

STOREFRONT TRAFFIC ACCELERATES REVITALIZATION (STAR) BUSINESS LOAN PROGRAM

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 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.

ELIGIBLE APPLICANTS

- Sole proprietorship, limited liability company, corporation, partnership, S-corporation or non-profit;
- Commercial property owner of a building with storefront space; 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;
- New or expanding business owners;
- Micro-enterprise business owners (5 or fewer employees);

ELIGIBLE ACTIVITIES

- Commercial property and/or business must be located in one of the following CDBG target areas: Downtown, New Auburn, and Union Street.
- Building improvements to include exterior, major building systems, correction of code violations, accessibility improvements and retro-fit of business space.
- If the project involves construction activity, the administration of the loan shall follow the guidelines of the Rehabilitation Loan Program.
- Purchase of equipment
- Working capital – (Micro-enterprises only)
- Business expansion or relocation that would cause a significant job loss in a low mod area as defined by the Bureau of Labor is not eligible;
- Only one forgivable loan will be made per applicant.

LOAN TERMS

- Maximum Loan Amount: \$50,000
- Micro-enterprise (5 employees or fewer) loans for working capital capped at \$10,000;
- 50% match is required – Loan cannot exceed 50% of the total project costs;
Term of the loan will be a 5 year forgivable, 0% interest; 50% of loan balance may be forgiven after 1 year if business remains open for business; remaining loan balance is forgiven at the end of year 5 if all conditions have been met. For projects that do not meet the conditions a work out plan will be negotiated.

CONDITIONS

- Creation of one job for loans up to \$25,000 and two jobs for loans over \$25,000 as defined below.
- The applicant will secure a private cash match or loan assistance from any other public agency or private lender for 50% of project cost;
- The applicant must provide a commitment letter which describes the terms and any conditions of the commitment;
- The business must remain open for business within the target areas in the City of Auburn until the loan is forgiven;
- The business must provide a valid lease, right, title or interest for the space it will occupy;
- The business must have written permission from property owner to make building improvements;
- When the applicant is the property owner, that owner shall enter into a lease with a new or expanding business within 3 months of completion of rehabilitation of the building in order to meet the job creation requirement.

JOB CREATION CRITERIA

- 51% of jobs created must meet the low-to-moderate income guidelines established by the U. S. Department of Housing and Urban Development for Lewiston-Auburn SMSA. Because the program requires a maximum of 2 full-time equivalent jobs both jobs created must both meet the income guidelines;
- The jobs must be made available to low-to-moderate income persons;
- Jobs not filled with low-to-moderate income person are eligible only if the job: does not require special skills beyond a high school education; the business agrees to hire an unqualified person and offer training; the business takes action to ensure low-to-moderate income persons receive first consideration and can show documentation;

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 job benefit (LMJ).

Special Economic Development Activity:

- 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;
- During the application process, jobs will be evaluated to determine if there is potential to satisfy the 51% low-income job requirement;
- The applicant will be required to sign a Job Creation Agreement as a condition of the loan and must comply with all required reporting. When the applicant is a property owner he/she will enter into a job creation agreement with the lessee.

Non-eligible jobs:

- 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.
- Retained jobs are not eligible

APPROVAL PROCESS

COMMUNITY DEVELOPMENT LOAN COMMITTEE

Loans will be reviewed for approval by the Community Development Loan Committee. A loan closing will be scheduled with successful applicants. When an applicant is denied the reason(s) for rejection shall be given to the applicant and they may appeal the decision within thirty days from the date of the denial. New information addressing the reason for the rejection will be submitted to CDBG staff for review and further underwriting. The Community Development Loan Committee may reconsider a vote after the appeal review has been completed. Waiver of Loan Amount and Term: The City Manager may authorize a loan amount and term other than what is specified in this program guideline.

UNDERWRITING

In approving loan requests the Community Development Loan Committee shall be guided by the following:

Loan considerations

Cash Flow: ability to repay debt if a loan workout is necessary.

Collateral Coverage: must be adequate as determined by the Community Development Loan Committee;

Personal Assets: Business Owner may be required to offer a Personal Guarantee as collateral for the loan;

Owner Match: minimum 50% of project costs;

Character: Reputable history in business; if no business history the reputation of the owner will be measured by a credit report, strength of business plan and resume;

Financial: Good credit history, no bankruptcies in past 5 years, and no outstanding liens for all principals of the business;

Other: In the absence of business experience applicant will have received business counseling from an authorized business counseling agency such as SCORE, Small Business Development Center (SBDC) or Women's Business Center.

Project is financially appropriate

Project costs are reasonable; all sources of financing are committed; to the extent practicable CDBG funds are not substituted for non-federal financial support; project is financially feasible; the return on the owner's equity investment is not unreasonably

high; to the extent possible CDBG funds are disbursed on a pro-rata basis with other funding for the project.

Assessment of Public Benefit

The Community Development Loan Committee must 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.

ADMINISTRATION

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.

Participation by Religious Organizations

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.

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.

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.

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.

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.

APPLICATION PROCEDURES

Business Plan

The applicant shall submit a business plan that **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); **financial plan** (costs, revenues/chart of accounts, assets, liabilities, cash flow projections, balance sheet, equipment list, sources and uses, business pro-forma, and **supporting documents** (personal resume, personal financial statement, job descriptions, letters of reference, copies of leases, contracts, etc.), as applicable.

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.

Initial Application - Loan application may be obtained from the Economic and Community Development Department or on the City of Auburn Website at

<http://www.auburnmaine.gov/pages/government/star-business-loan-program-auburn-maine>

Loan Processing - Community Development staff will evaluate eligibility of the application. The loan will be underwritten by a third party experienced in commercial loan underwriting.

Loan Closing - Loan documents shall include a secured promissory note, 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.

Disbursement of Funds - All funding sources will then be disbursed on a pro-rata basis. Disbursement of CDBG 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.

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.

Loan Work-Out Plan - If business closes before the five year term but has successfully met the job requirement evidenced by acceptable documentation the loan will be forgiven proportionally based on the time the business remained open for business.

OTHER PROGRAM REQUIREMENTS

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

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.

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.

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.

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.

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.

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.

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.

Environmental Review Procedures: All projects shall be subject to environmental review procedures of the National Environmental Protection Act.

Approval:


Peter Crichton, City Manager

Date:

