



## City of Lompoc Economic Development Loan Program Guidelines

The City of Lompoc provides federal Community Development Block Grant (“CDBG”) funds for eligible economic development projects. The Economic Development Loan Program (EDLP) provides loan funds to eligible businesses with the ultimate objective of creating jobs for persons at 80% or less of area median income (AMI) as determined by the U.S. Department of Housing and Urban Development (HUD) for the Lompoc area. The EDLP can assist businesses to either create or retain jobs. The City can lend up to \$35,000 per full time equivalent (FTE) job created (see page 2 for detailed explanation).

The employer must obtain documentation from the job applicant at the time of hiring that the applicant’s income is at or below 80% of AMI for their household size. Fifty one percent (51%) of the jobs created or retained must be made available to persons at this income level at the time they are hired.

A business must be able to demonstrate that the CDBG assistance is necessary for new job creation or retention. A qualifying business can use the funds for: land or property acquisition, equipment, fixtures, and/or working capital, among other uses. Use of funds for the payment of wages related to construction, rehabilitation or installation will require the payment of Davis-Bacon Wages and compliance with Davis-Bacon Wage Related Act.

### FUNDING CRITERIA

#### Loan Criteria

- Jobs/Cost Ratio: Maximum \$35,000 per qualified FT job created.
- Type of Jobs Created/Retained: At least 51% of the jobs created will be held by, or made available to persons whose household income is at 80% of Area Median Income or less, adjusted for household size. See attachment to this application for greater detail.
- Loan funds are available to businesses located within Lompoc’s city limits.

#### Eligible Activities

- Purchase land or a new or existing commercial property;
- Renovations to new or existing commercial property;
- Machinery, equipment, furniture, fixtures and leasehold improvements; and/or
- Working capital for inventory and receivables.

#### Ineligible Projects and Activities

- Projects outside Lompoc’s city limits.
- Loans for the purpose of investing in interest-bearing accounts, certificates of deposit or owner investments.

- Speculative activities since near-term job creation or retention are not evident.
- Job pirating. This is the use of federal funds to lure or attract businesses and its jobs away from one labor market to another.
- Projects where there is not reasonable assurance of repayment of the loan.
- Projects which would create a conflict of interest for any current or former Council member or anyone related to them by blood, marriage or law until one year after the formal termination of their relationship with the City.
- Loan funds for capital cannot be used to:
  - Purchase or finance equity in private businesses;
  - Subsidize interest payments on existing loans; and/or
  - Refinance loans made by other lenders.

**How to determine who qualifies as an eligible ‘hire’ for the purposes of the CDBG Economic Development Loan Program**

Income is determined by a combination of income and household size, *at the time of hire*.

1. How many people live in your prospective employee’s household?
2. What is the gross annual income (all income from anyone having a job) of the household?
3. If your prospective employee’s household income is above the Low Income figures below, that employee may not be counted toward the employer’s “Jobs Creation/ Jobs Filled” goal, which is a condition of the employer’s loan agreement with the City.

**Example:** There are 4 people in your employee’s household. Two people in your employee’s household work, and their combined gross annual income is \$60,550. This household would qualify, and the job filled by that employee would count toward the employer’s “Jobs Creation/ Jobs Filled” goal.

Eligible persons to hire, as determined by HUD, are individuals whose income is at 80% or less of area median income by household size as determined by HUD below:

<u>Household Size</u>	1 Per	2 Per	3 Per	4 Per	5 Per	6 Per	7 Per	8 Per
Low Income	50,450	57,650	64,850	72,050	77,850	83,600	89,350	95,150

*As of 2017*

Income levels change annually; please be sure to use the most current eligibility criteria. Contact Community Development Division if you have any questions.

## **UNDERWRITING CRITERIA**

- Location - Within the City of Lompoc.
- Experience - Business must be under current ownership for at least 2 years.
- Qualified borrower – The loan underwriter will pull credit history for the applicant in order to determine credit worthiness. Negative and/or derogatory marks will affect the ability for a borrower to qualify for this program.
- Collateral - Loan to value ratio (LTV) maximum 90%. In addition to looking at the value of your collateral, the City will consider any existing debt you may still owe on that collateral.
- Equity – A borrower must be prepared to provide cash equity of at least 5 percent of the total fixed asset cost.
- Capacity - Debt coverage ratio (DCR) minimum 1.20. Business needs to have \$1.20 of income to support every \$1.00 of debt service.
- Project Readiness – If funding is to be utilized for a new business, the business plan must be no more than one year out from operation of the business and job creation.
- Low-Moderate Income Benefit – Funding must create or retain permanent jobs. \$35,000 per full-time equivalent (FTE) permanent job.
- Project costs must be reasonable.
- Other funding sources are committed.
- CDBG funds are not substituting for private funds.
- Project must be financially feasible.
- CDBG funds will be disbursed on pro rata basis with other funds.

### **Terms**

- Up to 15 years with full amortization when secured by owner-occupied real estate (Deed of Trust)
- Up to 5 years when secured by general business assets (UCC-1)

### **Rate**

- The interest rate will be tied to the Wall Street Journal Prime Rate. As of September 17, 2015 = 3.25%.