



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

Purpose

The City of Johnstown is a state designated Enterprise Zone Loan and has established these guidelines to provide financial assistance to small and medium sized businesses that are industrial, manufacturing, or technology-oriented companies within or locating within the state designated Enterprise Zone of the City's corporate limits. Projects considered for Enterprise Zone Loans will generally be those with a minimum project cost of \$100,000.00. Smaller projects may be better served by using the City's Job Development Loan Program. The applicant should provide evidence of the potential for creation of a significant number of jobs within the designated three (3) year requirement period.

Eligible and Ineligible Activities

Eligible activities include building and land acquisition, new building construction, building and site improvements, machinery and equipment, and inventory of new and expanding businesses. However, if Enterprise Zone Loan funds are used for construction/renovation of a structure or on-site improvements, the loan recipient and subsequent contractors must adhere to the state prevailing wage determinations. Contact Johnstown DCED staff or Pennsylvania Department of Labor and Industry for more information on state prevailing wage determinations.

The Enterprise Zone Loan may be used in a pro-rated form and combined with new financing or private funds for the project. Enterprise Zone Loan proceeds may not be used to refinance an existing long-term debt 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 Enterprise Zone Loan. The City will not, however, issue any type of written commitment prior to the Enterprise Zone Loan closing date.

Eligibility Requirements

Threshold requirements for Enterprise Zone loan funds include:

- 1) Non-residential economic development project
- 2) Total project cost totaling at least \$100,000.00
- 3) Location within the City of Johnstown corporate limits and within the designated Enterprise Zone
- 4) Creation of one new employment opportunity for every \$25,000 borrowed or retain one full time position for every \$12,500 borrowed

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. The City, at any time, may set the amount of Enterprise Zone Loan funds that can be borrowed depending on the availability of funds and other circumstances that prompt the City to set limits. Employers must be willing to sign a Statement of Assurance that they will make affirmative effort to produce the level of employment opportunities projected in the Enterprise Zone Loan Application.

Type of Available Assistance

Enterprise Zone Loan funds will be made available to private development projects in the form of a loan, which can be subordinated to any form of existing or proposed private funding 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, UCC, or combination of these that

provides adequate security for the Enterprise Zone Loan. Personal guarantees may be required to complete the financial arrangement.

Program Participation in Project Financing

The Enterprise Zone Loan requested generally cannot exceed thirty-three percent (33%) of the total project cost, or a maximum of \$350,000, as of the date of initial application. In this manner, at least three dollars of private investment must be leveraged for every one Enterprise Zone dollar loaned. However, if the project is located in the Central Business District (located in the Enterprise Zone) that percentage can be fifty percent (50%), with one dollar of private investment for every dollar of Enterprise loan funds.

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%) of the total project cost are acquired from financial institutions, investors, etc. These sources of financing must be committed, approved, and documented.

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

The Enterprise Zone Loan is usually the only source of City financing for the project. Commingling a Job Development Loan with Enterprise Zone Loans is generally prohibited, except for particularly significant economic development or revitalization projects.

Other forms of local and state subsidized financing such as Pennsylvania's Machinery and Equipment Loan Fund may be used in conjunction with Enterprise Zone financing, but the amount of the City's Enterprise Zone Loan funds will be the minimal amount needed to render the project financially feasible.

In cases of projects that involve multiple sources of public financing, the borrower must present a complete pro-forma analysis of the proposed project together with any additional documentation the City may require to demonstrate the need for Enterprise Zone financing. The City will make a determination relative to the project's need for Enterprise Zone financing, and may elect to deny the request. The City will inform the borrower of its determination as to the amount of the Enterprise Loan. Projects that involve multiple sources of public financing must meet all Enterprise Zone Loan requirements.

Micro-Enterprise Loan Component

As an extension of the Enterprise Zone 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 Enterprise Zone 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, machinery, 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.

Interest Rates 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 loan funds:

- Building or land acquisition, building construction – 12 yrs
- Building/leasehold renovations, site/infrastructure improvements, machinery, equipment – 7 yrs
- Working Capital and Inventory – 3 yrs

The City reserves the right to adjust the interest rate and term from time to time reflecting economic trends, and/or negotiate interest rates and other terms for particularly significant projects.

Job Creation Requirements

The Enterprise Zone Loan requires the creation of one new employment opportunity for every \$25,000 borrowed or retain one full time position for every \$12,500 borrowed. 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. The City, at any time, may set the amount of Enterprise Zone Loan funds that can be borrowed depending on the availability of funds and other circumstances that prompt the City to set limits. Employers must be willing to sign a statement of assurance that they will make affirmative effort to produce the level of employment opportunities projected in the Enterprise Zone Loan 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 Enterprise Zone Loan funds. 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

Penalty for Failure to Meet Employment Projections

Providing the required new jobs for unemployed or underemployed persons is an important part of the Enterprise Zone Loan Program. Failure to provide the projected number of jobs within three (3) years from the date of loan closing constitutes a default to the loan agreement and will trigger an immediate repayment of the loan.

The borrower will be monitored during and at the end of the three (3) years and information is to be provided by the borrower as evidence that the jobs have been created and properly filled by unemployed or underemployed persons.

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 and Taxes

The applicant must be up to date with all licenses and fees required by the City of Johnstown as well as City of Johnstown municipal taxes. If the applicant is not up to date on the licenses, fees and/or taxes, the City of

Johnstown holds the right to deny the loan request. These licenses and fees include the following:

- Occupancy Permit
- Business License
- Cabaret License for all Entertainment Service Businesses
- Amusement Tax License for all Gaming Machines located within the business
- Building Permit for all businesses that will be conducting renovations
- Certificate of Sewage Compliance when purchasing property

Any and all outstanding code violations with the City's Code Department will also forfeit your loan application unless loan monies will be utilized to address said code violations.

Required Documentation

A complete package including the following must be submitted to City's DCED along with a non-refundable \$50 application fee to be considered for loan funds. Any application submitted without a complete package of required documentation listed below or on the application will not be accepted.

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
 1. 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)
 2. Personal Financial Statement
 3. Credit Report

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 60 days after loan closing. This date 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 Enterprise Zone Revolving Loan Fund (RLF). Borrowers will receive login instructions for the EZ RLF Borrower Portal, which provides access to loan payment schedules, loan balances and other important documentation.

All loans given under the EZ loan program will be charged a \$5.00 monthly RLF Community Service Fee, due with each 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 EZ 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

City of Johnstown DCED staff 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 City of Johnstown 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 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 private funds must be available for project implementation before the 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 Enterprise Zone 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 loan review 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 required 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 Enterprise Zone 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. 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's Solicitor for legal action.

For a Enterprise Zone loan to be deemed uncollectable and therefore subject to additional action(s) by the City of Johnstown, unsuccessful collection efforts shall have passed for a period of six (6) months from the date of transfer to said 3rd party collection agency. At the conclusion of said six (6) month collection period the loan may be deemed uncollectable via approval by City of Johnstown Administration (City Manager, Economic Development Director, and Finance Director) and the City's Loan Review Committee. If no concurrence can be reached by the City of Johnstown Administration or the City's Loan Review Committee, the loan will then be turned back to the 3rd party collection agency for an additional six (6) month collection period before write-off or collection/foreclosure of collateral by City of Johnstown Administration at the end of second said six (6) month collection period.

Special Requirements

All executed loans must benefit the Enterprise Zone. To ensure this, the agreement between the loan recipient and the City will contain a provision that if the business relocates outside the Enterprise Zone before the loan is repaid, the outstanding balance shall become payable within sixty (60) days. Any balance remaining after that date 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 immediately become due and payable at one hundred-ten percent (110%) of that amount. The loan recipient must provide documented proof of mitigating circumstances for a delay and receive acceptance from the City in order to eliminate or reduce penalty.

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