



JOB DEVELOPMENT REVOLVING LOAN FUND GUIDELINES

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

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City of Johnstown
Department of Community and Economic Development
Job Development Revolving Loan Program
GUIDELINES

Purpose

The City of Johnstown and its Department of Community and Economic Development (DCED) maintains an economic development strategy designed to stimulate private investment and generate employment opportunities throughout the City. One of the most effective tools used in our strategy is the federally funded Job Development Loan (JDL) Program.

The City of Johnstown utilizes its Community Development Block Grant (CDBG) to supplement existing economic development incentives such as the Pennsylvania Industrial Development Authority Loan, Small Business Administration Loan, Cambria County Industrial Development Authority Mortgage (Bond) Financing, Southern Alleghenies Revolving Loan Program, and our own Enterprise Development Loan Program.

Small businesses wishing to undertake new or expanding projects within the City may qualify for the Job Development Loan Program. At the time of initial inquiry, interested parties will be informed of the basic requirements for qualifying loan recipients.

Program Eligibility and Statutory Considerations

Any project or activity undertaken with Federal Community Development Block Grant (CDBG) funds must comply with the provisions of the Housing and Community Development Act of 1974 (42 USC 5301) and regulations promulgated by HUD to implement the Act (24 CFR Part 570). Although there are many additional laws and regulations, which govern the CDBG Program, primary emphasis must be given to compliance with the project eligibility and statutory objectives of the CDBG Program. These detailed regulations are available for review at the DCED main office. Eligible economic development activities and their corresponding use of CDBG funds are discussed in the CDBG regulations at 24 CFR 570.203 which states:

“The provision of assistance to a private for-profit business, including but not limited to grants, loans, loan guarantees, interest supplements, technical assistance, and other forms of support for any activity where the assistance is appropriate to carry out an economic development project.”

From this information, it is evident that Job Development Loans, which provide financial assistance to private sector commercial enterprises, meet the basic economic development eligibility requirements of the CDBG regulation and demonstrates that such a Program is appropriate in carrying out the City's economic development strategy. In addition to meeting the specific eligibility definitions of the CDBG regulations, all activities must address the primary objective of the Act – *“the development of viable, urban communities, including decent housing and suitable living environment, and expanding economic opportunity, principally for persons of low and moderate income.”*

Eligible and Ineligible Activities

The CDBG Job Development loan may be used for working capital, machinery and equipment, inventory, building/land acquisition, and construction/renovations. However, if Jobs Development Loan funds are used for construction/renovation of a structure, the loan recipient and subsequent contractors must adhere to Davis-Bacon wage determinations. See DCED staff for more information on Davis-Bacon wage determinations.

Job Development loan proceeds may not be used to refinance an existing long-term indebtedness and cannot be expended for an activity that commenced prior to the date of initial application for the loan. In certain cases where project timing becomes critical, the investor may be permitted to obtain interim short term financing in anticipation of the City's Job Development Loan. The City will not, however, issue any type of written approval or commitment prior to the Job Development Loan closing date.

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Eligibility Requirements

Eligible projects must have/plan for the following:

- 1) private non-residential economic development project
- 2) location within corporate limits of City of Johnstown
- 3) total project cost of at least \$10,000
- 4) plan to create one full time job for every \$25,000 loaned from City
- 5) does not include plan for purchase of an existing business, unless new jobs are to be created

Job creation is our primary concern in all new/expanding business projects. Therefore, the City can only lend money based on the number of jobs to be created. For example, if the total cost of a project in the CBD is projected at \$500,000, and eight (8) employment opportunities would result from the project, the maximum \$100,000 loan could be made. If the same \$500,000 project were planned, but only three (3) employment opportunities would result, the maximum level of CDBG assistance would be \$25,000 times 3 jobs, or a \$75,000 loan.

For the purpose of employment projection calculations, a full-time equivalent employee is defined as any employee or employees who work a 40-hour week. As an illustration, the creation of two (2) part-time positions for persons working 20 hours per week would result in the creation of one (1) full-time equivalent employment opportunity.

Type of Available Assistance

Job loan funds are available to private development projects in the form of a loan, which may be subordinated to any form of existing or proposed private financing involved in the project. All loans made under this program will be secured in a manner deemed most appropriate by the City. Security may be in the form of a mortgage, a judgment note, a financing statement, a general assignment, or some alternative form that provides adequate security for the loan. Personal guarantees may be required in order to complete the collateral arrangement.

Micro-Enterprise Loan Component

As an extension of the Job Development Loan Program and as a means of extending assistance to smaller enterprises, funding assistance is available in smaller amounts for certain activities which create or retain jobs. Eligible applicants and activities are as per the regular Job Development Loan Program. The following Micro-Enterprise Loan program also has the following requirements:

- 1) Funding assistance is available for projects creating one or more full-time equivalency job(s)
- 2) The maximum loan for projects in the Central Business District is \$25,000 or 70% of the total project cost, whichever is less. Elsewhere in the City, the maximum loan is up to \$25,000 or 50% of the total project cost, whichever is less
- 3) The interest rate is 3% per annum and the maximum term is three (3) years for projects involving inventory and/or working capital, and five (5) years for projects involving equipment and other interior furnishings.

For the purposes of this component, a micro-enterprise is a small business located in the City of Johnstown having five (5) or fewer employees.

Program Participation in Project Financing

With the exception of projects located in the CBD, the Jobs Development loan requested must not exceed thirty-three percent (33%) of the total investment in the project with a maximum of \$100,000 but also must correspond with the \$25,000 borrowed/ per job ratio. For projects located in the defined CBD, the loan must not exceed fifty percent (50%) of the total investment in the project with a maximum of \$100,000. DCED staff will verify projects noted as being in the Central Business District.

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Applicants are required to pledge five percent (5%) of the total project cost as an owner's equity injection. This investment must be in the form of a new capital outlay or an unpledged asset. The remaining sixty two percent (62%), forty five percent (45%) in the case of the CBD, of the total project cost can be acquired from financial institutions, investors, etc. These sources of financing must be documented, and a letter of commitment must be supplied to the City for the loan packet.

A complete financing plan for a one hundred-thousand-dollar (\$100,000) project outside of the CBD would look like the following, a request for thirty three thousand (\$33,000) from the City, owner's equity amount of five thousand (\$5,000), and sixty two thousand (\$62,000) from other private sources.

The Job Development Loan is generally to be the only source of City financing for the project. Comingling a Job Development Loan with a City Enterprise Development Loan is prohibited, except for especially significant economic development projects as determined on a case-by-case basis by DCED. Other forms of subsidized public financing, such as the state of Pennsylvania's PIDA, MELF, or SBF loans, may be used in conjunction with CDBG Job Development financing. However, the amount of the City's Job Development loan must be the minimal amount needed to render the project financially feasible.

Interest Rate and Terms of Repayment

All loans made under this program will be amortized at an interest rate of three percent (3%) provided that the original projection of employment opportunities generated by the project is fulfilled. Interest penalties for failure to meet employment projections are described in a separate section. Terms for loans vary on the use of the City's loan funds:

- Building/land acquisition building construction – 12 yrs
- Building renovations, leasehold improvements, machinery, equipment – 7 yrs
- Working capital, inventory – 3 yrs

Job Development loans can be subordinated to any existing or proposed private financing involved in the project. All loans made under this program will be secured in a manner deemed most appropriate by the City. Security may be in the form of a mortgage, a judgment note, a financing statement, a general assignment, or some alternative form that provides adequate security for the CDBG loan. Personal guarantees may be required in order to complete the collateral arrangement.

Job Creation Requirements

The Jobs Development Loan program is funded by the City's Community Development Block Grant (CDBG) program, whose regulations **require** that its programs benefit low/moderate income (l/m) individuals. When CDBG funds are used by the City to make loans to new and existing businesses, the loan must create or retain permanent jobs of which at least 51% are either filled by *or* made available to low/moderate income persons (low/mod income guidelines are attached to this application).

Loan recipients achieve the CDBG l/m benefit by filling 51% of their required new jobs with l/m persons (required jobs are defined as those that must be created to maintain one job per \$25,000 borrowed ratio). Loan recipients are required to document the household income of individuals at the time of hiring for proof of l/m status.

First Consideration: The loan recipient must take proper steps to ensure that low/moderate income individuals were given **first consideration** during the hiring/job development process. This practice also makes it easiest to fill and/or make available 51% of the jobs with l/m persons. A provided form is required to be completed during a candidate's

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first interview with the potential employer. The purpose of the form is to determine and verify household income and can help the employer identify l/m income applicants.

A loan recipient can reach a 51% benefit - even if they do not fill 51% of required jobs with l/m persons. This can be achieved if the employer can prove that the jobs not taken by l/m person were available to l/m persons because they were given first consideration. The jobs must not require special skills (those that require more than a year of training or work experience) and education beyond high school, unless the employer thereby agrees to provide training. This option in reaching a 51% benefit is grounded in the following definition: “a l/m jobs activity is one which creates or retains permanent jobs, at least 51% of which, on a full-time equivalent basis, are either held by l/m persons or considered to be available to l/m income persons”.

For example, a loan recipient who receives \$100,000 in loan funds must create 4 jobs. 51% of those 5 jobs (3 jobs) must be filled or made available to l/m persons. All of the following scenarios would ensure that the recipient is in compliance with CDBG regulations

- 3 positions filled with l/m persons (51%)
- 1 or 2 of the 3 required positions filled with l/m persons, as long as all three positions were available to l/m persons and have supporting documentation
- None of the three required positions with l/m persons, as long as all three positions were available to l/m persons and have supporting documentation

Presumed Benefit: Section 105 (c) 4 of the CDBG authorizing regulation provides that, for the purposes of determining whether a job is held or made available to a l/m income person, the person may be presumed to be l/m income if either of the following is true:

- The person resides in a block group* that has at least a 20% poverty rate
- The business is located in a block group* that has at least a 20% poverty rate
- Subdivision of a census tract that consists of blocks with the same initial digit and the smallest geographic unit for which the Census Bureau tabulates sample data

In such cases, the business is presumed to benefit l/m persons. The following chart lists those block groups in the City of Johnstown that have a poverty rate in excess of 20%:

Census Tract # / Neighborhood Name	Block Group #	Poverty Rate
Tract 1/ Downtown	BG 1	50.3%
Tract 2/ Kernville – all block groups	BG 1	37.6%
	BG 2	41.6%
Tract 3/ Hornerstown	BG 1	31.3%
	BG 2	44.4%
Tract 4/ Walnut Grove	BG 2	36.60%
Tract 5/ Lower Moxham	BG 2	24.2%
Tract 6/ Upper Moxham	BG 1	26.7%
	BG 3	21.8%
Tract 8/ Old Conemaugh Boro – all block groups	BG 1	29.0%
	BG 2	34.4%
Tract 10/ Prospect/Minersville	BG 2	57.3%
Tract 11/ Cambria City – all block groups	BG 1	26.5%

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Tract 12/ Morrellville	BG 1	24.2%
	BG 3	21.4%
	BG 4	27.3%
Tract 13/ Oakhurst	BG 1	75.20%
Tract 14/Coopersdale	BG 1	30.7%

** See DCED for further description of block group boundaries*

If the assisted business is **not** located in or the prospective employee(s) does not reside in one of the above designated block groups, the business **must maintain** employee/applicant income documentation to prove they filled or made available 51% of their required jobs to l/m persons (low/mod income guidelines are attached to this application).

Job Retention Requirements

In order to consider requests for loan assistance in cases involving job retention rather than creation, there must be clear and objective evidence that permanent jobs will be lost without CDBG loan funds. The borrowed ratio rate is \$12,500 for every retained job. For these purposes, “clear and objective” evidence that jobs will be lost would include:

- Evidence that the business has issued a notice to affected employees or made a public announcement to that effect
- Analysis of relevant financial records which clearly and convincingly shows that the business is likely to have to cut back employment in the near future without the planned intervention
- To meet the l/m income jobs standard, 51% or more of the retained jobs must be either Known to be held by l/m persons at the time CDBG assistance is provided
- For jobs not held by l/m persons, they must be reasonably expected to “turn over” to l/m persons within two years. “Turn over” in the case means the jobs must be filled or available to l/m persons in the manner described in the previous section

Penalty for Failure to Meet Employment Projection

The borrower must meet his/her employment projection within three (3) years from the date of loan closing. Failure to meet the employment projection within this period of time will result in a penalty of immediate repayment equal to One-Hundred Ten percent (110%) of the outstanding loan balance. If the entire repayment is not received within sixty (60) days, the outstanding balance of the loan, including interest, will be subject to an interest penalty of fifteen percent per annum.

Monitoring

At the time of monitoring for compliance with the threshold requirements of the loan, the loan recipient must provide all information requested by the City. Monitoring information needed and not provided when requested is just cause for voiding an application and/or for the immediate repayment of the loan, penalties, and legal costs.

Licenses

The applicant must be up to date with all licenses and fees required by the City of Johnstown. If the applicant is not up to date on the licenses and/or fees, the City of Johnstown holds the right to deny the loan request. These licenses and fees include the following:

- Occupancy Permit
- Cabaret License for all Entertainment Service Businesses
- Amusement Tax License for all Gaming Machines located within the business
- Business License

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- Building Permit for all businesses that will be conducting renovations
- Certificate of Sewage Compliance, when purchasing a property.

Any and all outstanding code violations with the City's Code Department will also forfeit your loan application.

Required Documentation

A complete package including the following must be submitted to City's DCED along with a non-refundable \$50.00 application fee to be considered for loan funds: : **Any Application submitted without the required documentation or loan application fee will not be accepted by DCED.**

1. Detailed description of the proposed project, including estimate of total cost, cash flow pro forma, projected balance sheets, and profit and loss statements
2. Narrative describing the need for job loan funds
3. Evidence of site control such as a title, lease, agreement of sale, or option
4. Summary of the sources and uses of all funds for the project
5. Evidence of financial commitments
6. Payroll records as of date of initial inquiry for the purpose of measuring the increase in employment opportunities and last three years financials (if a existing business)
7. Personal Financial Statement
8. Credit Report

Applicability of Other Federal Requirements

Since the City's source of funds for the Job Development Program is the HUD Community Development Block Grant Program, participants must indicate a willingness to comply with certain Federal requirements, including but not limited to the following:

1. Section 3 obligations to provide to the greatest extent feasible opportunities for training and employment of local lower income residents and contractors
2. Executive Order 1126 obligation to practice nondiscrimination and affirmative action in employment policies
3. Flood Disaster Protection Act of 1973 (P.L. 93-234) which requires the City to obtain proof of flood insurance coverage from loan recipients whose property is located in special flood hazard areas. The Act requires that flood insurance coverage remain in effect for the entire economic or useful life of the property. DCED will assist applicants in determining the application of this requirement on a case-by-case basis
4. Labor Standards (Davis-Bacon Prevailing Wage Rates) are applicable to construction work financed in whole or in part with Job Development Loan funds
5. The proprietor, partner, director or any shareholder of the business must not have been convicted of a felony.

Loan Services and Fees

At time of closing, the successful borrowers are required to pay a loan servicing fee of one percent (1%) of the City's portion of the loan with a minimum of a \$200.00 to the City of Johnstown. Successful borrowers will be provided with all relevant information at the time of the loan closing.

Payments to the City's loan servicing agent are generally due on the first day of each month commencing upon the

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first payment date. This date (typically roughly 60 days after closing) will be determined by DCED via the borrower's generated Loan Schedule and Account. A welcome letter will also be sent via email and mail. It is the responsibility of the loan applicant to follow their agreed upon payment schedule unless otherwise specified by DCED. Payments not received within fifteen (15) days of the payment due date will be considered late. Late payments must be accompanied by a flat late payment fee of thirty dollars (\$30.00) plus the loan payment. If the late payment does not accompany the loan payment it will be added to the loan's outstanding balance.

The City of Johnstown has partnered with Bryt Software, a loan management platform, to service loans issued under the Job Development Revolving Loan Fund (RLF). Borrowers will receive login instructions for the JD RLF Borrower Portal, which provides access to loan payment schedules, loan balances and other important documentation.

All loans given under this loan program will be charged a five dollar (\$5.00) monthly RLF Community Service Fee, due with each monthly payment. This fee helps offset administrative costs associated with loan servicing software and ACH processing.

To encourage use of automatic payments, an ACH Authorization Form will be provided at loan closing. Borrowers enrolled in ACH may designate one bank account only for recurring payments. Upon submission and confirmation of the form, 50% of the applicable Community Service Fee will be waived and deducted from the borrower's monthly payment. If the borrower chooses to stop recurring or auto payments the 50% discounted Community Service fee will be removed and the full fee will be due every month moving forward until the borrower re-enrolls in auto ACH. If a borrower enrolled in automatic ACH payments has a payment returned for any reason (e.g., insufficient funds, closed account), they will be notified in writing and given until the end of the 15-day grace period to resolve the missed payment along with any return fees incurred by the City of Johnstown JD RLF due to the missed or returned payment.

Repeated failed ACH payments (two or more in a 12-month period) will result in removal from the ACH discount program, and the full Community Service Fee will be reinstated. Late fees may also apply if payments are not received within the established 15-day grace period.

Borrowers must submit updated authorization if bank account information changes.

All loan repayments will be applied in the following order:

1. **Lender fees** (including the Community Service Fee and any return or administrative fees)
2. **Accrued interest and late fees (if applicable)**
3. **Principal balance**

Repayment on all loans will begin roughly 60 days after the loan closing date, unless otherwise approved by the Loan Review Committee.

City Review of Requests for Assistance

DCED will maintain a log on each loan application. If documentation is incomplete three (3) months after the application date, with no justifiable written explanation, the application will be voided and removed from the application file. The completed loan package will be reviewed by DCED staff, the City's attorney and the designated loan review committee who will reach a final determination on any funding action to be taken. Provided that all necessary documentation is in order, the City will be capable of reacting to requests for CDBG assistance in a prompt and timely manner. The applicant will be notified, in writing, of any action taken by the City relative to his/her request for assistance. Successful applicants will be contacted to establish a mutually convenient date for the loan closing. All

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private funds must be available for project implementation before the CDBG loan closing can take place.

Loan Review Committee

The Loan Review Committee has been established to review all loan applications and documentation relative to the Job Development Loan Program. The Committee will coordinate the lending process and make decisions and recommendations on underwriting issues (i.e., determination of credit worthiness of borrower).

The committee will meet at 2 pm on the third (3rd) Wednesday of the month(s) when loan applications have been properly and fully submitted. You will be notified by the City of Johnstown's Department of Community and Economic Development when your committee meeting will occur and you will be encouraged to attend the meeting in order to answer any questions that may arise on your application. You are required to submit your loan packet in full the second (2nd) Monday of the month, in order to allow proper time for distribution and review.

Delinquent and Uncollectable Loans

Any Job Development loan which becomes delinquent, more than 30 days late, shall trigger a written notice of such delinquency from the City of Johnstown Department of Community and Economic Development. All outstanding late fees and interest will be added to the borrower's balance for each instance of nonpayment. Written delinquency notices shall continue to be sent to the loan recipient on a monthly basis, up-to three (3) months delinquent. If the loan is not brought current by resuming payments, restructuring the loan agreement and/or becomes unresponsive for a period of three (3) months delinquent, the loan shall be turned over to the City of Johnstown Solicitor for legal action..

Special Requirements

All executed loans must benefit the City of Johnstown. To ensure this, the agreements between the loan recipient and the City contains a provision that if the business relocates outside the corporate limits of the City before the loan is repaid, the outstanding balance, penalty or interest shall become payable within sixty (60) days. Any balance remaining after the sixty days will be affixed with an interest rate at least two (2) points above the New York prime rate.

Reasonable activity must commence as planned and be maintained in completing the project financed by the loan. If the activity is not started or completed within a reasonable and agreed upon time, the unused loan funds will be returned to the City and portions drawn by the recipient will be immediately due and payable to one hundred and ten percent (110%) of that amount. The loan recipient must provide documented proof of mitigating circumstances for delay and receive acceptance by the City in order to eliminate or reduce the penalty.

Further information relative to the Job Development Loan Program may be obtained by contacting the City of Johnstown's Department of Community and Economic Development at DCEDloans@johnstownpa.gov.