

CITY OF PLATTSBURGH, NEW YORK

GUIDELINES FOR ADMINISTRATION OF ECONOMIC DEVELOPMENT REVOLVING LOAN PROGRAM

Approved June 10, 2010
Revisions 9-20-10, 3-29-12

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

Federal and State regulations permit the money to be used only for loans that benefit low and moderate income persons. This requirement is explained in some detail later in these guidelines.

B. GOALS OF THE PROGRAM

The goals of our Loan Program are :

1. Our primary goal is to create new employment opportunities for low or moderate-income residents of the City by assisting new and expanding businesses.
2. We try to make loans that
 - i. Assist businesses that locate in the downtown area, and other areas where we have made large investments of public money.
 - ii. Create jobs with income growth potential.
 - iii. Are well secured.

C. APPLICATIONS, REVIEW AND APPROVAL

1. Loan applications are processed through the Office of Community Development.
2. Loan applications are reviewed by a Loan Review Committee of the Lake City Local Development Corporation. Recommendations for approval are submitted to the Common Council.

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3. The Common Council approves all loans.

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.
6. The loan is closed which means loan documents are signed and moneys are advanced.
7. Until the loan is repaid 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 Application
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 applied for, cash invested by the owner(s).

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- 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 closing.

II. LOAN UNDERWRITING

The decision whether to make a loan 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 program objectives:

A. JOB CREATION

The business must:

1. Be owned by a person from a low to moderate income household (the income of all occupants is considered; not just the applicant); OR
2. The business must create jobs, 51% of which are held or available to L/M persons. Part-time jobs must be converted to full-time equivalents (FTE). Only permanent jobs count; temporary jobs may not be included. Seasonal jobs are considered to be

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permanent if the season is long enough for the job to be considered as the employee's principal occupation;

One new job for a low to moderate income person should be created for every \$25,000 in loan funds. 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. Landlords who commit to a lease for the loan 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 approval.

C. BUSINESS TYPE

No loans 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 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.

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

C. ELIGIBLE PROJECTS AND USES OF LOAN PROCEEDS

The City can make loans for the following types of projects:

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1. starting or expanding a business
2. purchasing and renovating 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 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.

State and federal regulations permit CDBG money to be used for other purposes that benefit low to moderate income persons. Those permitted uses are not discussed in these guidelines.

WHAT LOANS CAN AND CANNOT BE USED FOR

1. Loan proceeds **can be used** to buy equipment, fixtures, inventory, make building improvements and for working capital.
 - a. If building improvements cost more than \$2,000 dollars, federal prevailing wages must be paid. Also the construction work must be competitively priced or bid in accordance with the City’s purchasing policy.
 - b. 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 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. Loans **cannot be used** to:
 - a. Refinance existing debt
 - b. Reimburse the owner for money invested in the project

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 business loans will not exceed \$50,000.00 and smaller loans are preferred; bridge loans will not exceed 90% of the permanent loan amount that is being bridged. Property acquisition and improvement loan amounts are determined on a case by case basis.

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 not less than 110% of the loan amount (loans will not exceed 90% of the value of the collateral). This is the minimum equity requirement. Loans with greater collateral equity and strong personal guarantees will receive more favorable consideration and may justify departure from the guidelines.
- c. Personal property may be offered as collateral, however inventory and equipment will be valued at its liquidation value. Personal property collateral alone is unlikely to be sufficient to obtain loan approval. The City loan may be secured by a subordinate mortgage on real property, but the combined debt cannot 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.

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- E. 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. Business Plan
 - e. Sufficiency of collateral and loan guarantees for loan portion of financial assistance package.

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 loan 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.

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 purchased with loan proceeds and must be personally guaranteed by the principals. 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.

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F. SMALL LOANS

The Common Council authorizes the Lake City LDC to adopt simplified loan application documentation requirements for loans of \$5,000 and under, provided such modifications comply with federal regulations on the use of CDBG funds.

G. FORMS

By approving these guidelines the Common Council delegates to the Lake City LDC the authority to adopt and revise forms and documents used to administer the loan program, provided however, that all such forms, documents and instruments must be approved by the Corporation Counsel before they are put in use.

Use of These Guidelines.

Some of the grant requirements, for example low moderate income employment, are mandated by the 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 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 loans and an important consideration is how best to spend the money so that it helps not just the applicant, but indirectly other properties and businesses in the area or neighborhood where the money is spent.

The Mayor and the Common Council consider these programs essential to the vitality of the City.

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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. NYDHCR now oversees program compliance.

² Previous editions of the program guidelines were adopted by the Common Council on May 3, 1990, August 25, 1994, March 15, 2001 and June 10, 2010. Copies are on file in the Community Development Office.

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