

STOREFRONT TRAFFIC ACCELERATES REVITALAZATION (STAR) BUSINESS LOAN PROGRAM

A. PROGRAM OBJECTIVE

The Storefront Traffic Accelerates Revitalization (STAR) Business Loan Program is designed to encourage the creation or enhancement of business enterprises by providing a source of low interest and forgivable financing for commercial property owners, new or expanding businesses, or micro-enterprise business. The program objective is to create new employment opportunities for low- and moderate-income (LMI) households and to revitalize storefront spaces in the target areas.

B. ELIGIBLE APPLICANTS

1. Sole proprietorship, limited liability company, corporation, partnership, S-corporation or non-profit;
2. Commercial property owner of a building with storefront space;
3. New or expanding business owners;
4. Micro-enterprise business owners (5 or fewer employees);
5. Taxes due on property owned by the applicant/owner must be paid in full or acceptable arrangements are made with the Treasurer of the City of Auburn;
6. Only one forgivable loan will be made per applicant.

C. ELIGIBLE ACTIVITIES

1. Commercial property and/or business must be located in one of the following CDBG target areas: Downtown, New Auburn, and Union Street.
2. Building improvements to include exterior, major building systems, correction of code violations, accessibility improvements and retro-fit of business space.
 - a. If the project involves construction activity, the administration of the loan shall follow the guidelines of the Rehabilitation Loan Program.
3. Purchase of equipment
4. Working capital – (Micro-enterprises only)

D. LOAN TERMS

1. Maximum Loan Amount: \$50,000; Micro-enterprise loans for working capital capped at \$10,000;
2. 50% match is required – a reduced match will be considered in exchange for a payable loan at an amount equal to the match reduction at the interest rate of Prime minus 1/2%;
3. Loan cannot exceed 50% of the total project costs;
4. Loan is a 5 year forgivable loan with interest rate to be Prime minus 1/2%.
5. First year of interest is paid up front, held in escrow and returned at end of year 5;
6. Interest in years 2-5 accrues, but payment is deferred until the end of year 5 at which time it is forgiven;
7. At the end of year 3, 25% of loan principal is forgiven, at end of year 4, 50%; at end of year 5, 100% of loan principal is forgiven provided business remains active (open at least 40 hours per week) in one of the target areas, funds are used as described in the application and business submits annual financial reports.

E. CONDITIONS

1. Funds may be used for fixed assets and business related equipment with preference given for infrastructure improvements. In the case of a micro-enterprise funds may be used for working capital;
2. The applicant will secure a private cash match or loan assistance from any other public agency or private lender who will be responsible for due diligence on behalf of the City's assistance;
3. The applicant must provide a commitment which describes the terms and any conditions of the commitment;
4. The business must remain open for business within the target areas in the City of Auburn until the loan is forgiven;
5. The business must provide a valid lease, right, title or interest for the space it will occupy;
6. The business must have written permission from property owner to make building improvements;
7. Creation of one job for loans up to \$25,000 and two jobs for loans over \$25,000.

8. Property owner will enter into a lease with a business within 3 months of completion of rehabilitation of the building.

F. JOB CREATION CRITERIA

1. For Micro-Enterprise Business: If the applicant's income is less than 80% of area median income the job creation requirement is met. The owner's job shall satisfy the requirement for low-moderate income benefit (LMI).
2. Special Economic Development Activity
 - a. At least one 1 full-time equivalent job will be created within three months after rehabilitation of the space is completed for loans up to \$25,000 and two jobs for loans over \$25,000 of Community Development funded loan assistance.
 - b. During the application process, jobs will be evaluated to determine if there is potential to satisfy the 51% low-income job requirement.
 - c. 51% of any jobs created will be taken by LMI households based on income limits established by the U. S. Department of Housing and Urban Development for Lewiston-Auburn SMSA. Only the initial job will be subject to income limitations.
 - d. Spin-off jobs (jobs that have an indirect link to the project and financing) and turn-over jobs (jobs that were previously taken by an employee and are now open) are not eligible to be counted to satisfy the jobs requirement.
 - e. The applicant will be required to sign a Job Agreement as a condition of the loan and must comply with all required reporting.

G. APPROVAL PROCESS

COMMUNITY DEVELOPMENT LOAN COMMITTEE

1. Loans will be reviewed by the Community Development Loan Committee who will be responsible for making a decision to approve or deny loan;
2. Appeal Procedure: The reason(s) for rejection shall be given to the applicant. Applications that have been denied may be appealed to the Community Development Loan Committee for a period of thirty days after the date of rejection. The applicant will be allowed to present his/her case to the Community Development Loan Committee. The Community Development Loan Committee may reconsider a vote denying the application after the appeal review has been completed;

3. Waiver of Loan Amount and Term: The City Manager may authorize a different interest rate, repayment term or loan amount than what is specified in this program guideline;

4. Loan Considerations: In approving or denying loan requests, the Community Development Loan Committee shall be guided by the following loan considerations:

a. Underwriting

Projects will be analyzed to determine risk according to typical lending considerations.

1) Required for All Loans:

a) Cash Flow: Ability to repay the debt will be the most important consideration with a minimum debt coverage ratio of 1.1. to 1.

b) Collateral Coverage- minimum of 100%

- Real Estate: 100% of market value
- Business Equipment: 90% of market value
- Inventory: 60% of market value
- Accounts Receivable: 90% of market value
- Furniture & Fixtures: 80% of market value
- Vehicles: 90% of retail value
- Marketable Securities: 100% of market value
- Personal Assets: (same as above)

c) Owner Equity: minimum 10%

d) Character: Good credit history and reputable, no bankruptcies in past 5 years.

e) Additional Considerations: The following shall be evaluated by the Committee before making a decision.

- Security - Assignment of Leases and Other Assets
- Commitment to the project is strongly encouraged
May include: Personal guarantees from owners with 25% or greater ownership; lease commitments; owner equity or cash contribution
- Management experience in running the business
- Business Plan
- Market Analysis
- Experience in development team

2) Project is financially appropriate

- a) Project costs are reasonable
- b) All sources of financing are committed
- c) To the extent practicable:
CDBG funds not substituted for non-federal financial support

Project is financially feasible
The return on the owner's equity investment is
not unreasonably high

3) Terms of the Bank Loan - as defined in the commitment letter.

b. **Assessment of Public Benefit**

The Community Development Loan Committee will also consider the broader implications of public benefits in making a decision to approve or deny the loan and will make a necessary and appropriate determination that the amount of assistance is reasonable in relation to the public benefit to be achieved. The Community Development Loan Committee will consider the following factors in assessing public benefits:

Number and type of jobs

Increase in needed services

Increase in tax base including real estate and personal property

Development which is likely to be stimulated in the area by the activity

Other public benefits

H. ADMINISTRATION

1. **Non-Discrimination**

Administration of this program shall be in accordance with Title VI of the Civil Rights Act of 1964 as amended. No person shall, on the ground of race, color, national origin, sex, age, disability, religion or familial status be excluded from participation in, be denied the benefits of, or subjected to discrimination under this program.

2. **Participation by Religious Organizations**

a. Religious organizations can apply through the STAR Business Loan Program with the understanding that funds cannot be used to support inherently religious activities such as worship, religious instruction, or proselytizing. The organization can engage in such activities, but the business must be at a different location than the place of worship. Jobs must be open to non-religious members, and religious participation by beneficiaries must be voluntary.

b. The organization must not discriminate against an employee or prospective employee on the basis of religious belief or refusal to participate in a religious practice.

3. **Household Income**

For the purpose of determining eligibility of a Micro-Enterprise business owner, Community Development staff will calculate income by projecting the prevailing rate

of income of each person at the time assistance is requested. Estimated annual income shall include income from all household members. Income will be based on Part 5 as defined by the Department of Housing and Urban Development.

4. Income Limits

To determine income for certain benefits under the STAR Business Loan Program, Community Development staff will use income limits for Lewiston-Auburn SMSA, established by the Department of Housing and Urban Development and available in the Community Development Department. Revised income limits will be used upon receipt.

5. Loan Processing

Applications shall be processed on a first-come, first-served basis. Community Development Department staff shall use the receipt date of application to establish the order of priority. The applicant will be notified if there is funding available to proceed with the project and if there is inadequate funding, then the application may be placed on a STAR Business Program Waiting List.

I. APPLICATION PROCEDURES

1. Business Plan

The applicant shall submit a business plan that

- a. **describes the business** (type of business, status of the business, the form of ownership, the profit potential, employment opportunities, and other market/community benefits, location and hours of the business);
- b. **the market** (products/service, customers, market size, competition, estimated market share, production and distribution, image/packaging, advertising, and pricing);
- c. **operations/organizational management** (management responsibilities, professional services, background and experience);
- d. **financial plan** (costs, revenues/chart of accounts, assets, liabilities, cash flow projections, balance sheet, equipment list, sources and uses, business pro-forma, and
- e. **supporting documents** (personal resume, personal financial statement, job descriptions, letters of reference, copies of leases, contracts, etc.), as applicable.

2. Financial Submission

The applicant(s) shall submit the application form, the last two years of business and/or personal tax returns as well as personal financial statements or other documentation from an accountant or other acceptable source. The applicant may be asked to supply a listing of personal property and inventory.

This section sets forth the application procedures for the STAR Business Loan Program.

1. **Initial Application** - Loan application may be obtained from the Economic and Community Development Department;
2. **Loan Processing** - Community Development staff will evaluate eligibility of the application. After approval, Community Development staff will hold a loan closing.
3. **Loan Closing** - Loan documents shall include a promissory note, mortgage, security agreements, job agreement, and any other documents necessary to secure the terms and conditions of the loan. Any legal costs incurred by the city for the closing documents will be the responsibility of the owner and may be paid for with loan proceeds.
4. **Disbursement of Funds** - Personal funds will be disbursed first. Any other resources and City funds will then be disbursed on a pro-rata basis. Disbursement of funds will require approval of the Economic and Community Development Department. In the case of building improvements the loan recipient will also be required to approve disbursements of funds for payment to contractors.
5. **Post Closing Counseling** – The applicant will agree to meet with the Economic and Community Development Department quarterly during the first two years after the closing, or more frequently, if necessary, to review the financial status of the business.

J. **OTHER PROGRAM REQUIREMENTS**

All loans will comply with applicable Federal Regulations, as amended, of the Community Development Program as listed below:

1. **Civil Rights** - The owner will be required to comply with Title VIII of the Civil Rights Act of 1968, as amended, barring discrimination upon the basis of race, color, religion, creed, sex, handicap, familial status, or national origin in the sale, lease, rental, use, or occupancy of the property.

2. **Federal Labor Standards Provisions** - The owner must abide by established minimum wage rates (Davis-Bacon Act) for the area for construction work exceeding \$2,000.
3. **Conflict of Interest** - No elected or appointed official or employee of the City of Auburn, and no member of any municipal board or committee which exercises any decision-making function with respect to the Community Development Program, shall participate in negotiating or shall exercise any influence in awarding or administering any contract in which he has a direct or indirect pecuniary interest as the term is defined by 20 MRSA Section 2250.
4. **Prohibition against Payment of Bonus, Commission, or Fee** - The owner cannot pay any bonus, commission, or fee for the purpose of obtaining the City of Auburn's approval of the loan application, or any other approval or concurrence required by the City of Auburn or its designee obtain a loan under these guidelines.
5. **Equal Employment Opportunity** - The owner must abide by the provisions of Executive Order 11246 as amended by Executive Order 11375 concerning equal employment opportunity and will not discriminate against any employee or applicant for employment because of race, color, creed, religion, sex, familial status, handicap, or national origin.
6. **Lead-Based Paint Hazards** - Any loan made by the City of Auburn for construction work is subject to requirements of the Department of Housing and Urban Development's with respect to treating lead-based paint hazards as set forth in Title 24 CFR, Part 35.
7. **Flood Hazard Insurance** - If the property to be improved is located in a designated flood hazard area, the owner will be required to purchase flood hazard insurance or show evidence of coverage, and abide by the regulations of the Flood Disaster Protection Act of 1973 located in or owned in substantial part by persons residing in the area of the project.
8. **Environmental Review Procedures** - All projects shall be subject to environmental review procedures of the National Environmental Protection Act.