



City of Scranton
Office of Economic and Community Development

Community Development Block Grant Business & Industry Loan/Grant Program Guide

TABLE OF CONTENTS

I. INTRODUCTION	2
II. PROGRAM DESCRIPTION	,2,3,4
III. APPLICATION PROCESS.....	5
IV. APPLICATION REVIEW.....	6,7,8
V. ELIGIBLE APPLICANTS.....	8
VI. EVALUATION OF ELIGIBLE ACTIVITIES	8,9,10
VII. DISBURSEMENT OF FUNDS	10

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I. Introduction

The City of Scranton's Community Development Block Grant Program (CDBG) is a Federally-funded program through the U. S. Department of Housing and Urban Development that provides financial resources to assist in the development of community activities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income (LMI). The Office of Economic and Community Development (OECD) administers CDBG funds.

The City of Scranton must ensure that not less than 70% of its CDBG funds are used for activities that benefit low and moderate income (LMI) persons (at or below 80% of median income). This is achieved by granting maximum priority to activities that meet one of the following Federal National Objectives: benefit low and moderate income persons or families; or aid in the prevention or elimination of slums or blight; or meet an urgent community development need.

The OECD Business Loan/Grant program achieves the National Objective by providing jobs and economic opportunities for persons from LMI families. The program provides funds to eligible clients to assist qualifying businesses undertake activities that result in the creation of job opportunities for persons from LMI families. The primary role is to stimulate and support private investment in our community. Funding decisions are based, in part, on the following: severity of need; public benefit; program feasibility; sustainability of activity outcomes; reasonableness of costs; extent to which the activity compliments other local, state, or federal programs; and public support for community driven program. The program is not the sole source of funding and rarely the largest investor. The program is designed to provide "gap" financing for activities and initiatives that meet our investment requirements.

II. Program Description

The OECD Business Loan/Grant program provides resources to support and foster the development of new businesses by providing loan/grants in conjunction with capacity building and entrepreneurial assistance. The program is designed to stimulate economic growth and create businesses and jobs that will improve and preserve the City of Scranton's several business districts and neighborhoods. An objective of OECD Business Loan/Grant program is to create opportunities for the development of new businesses that promote employment opportunities for persons of low to moderate income families.

A Business is defined as a commercial enterprise that has at least one (1) or more employees, one (1) or more of which is the principal and owns the enterprise at the time of application. This includes both part-time and full-time employees. A Business is a private for-profit business entity; corporation, partnership, or sole proprietorship that is legal, licensed and operating entities in the Commonwealth of Pennsylvania.

A. General Requirements

- The maximum total allocation for which a Business Loan/Grant can apply is \$250,000.
- A minimum of 25% of a total allocation (less grant administration costs) must be awarded to start-up businesses. A start up business is one which has been in operation less than six (6) months.
- Although it is not required that specific Businesses are identified as part of the application for Business Program funding, an application that identifies a Business and entrepreneurs that have gone through a prescreening stage is recommended. The prescreening stage should verify eligibility, evaluate the proposed project and determine funding need.

- Loan/Grant assistance to an individual Business must be between \$25,000 and \$250,000. **The maximum award is not intended to serve as a target amount for requests for assistance.** The amount of CDBG assistance should be based on need and CDBG funds should not be used to reduce the amount of non-federal financial support for the project.
- Loans/Grants may not exceed 30% of the total project cost to assist in the start-up or expansion of a Business in the City of Scranton.
- A minimum amount of 10% owner equity contribution to the project is required.
- Each Business owner must complete an approved entrepreneurial assistance or small business consulting training program or have a proven business record prior to receiving an OECD Business Loan/Grant funds. *This training is available at the University of Scranton at no cost*

B. Meeting a National Objective

The primary objective of the CDBG program is the development of viable communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income (LMI). For this to be achieved, each CDBG funded activity must meet a National Objective. A Business may meet a National Objective one of two ways:

1. By creating a minimum of one (1) permanent full-time equivalent job for persons from LMI families. A full time equivalent (FTE) job is any combination of two or more part-time jobs that, when combined together, constitute the equivalent of a job of at least 40 hours per week. If more than one (1) FTE job is created as a result of CDBG assistance, a minimum of fifty-one percent (51%) of the jobs must benefit persons from LMI families. A LMI job activity is one which creates a job that is either *held by* or considered to be *made available* to persons from LMI families. The distinction between “held by” and “made available to” is detailed below.
 - “held by” - A job is considered to be taken by a LMI person if, at the time their employment starts, that person is a member of a family whose income falls at or below the applicable Section 8 Income Limits. (Reference www.huduser.org/datasets/il.html or the most current income limits.)

• “available to” - A job is considered to be made available to a LMI person if the position does not require special skills acquired from substantial training or work experience, and education beyond high school is not a prerequisite to employment. The assisted business must take actions to ensure that LMI persons receive “**first consideration**” for filling such jobs. • There are three principles involved in providing “first consideration”:

a. The business must use a hiring practice that under usual circumstances would result in over 51% of LMI persons interviewed for applicable jobs being hired,

b. The business must seriously consider a sufficient number of LMI job applicants to give reasonable opportunity to fill the position with such a person, and

c. The distance from residence and availability of transportation to the job site must be reasonable before a particular LMI person may be considered a serious applicant for the job.

2. If the beneficiary / entrepreneur receiving the grant qualifies as LMI himself/herself this will be sufficient to satisfy one (1) FTE job. For microenterprises that are owned and operated by more than one individual, a majority of the owners must qualify as LMI in order to meet the Limited Client Microenterprise (LMCMC) National Objective.

III. Application Process

The application process is designed to provide a consistent format for the presentation and evaluation of proposed investments. Where an activity is determined to be eligible, feasible, and likely to address the underwriting criteria listed in this program guide, the client will be encouraged to submit an application for funding. Provided funds are available, opportunities exist year round in an open window format.

The following steps summarize the application and funding process:

A. www.scrantonpa.gov/oecd. Additional information may be requested from applicant.

Pre-Submission: In an effort to facilitate effective program delivery, potential applicants must confer with OECD staff prior to submitting a Pre-Submission Form. The Pre-Submission Form along with consultation with OECD Economic Development staff will serve as a threshold review prior to the formal submission of an application for funding. The OECD requires applicants to provide a brief activity summary, proposed project budget, and details on the proposed project outcomes. The Pre-Submission Form is available on our website: Once completed submit for to the City of Scranton, OECD.

B. Application: If OECD determines the program as proposed is an eligible activity; meets the minimum program requirement; complies with program objectives and is feasible, an Invitation to Apply may be extended to the applicant. Clients/Applicants that receive an Invitation to Apply are not guaranteed funding.

C. Application Review and Award Process: The OECD Staff will undertake a comprehensive review of the application to determine compliance with federal, state, and local program regulations, policies and codes. The review includes financial underwriting and determination of compliance with the public benefit standards. Applications that meet all of the funding criteria will be recommended to the OECD Loan/Grant committee for consideration. Recommendations for funding are contingent upon the availability of funds. If the activity has been approved by the OECD Loan/Grant Committee they will direct the OECD staff to create the required Loan/Grant agreement documents and initiate the approve process of City Officials and City Council. OECD Conduct's an environmental review of the activity and completes the environmental review record.

D. Post Award: If funding is approved by the City of Scranton and the office of City Council, the Client/Applicant must undertake the following prior to the disbursement of funds.

- Participate in an activity Implementation Conference Call or a meeting arranged by OECD Economic Development staff. All parties involved in the implementation of the activity must participate.
- Closing to Execute the Loan/Grant agreement and disbursement of the City of Scranton's CDBG funds.

IV. Application Review/Underwriting process (Evaluation Criteria)

The review process for the City of Scranton' OECD CDBG Business & Industry Loan/Grant Program is designed to ensure that the limited CDBG funds available are awarded to activities that demonstrate the highest success rate available for the proposed activity. Ensuring the activity will meet HUD federal CDBG requirements, demonstrate a significant need for the proposed activity, demonstrate the project is financially feasible, and show a significant positive impact to the community. Activity selection shall take into consideration the recommendation of the regional economic development indicator reports by the Chamber of Commerce and local Universities determination that the proposed projects aligns with the regional strategic priorities of the respective region.

In evaluating applications, the OECD staff will analyze the following specific factors:

1. Documented narrative for the Business initiative. *Narrative will provide a basis of understanding for OECD*
2. The extent to which the activity will create permanent, full time equivalent job opportunities for persons of low and moderate income either through the support of LMI entrepreneurs or the creation of LMI jobs.
3. The business plan and practicality of the activity. (Market Analysis) *Critical Element #1 (25% for Loan to Grant) If a market analysis was completed for the activity and provided a favorable need in the community with a low risk, the applicant will be considered for a direct Loan to Grant following the job creation.*
4. Demonstration of expertise in technical assistance, re: By Owner's resume, biography and business history. Owner's past performance. *Critical element # 2 (25% for Loan to Grant) ability for success (Skill Set)*
5. Credit report with FICO score; and or Dun & Bradstreet report (business) *Critical element # 3 (25% for Loan to Grant) FICO score. Excellent Credit: 750 Plus, Good Credit: 700-749, Fair Credit: 650-699, Poor Credit: 600-649, Bad Credit: below 599. Applicants with a credit score at or above 700 will be considered for a direct Loan to Grant after fulfilling the job creation requirement. Applicants with a credit score at 650-699 will be considered for a Loan only.*

6. Operating Pro-Forma. Reasonableness of activity costs and revenue? Demand for product? *Critical element # 4 (25% for Loan to Grant)*

Pro forma financial statements show the financial impact of achieving management's forecasted level of sales and the projected costs associated with achieving those sales. Quantifying the impact of those projections enables management, and prospective lenders to:

A. Assess whether the strategic and operational plans reflected in the projected sales and costs will achieve the desired financial results in terms of profitability, liquidity, and solvency. This assessment is aided by performing a ratio analysis based on the pro forma statements.

B. Determine whether equity and/or debt financing will be required to purchase capital assets and/or to fund larger scale operating requirements, and to determine whether the entity will be able to make the associated loan repayments.

Pro forma financial statements prepared as part of the strategic planning process represent the culmination of the prior separate quantitative analysis performed to evaluate each strategic option under consideration. Pro forma statements incorporate all aspects of the recommended strategy, enabling management and OECD to assess the overall impact of the proposed strategy.

7. Personal financial status of the business owner/IRS tax returns.etc

8. Company financial status / balance sheets and income statements

9. The degree to which the activity is financially and technically feasible

10. Development/Construction details and Budget

11. Schedule, has demonstrated assurance of the success of the activity within specified timeframe?

12. Are there other investors in the activity? Has the risk been mitigated? *At what level is a Financial Institution investing into the activity? Do they have the greater risk in the activity?*

13. Is there at least 10% owner equity contribution to the activity?

Items 3, 4, 5 & 6 above are critical elements that will be used by OECD staff to measure an application being approved for a direct Loan to Grant for the activity. The determination of awarding a grant must take into consideration all (4) critical elements for a total percentage points of 100%. If the applicant receives less than 100% the applicant will not be considered for a direct Loan to Grant. However, the applicant will still be considered for a Loan depending on the outcome of the application review process and that the applicant has a FICO score between 650 to 699.

The capacity of the Applicant to complete activities in a timely manner may impact the evaluation of the application. The OECD staff will review an applicant's history, beginning with four (4) prior years, to determine whether or not the Applicant has completed and/or made appropriate progress with any and all prior OECD Loans or grants including the number of extensions requested to complete an activity beyond the specified agreement deadline.

Applicants should only apply for the amount of funding that can be fully expended and the type of activities that can be completed as specified in their application for a period of six (6) months.

Applicants should not proceed with an activity that cannot be completed within the specified timeframe or with the assumption that an extension of the activity's agreement deadline will be considered.

V. Eligible Applicants

Eligible applicants shall be a business that is defined as a commercial enterprise that has at least (1) one or more fewer employees, one (1) or more of which is the principal and owns the enterprise at the time of application. This includes both part-time and full-time employees. A Business is defined as a private for-profit business entity; corporation, partnership, or sole proprietorship that is legal, licensed and operating entities in the state of Pennsylvania.

A. Roles and Responsibilities

Recipients assume responsibility for ensuring successful completion of the activity; compliance with reporting the job creations throughout the terms of the loan/grant agreement; and assuring compliance with all local, state and federal laws and regulations. The Recipient must ensure that the activity will be completed and have met the National Objectives within the limits of the Loan/Grant agreement between the Recipient and the City of Scranton, represented by OECD.

VII. Evaluation of Eligible Activities and Additional Funding Requirements

A Business that lacks access for 100% traditional financing and is struggling to start or grow their enterprise is typically a good candidate for the City of Scranton's Business & Industry Loan/Grant Program. Although this program is designed to assist start up

and Appendix A to Part 570 when evaluating potential businesses. The underwriting criteria is designed to support a program that assists businesses that could not proceed without CDBG assistance, and to determine whether a proposed CDBG loan or grant is appropriate to assist the business. The objectives of the underwriting guidelines are to ensure the following:

These guidelines provide a framework for financially underwriting and selecting projects which are financially viable and will make the most effective use of CDBG grant funds. The City of Scranton CDBG funds cannot be used to substitute other committed funding and the business show that without City of Scranton CDBG funding the proposed activity could not be completed. Evidence of underwriting must be retained in the activity files. In addition, there must be clear evidence that job creation will occur and/or that the owner(s) of the business qualifies as LMI before a loan or loan to grant is awarded.

C. Owner Equity Requirement

Investments of The City of Scranton's CDBG Small Business funds must be matched by a minimum of 10% owner equity. The equity contribution must be provided as cash; not to be associated with debt of any kind. Equity must be committed and available to the activity at the time of the business application. Documentation of the equity commitment must be kept in the OECD underwriting files.

VIII. Disbursement of Funds

The National Environmental Policy Act of 1969 ("NEPA") requires Recipients to conduct an environmental review of their activities and establish a written record of their findings, known as an Environmental Review Record (ERR). Prior to the City of Scranton's approval of the release of funds the OECD staff will initiate the request for the (ERR).

The City of Scranton's CDBG funds are disbursed by paper check at the time of closing.

Related Forms for this program are:

OECD DOC. PSF-1, Pre-Submission

OECD DOC. LGA-1, Loan/Grant Application

