I. INTRODUCTION

This written policy is intended as a guide in making credit decisions regarding applications for economic development projects for the City of Covina (City). This policy is written to allow flexibility as credit needs change. It should be used as a tool to provide some consistency for project selection. Projects will be considered for funding on a case-by-case basis, until available funding is exhausted. Only those projects falling within the scope of the guidelines will be considered for funding. Participant shall be the successful applicant, determined by City Council.

II. PURPOSE

This policy provides financial assistance to support the Economic Development Strategic Plan adopted by the Agency Board and City Council at the November 4, 1997, meeting and general economic development within the City. The Plan is structured to promote Covina as a positive place for quality business, promote business retention and attraction to enhance local economic growth, and ensure that government regulations promote a favorable business climate.

Community Development Block Grant (CDBG) funds will support business development likely to increase levels of employment for low- and moderate-income residents of Covina.

This loan program is not to be equated with a loan program available through banking or financial institutions. As a public lender, we incur more risk and accept less return than the private lender as the source of funds is interested as much in the social benefits as return on and preservation of capital. The return to Covina is multiple: increased investment, jobs and business activity and thus increased tax revenues.

III. CITY RESPONSIBILITY

City is providing funds through the Community Development Block Program for the use of the participant within the scope of the requirements of the United States Department of Housing and Urban Development. Participant and all third parties shall rely upon its or their own judgment with respect to development of the project and any review, exercise of judgment or information supplied to participant or to any third party by City in connection with any such matter is for the public purpose of carrying out this Policy.

IV. FEDERAL AND COUNTY REQUIREMENTS

The City, as a member of the Los Angeles County Urban County, and as a recipient in the Community Development Block Grant (CDBG) program, funded by the U.S. Department of Housing and Urban Development, Office of Community Planning and Development, will require that Participant comply with all standard CDBG regulations and Participant will agree to so comply. The Agreements to be executed between City and Participant will specifically incorporate the federal and county requirements. In the event of any conflict between the program parameters outlined in this policy and federal and county requirements, the provisions of the federal and county requirements shall control. After the City has disbursed the grant to Participant, participant may not terminate the Agreements.

V. PROHIBITION AGAINST CHANGE IN OWNERSHIP MANAGEMENT AND CONTROL OF PARTICIPANT

The qualifications and identity of Participant in this program are of particular concern to City. It is because of those qualifications and identity that City will enter into an Agreement with Participant. No voluntary or involuntary successor in interest of Participant shall acquire any rights or powers under this program except as expressly set forth within executed documents under this program. A change in ownership, management and control shall be subject to the approval of City, but such approval shall not be unreasonably withheld.

Participant shall not assign all or any part of any Agreements or Notes under this program without the prior written approval of City, which approval shall not be unreasonably withheld.

VI. JOB CREATION REQUIREMENT

A. Number of Jobs to be Created

Participants in this program agree to create one permanent full-time equivalent job for low- to moderate-income persons per $25,000 loaned/granted. Participants who are awarded these funds that have been loaned/granted will be forgiven after one year of participation and compliance with the program, as outlined in Subsection D. In meeting this requirement, we will be more in-line with the Housing and Urban Development Department requirements. Participant shall comply with the terms and conditions of Subsection VI-F below for creation of permanent jobs during the term of the program.

B. Created Jobs Defined

If a CDBG loan or grant is awarded, it will be based on job creation for low- to moderate-income persons. For purposes of being considered a created job, a job must be a new job (full or part-time) for the person, or the CDBG assistance must enable an existing income-producing "sideline" activity to become the person's principal occupation. In counting jobs, the following policies apply:

1. Part-time jobs must be converted to full-time equivalents.
2. Only permanent jobs count--temporary jobs may not be included.
3. Seasonal jobs may be counted only if the season is long enough for the job to be considered as the employee's principal occupation.
4. All permanent jobs created by the activity must be counted even if the activity has multiple sources of funding.
5. Jobs indirectly created by an assisted activity (i.e., trickle-down jobs) may not be counted.

To qualify, the person hired must be from a low- to moderate-income **household**. To qualify as low- to moderate-income, information must be obtained on family size and income so it is evident that family income does not exceed the low- to moderate-income limit.

C. Participation Period Required

The required period of time for program compliance and fund forgiveness/repayment is contingent upon the amount loaned/granted. The following schedule applies:

Amount of Loan/Grant	Forgiveness/Reporting Period
$25,000 and up.	1 year

D. Full-Time Equivalent (FTE) Defined

For the purposes of this program, Full-Time Equivalent (FTE) is defined as forty (40) hours of paid full-time work in a seven-day period.

In the medical and dental fields, the industry practice defines full-time positions as 32 to 36 hours of work in a seven-day period. Therefore, the only exception to the forty hour definition of FTE position requirement will be for positions created in the medical and dental fields, when the written personnel policy of the participating business states clearly the number of hours that constitutes full-time positions as 32 hours or more.

E. Job Count Start Date

Job count start date will be based on an event which occurs after the execution of the Agreement document. The start date will vary depending on the structure of the financing for each particular economic development project. In the case where the business is a new business, the job count start date will be the date of opening of the business. If the economic development funds are used for rehabilitation of an existing project, the date of notice of completion will be the job count start date.

F. 51% Requirement

Fifty-one percent of all jobs created must be held by low- to moderate-income persons, as defined by the Department of Housing and Urban Development.

G. Pro-rated Credit for Partial Compliance

For the one year of participation in the program, if a participating business fails to meet the job creation requirement in a single month , the business will not be forgiven that monthly pro-ration of the loan, and will be responsible for repayment of that portion to the City.

H. Event of Default

If the job creation requirements are not reached, the Agreement will be terminated and the balance of the loan that has not been forgiven will be called as due.

I. Reporting Requirement

The participating business is responsible for providing a quarterly report to the CDBG Division of the Covina Community Development Department which documents jobs created by employee name, job title, hours worked per week, and hourly rate, for qualifying employees. The Quarterly Report will be filed each quarter for the one year under the loan/grant.

J. Displacement

When activities funded through CDBG cause displacement of residents and/or businesses, Federal displacement regulations apply.

VII. GEOGRAPHIC LOCATION/TARGET AREAS

Economic development loans/grants will be limited geographically to the City of Covina.

VIII. TYPE OF PROJECT

Funding priority will be recommended for projects that meet the overall design scope and criteria for the location, create jobs for low- to moderate-income persons, expand economic opportunities and generate sales tax. The following project types will be considered for economic development project funding:

A. New Retail/Commercial
   1) Appliance
   2) Vehicle
   3) Furniture
   4) Clothing and shoes
   5) Electronic/computer
   6) Kitchen equipment
   7) Gift stores
   8) Health and Sporting Goods stores
   9) Book and Entertainment stores
   10) Musical Instruments and sound equipment stores
   11) Upscale grocery and import stores
   12) Boutique Day Spa

B. Quality food establishments
   1) Dinner houses/restaurants
   2) Upscale fast food

C. Art gallery and supplies

D. Entertainment-related activities
   1) Movie theaters
   2) Concert venues
   3) Theatre

E. High-tech industrial uses
   1) Aerospace-related
   2) Computer
   3) Bio-Tech

F. Medical and Dental uses
   1) Professional offices
      a. Physicians
      b. Dentists
   2) Full Service Medical Hospitals
   3) Medical clinics

4) Veterinarian hospitals
5) State licensed physical therapist rehabilitation centers

G. Manufacturing

Manufacturing is defined as follows: To be engaged in the production of something different and distinct from the original article. Substantial transformation is required, resulting in a change to its superficial appearance and altering its substantial character. Manufactured goods are goods made by machinery in large quantities, from primary goods such as steel and textiles, and baked goods.

H. E-Business

Businesses to be considered will have their point of sale in Covina, and will have an office or storefront in a commercial location in Covina to take orders as well as a warehouse to fill the orders in Covina, and will meet the following criteria: add value to the community, create jobs, generate sales tax and leverage non-city funds. As defined here, e-business include e-tailing (direct selling) but not e-service (provision of service and tasks over the internet).

IX. LEVELS OF AUTHORITY

A. City Council

The City Council will provide general parameters of loan and project eligibility, degree of risk that is acceptable, pricing of services granted, and general oversight of the application portfolio. The City Council will approve all recommendations and/or revisions to this policy.

B. Loan Committee

The loan committee will be comprised of the Finance Manager and the Community Development Director or their designees. The City Manager will have final review of Loan Committee recommendations, prior to submittal to City Council. The Committee will approve or decline applications submitted by Administrator on behalf of the business entity with regard to new loan/grants, payment deferrals, substitution or release of collateral, waiver or release of covenants/amendments to loan documents. The Committee will also approve or decline any exceptions to the general loan policy, and make any recommendations for changes in policy to the City Council.

C. Program Administrator

The Program Administrator will market, solicit, review, and process potential borrowers' applications for credit. Will decline or refer out to some other agency any applicant who clearly does not qualify under eligibility standards as set forth by the City Council. The Administrator will recommend new credit, payment deferrals, release or substitution of collateral, waivers/amendments to loan covenants and exceptions to loan policy to the Loan Committee.

X. FUNDING LEVELS

Funding assistance of $25,000 to $100,000 per project will be awarded.

XI. FUNDING AVAILABILITY

The Economic Development Program is funded on a fiscal year basis. City of Covina fiscal year begins on July 1 and ends on June 30 of the following year. Limited funds are available in each fiscal year when the program is funded.

The purpose of the economic development assistance is to help for-profit businesses to meet a financing gap and to become independent, self-sustaining and successful. Funding preference will be given to first-time applicants. After the initial approval and granting of funds, a period of ten years shall elapse between the date of the CDBG Economic Development award and any subsequent application for consideration of CDBG economic development financial award which is deemed necessary for the economic health and/or expansion of the business, when the participating business receives the full amount of funding under this Policy.

In cases where a business did not initially receive the full amount of funding available under this Policy, a five year interim period is established between the initial granting of funds and a new application. The new application may be processed, up to the aggregate full amount available under the Policy, for qualifying businesses.

In cases where a business received a loan/grant, meets the program requirements and is subsequently sold, an interim period of five years is established between the time of the original award and a new application, if the new owner wishes to apply for assistance.

Any business receiving a City of Covina Economic Development Loan/Grant shall disclose the information and details of the loan/grant upon sale or transfer of the business to any subsequent owner.

Exceptions to the five and ten-year interim periods would include cases of involuntary relocation through no fault of the business, or other emergencies.

XII. APPLICATION PERIOD

A. Submittal

Applications will be accepted on a continuous basis.

B. Processing

Applications will be processed when funds are available.

XIII. APPLICATION PROCEDURE

All grants and loans are subject to analysis to determine risk. Loans/grants will be awarded only to projects, which demonstrate that the service provided is commensurate with the risks incurred. In return for the public moneys provided, the businesses will generate increased investment, jobs, business activity, and thus increased tax revenues.

Loans funded through this program are business loans, not consumer loans.

A. General Credit Criteria

The business loan/grant applications will be analyzed for the following criteria, based on criteria specified by the U.S. Department of Housing and Urban Development, Office of Community Planning and Development, and by the Small Business Administration

1) Ability to repay in case of default or termination of business.

2) Balance Sheet Analysis
Balance sheet must be sound before the loan/grant is made.

3) Historical earnings and cash flow records, from verifiable sources as determined by the loan committee, to ensure sufficient repayment of all requested credit, and to provide the owner(s) with a reasonable level of personal income to satisfy personal obligations. Typically, a borrower will have been profitable during the most recently completed year and will maintain a cash flow coverage ratio of 1:1 (defined as earnings before debt service, interest and taxes divided by debt service), with sufficient collateral. The ratio would be 2:1 without collateral. If partial collateral is pledged, the ratio may be prorated downward.

4) Collateral
Collateral, when available in any form, may be requested by the Loan Committee. Collateral will be pledged commensurate with the amount of requested credit, as well as a security interest in newly purchased assets, or those purchased with loan/grant funds. If the project cannot repay the loan/grant from cash flow, the City will collect payment by liquidating the asset and satisfying the specific lien securing the property. A letter of credit or bond may be accepted in lieu of collateral.

5) Commitment
Personal and corporate guarantees may be required. The borrower should sign personally for the loan/grant, and should be prepared to take out a minimum salary until the business is established.

6) Management experience
The management team must have experience in all areas of running the business: sales, finance, operations, personnel, etc. The management team includes the principals, directors, senior management and consultants.

   The management team should have direct experience in these areas or have comparable business skills which can be transferred.

7) Business Plan
The business plan will help identify worthy ventures. The monthly cash flow statement for the first year is especially important.

8) Character
The owners and management should have favorable credit histories, a reputation for treating customers fairly, no bankruptcy in the past five years, and a clean criminal record. Good character will be determined by credit reports, payment history with verified vendors, personal interview, or other means as determined. The entrepreneur must be someone who learns quickly, is results-oriented and who will not accept failure.

9) Niche
It is difficult for a small firm to compete with much larger companies on price. The entrepreneur must be committed to customer service; or the business must serve a market niche or offer a unique product or service.

All of the above criteria are important, and the absence of any one may be sufficient to deny a loan/grant request.

B. Undesirable Credit Applications/Borrowers/Guarantors

Using the guidelines for the Small Business Administration and the Department of Housing and Urban Development, the following are undesirable without mitigating circumstances acceptable to the Loan Committee:

1) Applications for funding that would substantially reduce the amount of non-Federal support for the activity available in other recognized, reasonable loan programs available in the target areas;

2) Requests for credit to repay existing creditors

3) Funds used to repay debt to applicant owner(s), partners, stockholders

4) Requests for funding from new start-up businesses not associated with a franchise chain.

5) Requests for funding for businesses which do not meet the criteria specified in Section IV A through E.

6) Non-profit organizations, as designated by Charter/Bylaws, unless designated as approved Community Based Development Organizations (CBDO)

7) Lack of profitable operations, as demonstrated by sources acceptable to Loan Committee

8) Loan/grants to restricted membership or discriminatory groups/organizations.

9) Loan/grants to uses with complete access restrictions based on age.

10) Lack of sufficient equity/highly leveraged situations as determined by Loan Committee.

11) Personal or business bankruptcy, or prior business failure without sufficient, documented information to mitigate, as determined by Loan Committee;

12) Poor personal or business credit as evidenced by many derogatory items including public record items, tax liens, judgments, or excessive existing credit as determined by Loan Committee;

13) Undocumented aliens;

14) Felony convictions, dishonorable discharge or “Bad Conduct” discharge from military service (each situation will be independently evaluated);

15) Business active in any unlawful activity

C. Exceptions to Loan/grant Policy

If a project does not fall within the guidelines listed above, but is of such special character and will complement the area in which location is proposed, the City Council may consider the project for funding.

In certain cases, there may be a need to exceed the funding limit stated in Section X "Funding Limits". The limit in Section X is a City policy, not a federal cap. All approvals must be in accordance with the Code of Federal Regulations (CFR) Section 570.209, which outlines the guidelines for evaluating and selecting economic development projects. Such determinations to exceed the City limit will be in accordance with CFR 570.209, and be based on financial feasibility, demonstrated ability and benefit to the City, be it economic or esthetic.

XIV. PRICING AND TERMS

Considerations of loan/grant product pricing extended to borrowers will be based on a rate equal to the rate earned by the City's investment in the California Local Agency Investment Fund (LAIF) as determined on a monthly basis, but in no event to exceed 10 per cent (10%) per annum. Interest which accrues and is unpaid shall be added to principal on a monthly basis and thereafter bear interest as if it were part of principal. Principal and all accrued and unpaid interest shall be due and payable not later than the terms specified in the Note. Additional terms extended to borrowers will be based on the amount of risk involved.

XV. COLLATERAL

While collateral is not a mandatory requirement, it is intended that any available collateral from the borrower and/or guarantor(s) will be required, as well as a first lien position on any assets purchased with any loan/grant funds. Junior liens on real property will be required at the discretion of the Loan Committee. However, it will be the policy that all collateral required for loan approval will be of material value. Caution will be used whenever taking a junior lien position on collateral where there is a substantial senior lien. It will be a determination of the Loan Committee whether to waive a collateral position when available.

Titled motor vehicles, when taken as collateral, must show the City as mortgagee/lienholder on the certificate of title, and held in safekeeping by the Community Development Director or designee.

In all cases, a UCC-1 and security agreement will be taken against all business assets.

XVI. CESSATION OF BUSINESS

If Participant should cease business at the site, participant shall repay its obligations to City as provided in the Note which shall be executed when Agreement is signed. The term "cease business" shall mean when the site is no longer used as the principal place of business for Participant's business. Participant shall give City written notice not less than thirty (30) days prior to cessation of business. If Participant should cease business at the site, Participant shall pay to the City, in cash, within fifteen (15) days of the Participant's receipt of written notification from the City of the balance due on the Note.

XVII. GUARANTORS

The City will generally follow the rules of the Small Business Administration as to qualification of guarantors:

A. Active Management with any ownership equity in borrower must guaranty

B. Shareholders/owners of 20% or more equity in borrower must guaranty regardless of active involvement in management

Guarantees may be secured or unsecured as determined by the Loan Committee.

XVIII. PROBLEM CREDITS

While it is the intent of this policy to be sensitive to the borrowers financial needs, and the intent to match any repayment schedule to the borrower's ability to repay, it is inevitable that there will be delinquencies and defaults. It is the responsibility of the Administrator of the program to monitor all loan payments, especially those that are in arrears. It will be the stated policy that upon determination of a "problem credit" the City will pursue any and all remedies allowed by Regulation or Law in a professional, aggressive, and consistent manner until some resolution is reached.

XIX. ACTION OCCURRENCES

The following occurrences will warrant action on the part of the Administrator and/or City Council.

A. Delinquent payment – whenever the terms of the Promissory Note are not being met in a timely manner (delinquent by more than 30 days);

B. Violation of Loan Covenants – whenever the terms of the Loan Agreement are not being met in a timely fashion. The severity and immediacy of action is dependent on the type of breach; some covenants are more serious and lead to a default, while others less severe can sometimes be tolerated at the discretion of the Administrator.

C. Receipt of bankruptcy notice;

D. Filing of a "Notice of Default" by another lienholder on real property;

E. Legal Service, such as Writs of Attachment, Tax Liens, Subpoenas for records;

F. Death of debtor or guarantor;

G. Notice of significant legal action against borrower/guarantor;

H. Returned mail from borrower's address by Post Office;

I. "Skip Trace" inquiry from another creditor.

XX. COLLECTION ACTION

It is important to be clear and specific about any breach of the Note, Loan Agreement, or any of the above mentioned occurrences. The circumstances of a particular situation will often dictate the method to use in taking corrective action. Telephone contact with the borrower/guarantor is the most expedient and cost effective; however, some cases demand more formal notification such as "Demand Letters", Legal Action, and Foreclosure. Personal site visits and conversations with the borrower are warranted at the discretion of the Administrator.

XXI. NON-ACCRUAL LOAN STATUS

Credits will be moved to a non-accrual status at the 90-day delinquency point unless otherwise directed by the City Council. At this point, many of the above-mentioned "Action Steps" should have been started; a collection plan, if applicable, should be in process at this point. Rewriting the entire Note in an effort to provide relief to the borrower should be considered after a detailed analysis of the financial condition of the borrower and his/her prospects for timely payments in the future. In any case, the Loan Committee and/or the City Council must approve a re-structured Note.

XXII. COLLATERAL APPRAISALS

Collateral taken as security for any type of credit should be appraised if it has any significant value. In most cases, real property will be the collateral that is most needed for a third party appraisal (the City will accept "drive-by" and short-form appraisals). Since the City is not under the scrutiny of Federal and State Banking Regulators, there is more flexibility as to the extent of any appraisal and in which circumstances. It is the stated policy that some form of valuation be used to determine the equity of any collateral taken by the City, remembering that the cost and time of obtaining such appraisals may have an adverse affect on the borrower considering the size of the credit involved. The Loan Committee shall use its discretion in all collateral matters, unless otherwise dictated by the City Council.

XXIII. FINANCIAL INFORMATION REQUIRED

It will be the policy of the City to require financial statements from each applicant in the form of a balance sheet and income statement for any and all fiscal year-ends since inception of the business (up to 3 years), and within the past 90 days of application date. Current personal financial statements for each business owner and personal and business federal tax returns for the prior three years are required, including all supporting schedules and statements. The City will obtain the written permission of the applicant to verify any and all tax returns with the Internal Revenue Service for accuracy (IRS Form 4506). Month-to-month projections covering any interim period until year-end, plus one full fiscal year is required, including the assumptions that the projections were based upon. Additional information will be requested at the discretion of the Administrator with direction from the Loan Committee and/or City Council:

All borrowers will be required as a covenant in the Loan Agreement to provide ongoing financial information as follows:

A. Fiscal Year End balance sheet and income statement within 90 days of each year end;

B. More frequent statements such as Accounts Receivable Agings, work in progress reports, or any other documents requested by the Loan Committee to assist the borrower in the monitoring of the credit.

C. Payroll reports showing employee status, on a quarterly basis.

XXIV. FINANCIAL INQUIRIES

The City will not provide responses to inquiries regarding credit status of program participants.

XXV. INSURANCE

All collateral taken as security for any credit must be insured appropriately as determined by the Loan Committee; evidence of that coverage must be provided showing the City as “Additional Insured,” “Loss Payee,” or “Mortgagee,” whichever is appropriate for the collateral insured. The lapse of any insurance will create a default on the Loan Agreement, and must be remedied immediately by the borrower. If necessary, the City will obtain appropriate insurance to protect its collateral and debit the premium to the borrower.

Additionally, in the case where real estate collateral is taken, a PIRT of short form title policy will be required.

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