



CITY OF SONORA MICROENTERPRISE ASSISTANCE PROGRAM GUIDELINES

INTRODUCTION

The City of Sonora hereinafter called “City” has established a Microenterprise Assistance Program, hereinafter called “Program”. The Program is targeted for small businesses and is designed to stimulate growth and create new private enterprise jobs that will improve the economic conditions of residents in the community. The Program provides technical assistance and Micro Loans to eligible persons starting a business or expanding an existing business within the City of Sonora.

GENERAL PROVISIONS

PROGRAM ADMINISTRATOR

The City will serve as the Program Administrator and administer the State CDBG grant, will market the Program, accept and process applications, underwrite and recommend approval of loans, ensure proper loan closing, disbursement of funds, environmental review, maintain loan files, and fiscal records. The City will be responsible for all oversight of the Program. The City will implement the Program according to the adopted Guidelines. The City’s staff shall serve as the primary contact with the State Housing and Community Development (HCD) program representative.

The City will secure a Subrecipient and/or Contractor who is qualified and experienced in providing counseling and “one-on-one” technical assistance to businesses. The Subrecipient/Contractor will be responsible for the technical assistance services provided to eligible participants. Exhibit A further details the responsibilities assigned to each Agency for this Program.

PROGRAM ELIGIBILITY

- The business must have five or fewer employees, including the owner(s)
- Additional services cannot be accessed when the business grows beyond the maximum employee requirement
- A person “developing a microenterprise” is a person who has expressed interest towards development, after screening for capacity, of a business
- Any person receiving assistance under a CDBG funded microenterprise activity must be from the Target Income Group (TIG) and this must be verified prior to their participation in the Program (City to provide screening)
- Business located within the City of Sonora or planning to locate in the City
- Previous business experience
- Clearly identified vision of business goals
- Ability to understand and describe the market for their product or service
- Commitment to working hard for business success

MEETING CDBG MICROENTERPRISE DEFINITION

Participants for this Program must meet the CDBG definition of a microenterprise business. The CDBG definition of a microenterprise is a business that has five (5) or fewer employees, one or more of whom owns the enterprise. All part-time and full-time employees on the business payroll at the time of loan application will be counted.

TYPES OF MICROENTERPRISE BUSINESSES

An applicant may be an existing microenterprise business needing funds to continue the business or expand its current operation. Existing micro business applicants must be private for profit business concerns legally operating within the City. Non profit entities are not eligible for microenterprise funds. Participants may also be persons starting a new business. All Local, State, and Federal permits as applicable will be required as a condition for receipt of microenterprise funds.

MEETING CDBG INCOME ELIGIBILITY REQUIREMENT

Assistance provided to owners of an existing microenterprise or person developing a microenterprise under the Program must meet a national objective, public benefit and HUD underwriting guidelines. The Department requires that CDBG economic development funds targeted for microenterprise activity be restricted to those entities that qualify as a microenterprise along with business owners meeting HUD criteria as a Targeted Income Group (TIG) client. Further, the City must determine and document the client's income eligibility based on family size and income prior to approval for technical assistance and financial assistance. The owner(s) of the business must have a household income at or below current published HUD income limits for the County of Tuolumne, adjusted for household size. Prior to receiving technical assistance services, the business owners will complete the Program's Self Certification Form.

To apply for a Micro Loan under the Program, the participant must submit the required third party documentation to verify income using the HUD Part 5 Method. The City will use HUD's determination of "household income," calculated in accordance with the regulations at 24CFR 5.611, to confirm the accuracy of the Income Certification reported by the applicant. Each participant must provide third party documentation that confirms the family's current size and income level. This is compared to the current HUD published rate for eighty percent (80%) of median income adjusted for family size to determine that the person meets HUD's definition of low income. See Attachment B for current published limits for the Lender.

The Administrator will collect the income documentation from applicants and use the HUD income calculator on HUD's web site <http://www.hud.gov/offices/cpd/affordablehousing/training/web/calculator/definitions/part5.cfm> to determine the gross annual income for the household. The HCD language "Targeted Income Group (TIG)" is used interchangeably with HUD's language "low/moderate income".

The income limits published at the time of loan approval will apply in determining income eligibility. All persons in the residence are considered household members for purposes of income eligibility. Income eligibility for microenterprise business is valid for three (3) years from day of certification completion.

PROGRAM MARKETING AND OUTREACH

Program marketing will be conducted by the City with assistance from the Subrecipient/Contractor along with other Agencies. Marketing brochures will be distributed to the local chamber of commerce, business networking organizations, public assistance providers, economic development providers, community bulletin boards, local community college and local Job Training offices. Presentations promoting the Program may be conducted among various groups and organizations. In addition, the City shall conduct public meetings both on and off site of City premises to disseminate Program information.

NO CONFLICT OF INTEREST ALLOWED

In accordance with Title 24, Section 570.611 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 (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the CDBG program shall directly or indirectly be eligible for this Program. Exceptions to this policy may be achieved upon public disclosure and formal approval by the governing body along with written authorization by the City's City Counsel. Further, in the event representatives from the financial community are comprised of the Community Development Committee that have a separate financial interest (excluding regular checking and savings accounts) in a loan applicant, such member shall not participate in loan deliberations.

EXCEPTIONS / SPECIAL CIRCUMSTANCES

Exceptions are defined as any action, which would depart from policy and procedures as stated in the Guidelines. The City may initiate the process for consideration of an exception. A report outlining the circumstances and basis for the exception shall be prepared and included in the loan package. The report shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The Community Development Committee shall consider the exception request at its regular meeting or conduct a special meeting.

Loan payments may, on a case-by-case basis, be deferred. The decision to consider and/or approve a loan payment deferral period shall be made by the City.

TECHNICAL ASSISTANCE PROVISIONS

PROGRAM GOAL

The Overall Goal of the Program is to provide specialized training and "one-on-one" technical assistance to eligible Microenterprises to assist in operating a successful business and/or expanding their business.

INITIAL REVIEW

Program eligible participants will be referred to the Subrecipient/Contractor. The Subrecipient/Contractor will meet with the participant to ascertain readiness and obtain

the necessary information needed to formulate a Diagnostic Team for the business. Those in need of basic entrepreneur training will be referred to SCORE, Business Alliance of Tuolumne County or Columbia Community College for further assistance.

DIAGNOSTIC TEAM

The Diagnostic Team will include Subrecipient/Contractor Staff, assigned consultants and the participant. This Team will prepare a Business Development Plan specific for the participant. This Plan includes:

1. Business Information
2. Business Deficiencies/Needs Assessment
3. Implementation Plan
4. Assigned Consultant(s) and Duties
5. Participant's Responsibilities
6. List of Deliverables
7. Timeline for Plan Completion

TECHNICAL ASSISTANCE PROCESS

Subrecipient/Contractor will be responsible for the implementation of the Business Development Plan including, assigning and monitoring counselors, providing training, monitoring business progress, guiding participants in resolving business issues, fielding calls from participants, data collection and coordinating post-counseling consultations. Subrecipient/Contractor will update City Staff on a regular basis.

Subrecipient/Contractor will also evaluate those participants who wish to apply for a Micro Loan through the Program. Those that have completed their Business Development Plan (including current Business Plan, Marketing Plan and business financial documents) and are found to have the capacity to obtain a loan will be referred to City Staff for loan processing.

MICRO LOAN PROVISIONS

SOURCE OF LOAN FUNDS

The Program is capitalized with CDBG funds provided by HUD to the State of California Department of Housing and Community Development (HCD). CDBG funds are derived from federal funds with specific mandated federal requirements described below. CDBG funds are available to the City from state grant awards that are administered under a state grant contract.

REQUIRED MICRO ENTERPRISE TECHNICAL ASSISTANCE

Program Participants are required to complete a Business Development Plan under the technical assistance portion of this Program prior to applying for a Micro Loan. Participants will also be required to provide a Business Plan, Marketing Plan and financial documents with their loan application.

USE OF FUNDS

Funds under this Program are provided to eligible microenterprise businesses in the form of loans with a maximum loan amount of **\$15,000**. A description of loan terms and

underwriting are further described in the Guidelines. Approved loans under this Program are required to be repaid.

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

1. Operating capital to pay staff and lease space or purchase inventory;
2. Acquisition of furniture, fixtures, equipment and tools (FF&E);
3. Advertising/marketing;
4. Purchase of manufacturing equipment (with or without installation costs);
5. Purchase of supplies and raw materials;
6. Purchase of vehicles, trucks, trailers small vans used primarily in the business;
7. Purchase of software and computers;
8. Purchase of signage;
9. Printing, designing of marketing materials and advertising; and
10. Working capital.

The City will review the scope of work proposed by the business and the use of CDBG funds to verify the necessity of costs and that these costs are reasonable.

INELIGIBLE USE OF FUNDS

Projects that are primarily housing in nature are not eligible. Projects not meeting a CDBG national objective or public benefit or Federal CDBG underwriting standards are not eligible. Loan funds cannot be used for project rehabilitation or construction costs or for refinancing existing business or personal debt.

Projects must have reasonable assurance of repayment of loan funds. Funds under this Program will not pay for reimbursement of expenses incurred prior to Department and local loan approval and/or completion of project's environmental review. Once approved, loan funds may not be re-allocated from one approved use to another without formal written approval. Non-profit organizations are not eligible for assistance. Funding a project without HCD review and written approval will deem the project ineligible.

OTHER CDBG REQUIREMENTS

There are a number of other Federal laws and State requirements that trigger the use of CDBG funding. The City will take the lead to ensure compliance of mandated CDBG regulations. Impacts of Federal Regulations relative to the proposed project shall be conveyed to the participant at the loan screening process.

Prior to award of funds, Federal environmental reviews are required by HUD for each business funded by CDBG (24 CFR 58). The environmental review is a component of HUD's regulations relative to National Environmental Policy Act (NEPA). The City is required to complete and certify NEPA review along with State environmental review under California's Environmental Quality Act (CEQA). The level of environmental review is subject to the type of proposed project/activity. The participant shall be informed of the NEPA review and Project schedule. No costs shall be charged to the borrower for the CEQA/NEPA process.

Compliance with Davis Bacon and related Acts is required when CDBG funding is used for construction costs. In the event that Davis Bacon requirements apply, loan processing staff will work with the applicant to ensure that the project is in compliance with the state and federal prevailing wage laws. Applicants will be informed of additional time and administrative costs associated with projects requiring the administration of Davis Bacon requirements. In the event additional costs are incurred they shall be incorporated into the microenterprise loan.

Program Income (PI), must be spent prior to drawing down State CDBG grant funds under an open grant. Thus, as payback money accrues, the City must use the local PI on hand in its microenterprise assistance revolving loan account, if applicable, to fund a loan prior to requesting open grant funds from the Department.

Acquisition and Relocation Laws may be triggered when using CDBG funds (24 CFR 570.606). Thus, loan processing staff will work with applicants to comply with mandated acquisition and relocation regulations. Participants will be informed of additional time and costs associated with projects requiring relocation.

All businesses who wish to receive a Micro Loan under this Program will be required to obtain a number from Dun and Bradstreet, also known as a Dun's number, which may be obtained online at no charge. A copy of the Dun and Bradstreet web site page shall be inserted in the applicant's loan file and incorporated into reports to HCD.

The City will check the Federal debarred status of each business prior to submittal of the loan to HCD for review and approval. A copy of the web site search will be printed and inserted into the participants loan file to confirm the business is not on the Federal debarred contractors list.

HUD requires that HCD and the City collect certain income and demographic data from the business along with new hire information resulting from the investment of CDBG funds. Participant agrees to provide accurate business data requested by the City or Subrecipient/Contractor in a timely manner.

REQUIRED LOAN REVIEW BY DEPARTMENT STAFF

HCD staff must review each microenterprise loan for procedural compliance with Federal Regulations and these adopted Program Guidelines. Upon review and approval of loan package submitted by the City, a formal written approval letter will be issued by HCD.

The loan approval package will be submitted to HCD for review prior to receiving formal local approval. Upon approval of compliance relative to Program loan underwriting and CDBG regulations, the City shall submit the loan package to the Community Development Committee for approval.

FAIR LENDING COMPLIANCE

This Program will be implemented consistent to that of the City's commitment to State and Federal 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 CDBG 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.

LOAN APPLICATION PROCESSING

Loan applications will be processed on a first-come-first-served basis. The City shall accept loan applications and review in accordance to initial eligibility requirements. The City shall conduct an interview with business owners to determine if the business meets the program and income eligibility requirements. Participants that do not meet basic program requirements shall be returned with an explanation of deficiencies along with suggestions on how to meet basic requirements.

The City shall provide the participant a Microenterprise Loan Checklist depicting required financial documentation to be submitted. Such information shall include, but not limited to, business and personal financial information as in balance sheets, income/expense statements, financial projections and tax returns. These documents are necessary to determine the need for CDBG funds and provide a basis for structuring the amount of CDBG participation.

The City will compile a loan file consisting of credit, financial, and underwriting information necessary to conduct a loan analysis. Upon evaluation of the application, the City shall develop a memorandum summarizing the loan request and pertinent financial data along with the recommendation of appropriate determination to the Community Development Committee. Following their review and approval process, the City shall move forward with the project by submitting the application to HCD.

PROGRAM LOAN ADVISORY BOARD – COMMUNITY DEVELOPMENT COMMITTEE

The City shall conduct an initial review of each application and confirm that the participant meets Program criteria. The loan will be underwritten by the City adhering to HUD underwriting guidelines. Upon completion of the underwriting, the completed loan package shall be forwarded to HCD for review and approval. Upon receipt of the “Letter of Approval” from HCD, City shall submit package and conduct presentation to the City’s Community Development Committee for approval. If approved, the City shall prepare a Loan Approval Memo and submit to HCD.

LOAN CLOSING PROCESS

Upon approval by the CDBG Program, the City will prepare all necessary loan closing agreements and documents including title and lien searches, and UCC-1 filings, if appropriate. City’s legal counsel will review all agreements and documents, as necessary. Escrow companies shall be used for the loan closing process. Upon execution of the loan documents the City may request funds from HCD.

LOAN APPLICANT CONFIDENTIALITY

Persons serving under this Program under the capacity of the City and/or Subrecipient/Contractor shall not disclose any of the Borrowers personal confidential information. All business confidential information will only be disclosed to persons required to view the information as part of the loan review and approval process. All personal and business confidential information shall be kept in a locked secured storage facility and shall not be available to persons outside of the Program. In the event that

the City or HCD receive a request to access public records relative to the loan application then only non-confidential information, as verified by the City Attorney will be provided.

DISPUTE RESOLUTION/APPEALS PROCEDURE

In the event an application is denied, any person that has applied to the Program has the right to appeal. The appeal must be made in writing, within 30-days of written denial to the City Administrator. If denied again, the participant may request to have their appeal presented to the City Council for a final decision.

The City 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 Program Guidelines.

LOAN TERMS

Microenterprise loans underwritten in accordance with these Guidelines may be from \$2,500 to \$15,000. The requested loan amount must be reasonable and supported by the information provided in the loan request.

The term of the loan will be from 3 to 5 years and based on the asset being financed. The term generally should not exceed the economic life of the asset being financed. Department Staff will confirm the term is appropriate based on the use of the CDBG funds.

The interest rate for the loan will be based on the underwriting analysis conducted by the City. Some of the factors that will drive the interest rate are: 1) ability of business to service the loan; 2) rate of return the borrower will receive; 3) credit risk factors and management experience. By allowing interest rate flexibility the City can tailor the loans under this Program to meet the specific needs of the individual businesses.

Loan terms may, on a case-by-case basis, be modified with the approval of the City's Community Development Committee.

COLLATERAL AND SECURITY REQUIREMENTS

All loans under this program will be collateralized using standard commercial lending underwriting guidelines. Collateral coverage will be assessed based on assets available as security. CDBG funding is typically in a subordinate position to banks and other lenders. It is the goal of the Program to obtain a favorable lien position to assist in ensuring loan repayments. Types of collateral may include:

- Secured liens on real property,
- UCC liens on machinery, equipment, or other fixtures,
- Lease assignments, as appropriate,
- Personal and corporate guarantees, as appropriate, and;
- Life insurance and other collateral, as appropriate.

Appraisals may be required in determining the value of collateral used to secure CDBG financing. Combined loan to value ratio on collateral for the typical CDBG loan should

not exceed ninety percent (90%). Equipment and inventory secured should be properly discounted to reflect actual liquidation value.

In addition to collateral, personal and corporate guarantees may be required of borrowers.

LOAN SECURITY POSITION

All loans will be secured in the strongest possible position to ensure loan repayments in the event of a default. Loans may be secured in a secondary position.

LOAN TO VALUE RATIO

Documentation of the loan security and loan-to-value-ratio shall be included in the loan proposal and be presented to the Community Development Committee when requesting loan approval.

DEBT SERVICE COVERAGE

Minimum debt coverage ratio for the program is 1.1:1 however, a lower debt coverage ratio may be considered on a case-by-case basis.

COMPLIANCE WITH HUD UNDERWRITING STANDARDS

HUD requires that the State/Local government conduct basic financial underwriting prior to providing CDBG financial assistance to a business. Further, the State CDBG program requires that HUD underwriting guidelines be used to determine whether a proposed CDBG subsidy is appropriate to assist businesses. Under the City's Microenterprise Assistance Program, each loan will comply with all HUD underwriting standards.

GENERAL CREDIT REQUIREMENTS

A Dun and Bradstreet report will be obtained for the subject business and all associated businesses wherein the borrower(s) have a 20% or more ownership position. Most credit reporting services will provide credit scores. If credit scores are not provided a detailed analysis and narrative supporting the credit worthiness of the borrower shall be submitted.

MANAGEMENT AND CAPACITY REQUIREMENTS

A Loan Applicant must:

- Demonstrate the ability to operate a business successfully
- Demonstrate that the business has sufficient borrowing ability or equity to operate, with the loan, on a sound financial basis
- Demonstrate the proposed loan is of sound value and provides for the current and future needs of the business
- Demonstrate that the past earning record and future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of the profits
- Demonstrate the capacity for operating the business and managing future growth (This is accomplished by illustrating past experience of owner, using experienced staff or by attending microenterprise technical assistance workshops)

LOAN COLLECTION AND SERVICING

The City will act as the loan collection agent for its existing CDBG economic development loans. The duties of the collection agent will include the following:

- Loan payment collection and accounting
- Agent will provide monthly receipts of loan payments
- Provide quarterly statements on each loan
- Undertake loan collections, including asset liquidation
- Obtain annual financial statements from each business to assess the health of the business
- Negotiate any change in repayment terms to avoid foreclosure

LOAN SERVICING

At each Community Development Committee meeting, the City’s staff will brief the members on any problems or concerns regarding repayments of existing loans. This includes decisions to foreclose and declare defaults. The City will be responsible for all HCD Program Income reporting requirements.

I HAVE READ, RECEIVED AND UNDERSTAND THE PROVISIONS OF THE MICROENTERPRISE ASSISTANCE PROGRAM GUIDELINES.

Participant

Date

Participant

Date

The City of Sonora is an Equal Housing Lender and does not discriminate on the basis of religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status (children), physical or mental disability, sexual orientation or other arbitrary reason.

EXHIBIT A
City of Sonora
Microenterprise Assistance Program
Task Matrix

Task	City of Sonora Staff	Subrecipient/ Contractor
Approve RLF Guidelines	X	
Clear Special Conditions	X	
Prepare Funds Requests	X	
Monitor Grant Expenditures	X	
Generate Fiscal/Performance Reports	X	
Coordinate Grant activities with Program Operator and Grantee	X	
Oversee program implementation and activities	X	
Compile official Grant project files	X	
Monitor achievement of goals	X	
Report on progress to Grantee and local governing body	X	
Meet with local economic developers to solicit referrals	X	X
Create and distribute program flyers and newsletters	X	X
Write press releases; Market Microenterprise services	X	
Participate in Loan Advisory Review	X	
Loan Servicing and Accounting	X	
Create and update the program website	X	
Income screen for TIG status	X	
Determine business size and eligibility as a microenterprise	X	
Ascertain readiness of potential participant	X	
Ascertain readiness in eligible, enrolled participant		X
Gather baseline data on potential participant	X	
Gather baseline data on eligible, enrolled participant		X
Field calls from potential participant	X	X
Create service plan for eligible, enrolled participant		X
Coordinate course offerings with community colleges and other providers	X	X

Task	City of Sonora Staff	Subrecipient/ Contractor
Set up courses and schedules for eligible, enrolled participants		X
Assist in preparing business plan and marketing strategy		X
Conduct courses		X
Curriculum Development		X
Class/Training Preparation		X
Guide eligible, enrolled participants in resolving business issues		X
Field calls from enrolled, eligible participants	X	X
Meetings/counsel sessions with eligible, enrolled participants		X
Assist in preparing loan application	X	X
Collect and input eligible, enrolled participant data	X	
Prepare and submit cost allocation plan	X	
Report on program outcomes	X	
Determine indicators for tracking	X	
Evaluate program effectiveness	X	
Create database to match participant data collection	X	
Attend HCD Workshops	X	

General Administration	
Activity Delivery	
Microenterprise Assistance Activity	
Note: "X" - identify organization responsible for task	

EXHIBIT “B”

Annual Income Asset Inclusions and Exclusions

This table presents the Part 5 asset inclusions and exclusions as stated in the HUD Technical Guide for Determining Income and Allowances for HOME Program (Third Edition; January 2005).

Statements from 24 CFR Part 5 – Last Modified: January 2005

Inclusions

1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance. Assets held in foreign countries are considered assets.
2. Cash value of revocable trusts available to the applicant.
3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects.
4. Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts.
5. Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty).
6. Retirement and pension funds.
7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments.
10. Mortgages or deeds of trust held by an applicant.

Exclusions

1. Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars and vehicles specially equipped for persons with disabilities.
2. Interest in Indian trust lands.
3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
4. Equity in cooperatives in which the family lives.
5. Assets not accessible to and that provide no income for the applicant.
6. Term life insurance policies (i.e., where there is no cash value).

Assets that are Part of an Active Business. "Business" does not include rental of properties that are held as an investment and not a main occupation.

INCOME LIMITS

80% of Tuolumne County Median Income – 2012
(Family of 4 Area Median Income - \$66,700)

1 Person	\$36,800
2 Persons	\$42,050
3 Persons	\$47,300
4 Persons	\$52,550
5 Persons	\$56,800
6 Persons	\$61,000
7 Persons	\$65,200
8 Persons	\$69,400

*(*These figures are adjusted annually)*