing from other sources will likely be required.

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Manufacturing businesses in properly zoned locations are preferred, but the loan and grant limits may be insufficient to start a capital intensive business.

C. ELIGIBLE USES OF LOAN AND GRANT PROCEEDS

The City can make loans for the following purposes:

1. starting or expanding a business
2. purchasing and renovating commercial property and residential rental property where more than 50% of the units are occupied by low to moderate income persons.
3. making “bridge loans” to persons who have firm commitments of financing from state or federal agencies or private lenders for City loan and grant eligible projects. A bridge loan is a loan we make before the applicant receives funds from another source and is repaid immediately upon receipt of those funds.

The City does not have sufficient funds to make loans for the purchase or renovation of single family homes. There are other state and federally funded programs the CD office administers that may be available to provide this type of financial assistance.

1. STARTING OR EXPANDING A BUSINESS

Loan and grant proceeds may be used to buy equipment, fixtures, inventory, renovations not exceeding \$2,000, and for working capital. Loans and grants cannot be used to refinance or pay off existing debt. Grants cannot be used to acquire real property. As a general rule, working capital can be used to pay up to 50% of the first 6 months operating costs, but not more than 20% of the loan or grant amount. Working capital may not be used to pay owners compensation for working in the business that is more than 75% of the minimum wage times a 40 hour week for each week worked. Owners should expect to work for little or no compensation until their business becomes established.

2. PURCHASING AND RENOVATING COMMERCIAL PROPERTY AND RESIDENTIAL RENTAL PROPERTY

Although loans can be used to purchase or renovate real property for a business or low to moderate income rental housing, the relatively large amount and longer term of such loans makes it unlikely such loans will be made except on buildings that are considered critical to the revitalization of a neighborhood.

D. LOAN AMOUNT, RATE, TERMS AND CONDITIONS

1. Loan Amount.

The loan amount is determined on an individual basis, but as a general rule property acquisition and improvement loans will not exceed \$100,000; business loans will not exceed \$35,000; bridge loans will not exceed 90% of the permanent loan or grant amount that is being bridged. Microenterprise grant and loan amounts are discussed below.

2. Loan Interest Rate.

City Loans are presently three quarters of the prime rate quoted by the Wall Street Journal on the date of the loan commitment. The rate charged may change in the future.

3. Term of Loans.

- a. for property acquisition and improvements amortization period up to 15 years with a balloon payment due in year 5-7.
- b. for business loans up to 7 years.
- c. for bridge loans, repayable upon funding of other financing.
- d. The term of loans is set by the Loan Review Committee.

4. Security for Loans.

- a. All loans are required to be personally guaranteed, jointly and severally, by the principals of the owner.
- b. All loans should be secured by a security interest in personal and/or real property with an unencumbered value equal to 110% of the loan amount (loans will not exceed 90% of the value of the collateral).
- c. The City loan may be subordinated to bank financing but the combined debt should not exceed 90% of the value of the collateral.

5. Loan Closing Costs.

Loan processing and closing costs are payable by the owner and not payable from the loan proceeds. These costs include:

- a. Loan application fee of \$100.00.
- b. Loan administration fee equal to 2% of the loan amount.
- c. Title searches for real and personal property.
- d. Appraisals of property used for collateral.
- e. Personal credit reports.
- f. Cost of filing or recording security interests in loan collateral.

III. Microenterprise Grants.

In May, 2010 the City applied for a grant from New York State for a Microenterprise grant program. As of June 3, 2010, the application was pending. If the grant is approved, the program will be operated under the following guidelines.

Microenterprise Grant Program Guidelines

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1. Source of Funds. The grant portion of the microenterprise program is funded by a grant from the New York State Division of Housing and Community Renewal. A *microenterprise* for the purposes of this program is defined as a commercial enterprise that has (5) five or fewer FTE employees, one (1) or more of which owns the enterprise at the time of application. All grants must comply with regulations established for this program. Grants will not be funded with money from the EDRLF. Loans may be made from the EDRLF on grant eligible projects.
2. Underwriting Function. The Loan Committee shall review microenterprise grant applications in accordance with the EDRLF loan guidelines and procedures, as modified in this section, and make a funding recommendation to the Common Council who shall determine whether to make a grant (and loan) and on what conditions.
3. Underwriting Process. Applications shall be processed as follows:
 - a. The total eligible project cost shall be determined. The following costs are eligible for assistance:
 - i. Purchase of equipment.
 - ii. Purchase of inventory.
 - iii. Installation of equipment.
 - iv. Repairs and renovations to business premises not in excess of \$2000.00.
 - v. Working capital
 - vi. Small Business training not to exceed \$200.
 - b. The following costs are not eligible project costs:
 - i. Acquisition of real property.
 - ii. Repairs and renovations in excess of \$2000 dollars.
4. Total Project Cost Financing. The Loan Committee shall determine the required project financing in accordance with the following guidelines.
 - a. The grant may not exceed 60% of the Total Project Cost. The EDRLF loan will not exceed 30% of the Total Project Cost. The owner's equity contribution will be at least 10% of the Total Project Cost. As a general rule grant amounts will not exceed \$18,000 dollars, or be less than \$9,000 dollars. This means that the Total Project Cost of projects shall generally be between \$30,000 and \$15,000 dollars.
 - b. The owner must invest equity in the form of cash in an amount equal to 10% of the project cost or paid for business equipment or inventory with a cost or value equal to 25% of the project cost.
 - c. The EDRLF loan portion will be underwritten in accordance with the loan program guidelines. If the City provides the entire project financing, the loan will be secured with a first priority securing interest in equipment, inventory and receivables and be personally guaranteed by the principals.

5. Underwriting Guidelines. Grant applications shall be reviewed and evaluated in accordance with guidelines set forth below that pertain to the following areas:
- a. Job creation for low and moderate income persons.
 - b. Project location.
 - c. Recipient need, business experience and financial resources.
 - d. Completion or waiver of small business training program.
 - e. Business Plan
 - f. Sufficiency of collateral and loan guarantees for loan portion of financial assistance package.

Job creation for low and moderate income persons. The project must result in the creation of at least one permanent, full time equivalent job for a Low to Moderate Income, or the owner of the business must be a Low to Moderate Income Person.

Project location. 75% of the grant funds must be spent on projects located in a Main Street program area. 25% of the grant funds may be spent outside the Main Street program area in what we refer to as the South Side Development Area, which is a Qualified Census Tract Area south of Broad Street. The maps below show the Main Street and South Side Development Area.

Most businesses will be located in leased space. It is important to control operating expenses during the first six months of operation, therefore, landlords who are willing to give rent concessions for at least 6 months will improve the applicant's chances of receiving grant assistance. The landlord will benefit if the business is successfully established and remains a tenant. The applicant will be required to provide a copy of his lease or agreement to lease as part of the loan application. The lease should have a term, or options to renew, equal to the term of the EDRLF loan. If a grant recipient business relocates outside the grant eligible area within 3 years, all or part of the grant will be repayable.

See appendix A for MAPS OF GRANT ELIGIBLE AREAS

Recipient need, business experience and financial resources. Applicants who are low to moderate income persons, female, or a member of a minority group will be given special consideration. The microenterprise program is generally intended to help persons establish or expand a business who cannot obtain financing from banks or other lending institutions. Persons with substantial family income or considerable net worth will be presumed to be able to obtain financing elsewhere and may not be approved for this reason.

Although the program is intended to assist those who cannot get assistance elsewhere, we understand that it takes some time to establish a small business that can be the sole support for an owner. The Loan Committee will consider the applicant's monthly income (including income from other sources) and monthly living expenses in evaluating the probability of the business succeeding. As a general rule the applicant should be able to pay at least 50-75% of current living expenses for the first 6 months from income other than projected income from the business. The Loan

Committee's evaluation of the business' income potential may be strongly influenced by the applicant's previous business experience in the same or a similar enterprise.

Completion or waiver of small business training program. The applicant must complete an approved entrepreneurial assistance or small business training program. If an applicant has extensive, successful, relevant business experience a waiver of this requirement may be granted by the state funding agency. The Loan Committee cannot waive this requirement. The required training will be available at the North Country Small Business Development Center (SBDC) and up to \$200 in grant funds may be used to pay or reimburse the cost of training.

Business Plan. The applicant must submit a detailed business plan which includes a Total Project Cost breakdown, and income and expense projections for a three year period. The plan should describe in detail the basis for market assumptions. It is strongly recommended that the Business Plan be prepared with professional help from the North Country Small Business Development Center, or a similar organization.

Sufficiency of collateral and loan guarantees.

The EDRLF loan portion will be secured with a first priority securing interest in equipment, inventory and receivables and be personally guaranteed by the principals. New equipment and inventory will be valued at cost. If the applicant does not have sufficient net worth to provide the loan guarantee, the applicant should consider asking friends or family to give a limited loan guaranty. If an asset used to establish net worth is jointly owned, all joint owners may be required to sign the guaranty.

6. Use of These Guidelines.

Some of the grant requirements, for example low moderate income employment and training, are mandated by the state funding agency. Others are not mandated per se, but have been approved by the funding agency and the Common Council, therefore, the Loan Committee is obliged to make decisions within the guidelines, or have good cause for deviating from them.

CLOSING THOUGHTS ON THE PROGRAM

Loan and Grant approval decisions involve weighing and balancing all the factors listed above. Some are not listed, for example, the impression the applicant makes on the Loan Committee is a subjective but important factor. There is no mathematical formula for deciding whether to approve an application. It is not simply a matter of who is first through the door. The City has a limited amount of money for these programs and an important consideration is how best to spend the money so that it helps not just the applicant, but indirectly other properties in the area or neighborhood where the money is spent.

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The Mayor and the Common Council consider these programs essential to the vitality of the City. The programs' success depends partly on how well the CD office and the Loan Committee do their jobs, but mostly on how well persons receiving money do their jobs in running a successful small business.

APPENDIX A
Microenterprise Program Areas.

Downtown Main Street Areas

75% of the grant funds will be targeted for the Downtown Area. The Downtown area is defined as the area eligible for past Main Street grants. The Main Street areas are the green shaded areas on the map below.

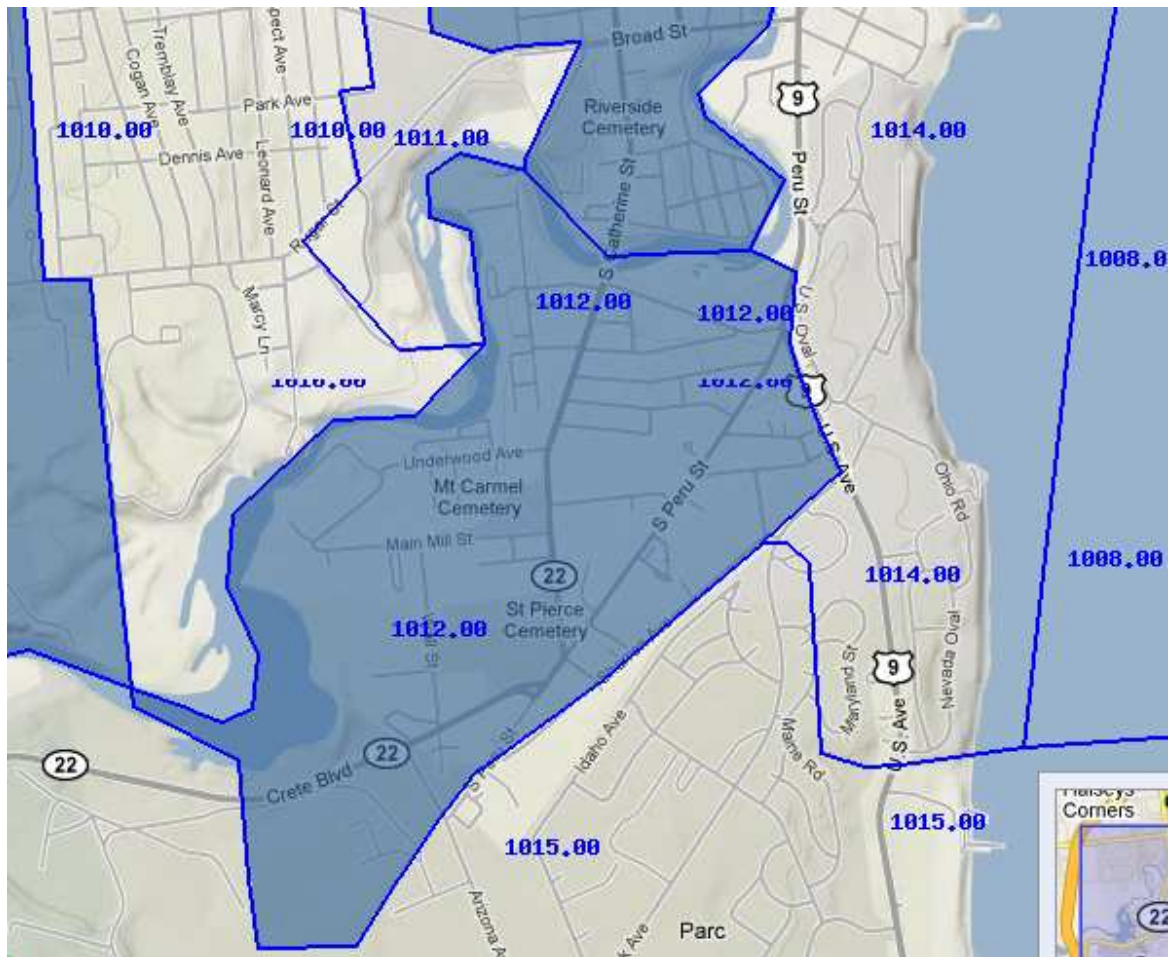


area shaded in green is Main Street area

APPENDIX A
Microenterprise Program Areas.

SOUTH SIDE DEVELOPMENT AREA

25% of the microenterprise grant funds will be targeted for the South Side Development Area. This area is a Qualified Census Tract Area located adjacent and south of the Downtown Area. Broad Street is the southern boundary of the Downtown Area and the northern boundary of the South Side Development Area. It includes land zoned for commercial and industrial uses. Small businesses engaged in manufacturing are likely to be found or locate in this area.



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