

EXCERPT OF ECONOMIC DEVELOPMENT SECTION

# City of Lorain, CDBG Policies and **2019** Procedures

Policies and Procedures for the Utilization  
of Community Development Block Grant  
Funding in the Entitlement Community of  
the City of Lorain



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## **Economic Development**

“Creating economic opportunities and jobs are among the key CDBG activities funded by grantees.” – *Basically CDBG* Ch. 8.1

### **Eligible Activities and CDBG-CV Grant Priorities**

Although there are several types of eligible economic development activities in sections 24 CFR 570.203 and 570.204 of the CDBG program regulations, the City of Lorain (the City) will support job creation and retention for low and moderate income persons through: assistance to a private for-profit business in the form of loans, grants, or other forms of support where the assistance is appropriate to carry out an economic development project; as well as services in connection with these activities including marketing and outreach efforts, screening of applicants, reviewing and underwriting applications; preparation of agreements; management of activities (including monitoring).

Given the City’s focus on job creation and retention for microenterprises and small businesses, all economic development loan and grant activities carried out by the City of Lorain and/or its sub-recipients will fall under the HUD Integrated Disbursement and Information System (IDIS) matrix codes of (18A) ED Direct Financial Assistance to For-Profits. The city of Lorain is using a portion of its Community Development Block Grant Program Coronavirus Response Grants (CDBG-CV) funds to support the Small Business Stabilization Program described below in order to meet the CARES Act criteria to plan, prepare for and prevent coronavirus.

## Small Business Stabilization Program

With support from the U.S. Department of HUD, the City of Lorain is receiving technical assistance from TDA Consulting, Inc. on its economic development program design, including the use of community partners to carry out the Small Business Stabilization program. The City approached the Lorain County Chamber of Commerce (the Chamber) to help support its economic development priorities and to administer the program on the its behalf under a subrecipient agreement with the City. The following policies and procedures form the basis for the implementation of the Small Business Stabilization Program (SBSP). (See Small Business Stabilization Program for complete details on the program.)

### Purpose

The purpose of the SBSP is to help businesses prevent, prepare for or respond to coronavirus and the related economic downturn and recovery. There are two components to the program. The first component is a forgivable, no-interest loan designed to help local businesses avoid financial hardship, remain in operation and/or re-open after the state mandated non-essential business shutdown. Businesses may also apply for a separate forgivable, no-interest loan to protectively retrofit their place of business in accordance with state and county public health guidelines. Applicants may apply for either one or both components. Each component serves as an additional resource to businesses that applied for financial support from state or federal programs as a result of the coronavirus pandemic but need additional support.

Potential applicants for the forgivable loan should understand the following specific elements of this special assistance for business stabilization:

- Qualified businesses are eligible to receive up to a maximum of **\$10,000** from both program components (For example: \$5,000 Business Operations/\$5,000 Protective Retrofit).
- The minimum application request for either program is **\$2,500**.
- The number of forgivable loans will be limited and will be awarded to qualified businesses submitting complete applications on a first received, first awarded basis.
- Businesses must retain one or more jobs for a low-and-moderate income person(s) (computed on a full-time equivalent basis).
- Businesses must have applied for assistance for the same purposes from the Paycheck Protection Program (PPP Loan) or Economic Injury Disaster Loan (EIDL) program through the Small Business Administration (SBA), CARES Act Recovery Assistance through the Economic Development Administration (EDA), or any other state or federal government agency.

Businesses that received state or Federal assistance must acknowledge and identify all costs covered by the assistance to avoid a duplication of benefits (DOB) with the City's program.

Administration of the SBSP will be carried out by the Chamber under an agreement with the City. An application and review process managed by the Chamber in cooperation with the Small Business Development Center (SBDC at LCCC) and the City will be used to determine eligibility for the program. The City's procedures for implementation of the SBSP are outlined as follows:

## **1. Announcement**

The City and Chamber will jointly announce the SBSP and invite eligible businesses to apply. In cooperation with the SBDC, the program will be widely marketed throughout the City including notification to businesses that have expressed a need for financial assistance as well as targeted outreach to disadvantaged businesses including Section 3 businesses and minority and women-owned businesses (MBE/WBEs, see details below.) Marketing will include an announcement on the Chamber's [website](#), social media posts, program flyers, and a press release accompanying the announcement.

### **a. Public Announcement**

The City and Chamber will release a public announcement in a manner consistent with their local policies and practice. This will include a posted message from the Office of the Mayor and/or similar official notification to the general public.

### **b. Targeted Outreach (MBE/WBE)**

The City of Lorain is committed to increasing economic opportunities and access to resources to disadvantaged businesses. Both the City and Chamber understand the impact that COVID-19 has had in the small business community, especially its Minority Business Enterprises (MBE) and Women Business Enterprises (WBE). To ensure that minority-owned businesses have an opportunity to apply, the City and Chamber will collaborate with local community organizations to promote the SBSP. This will be done through joint social media outreach, Zoom informational meetings and Q&A sessions hosted by a community or resource partner.

## **2. Application Process**

Applications may be obtained via the both the City's and Chamber's website at <https://www.cityoflorain.org/> or picked up at the City's offices. If a business requests assistance with completing the application or other support, they can contact the SBDC at [lhutson@lorainccc.edu](mailto:lhutson@lorainccc.edu) Applications will be date-stamped upon receipt. Applications that are determined to be complete as detailed below will be reviewed on a first-come, first served basis until all available funds have been obligated.

### **a. Eligible Applicants**

To be considered eligible to apply for a SBSP forgivable loan, a business must meet the eligibility criteria below in order to submit an application to the Chamber:

Be located within the City of Lorain and have fifty (50) or fewer employees on March 22, 2020 when Ohio Governor Mike DeWine and Department of Health Director Dr. Amy Acton announced a stay-at-home order in response to the coronavirus pandemic

- i. Operate from a commercial or retail storefront in the following sectors: restaurants, bars, salons, barber shops, gyms/workout facilities, tattoo parlors, bowling alleys, dry cleaners, event and banquet centers and general retailers, including automotive repair shops
- ii. Be organized as a for-profit entity as defined by the IRS
- iii. Hold a certificate of registration with the Ohio Secretary of State to do business in the State
- iv. Maintain a valid registered business license with the City of Lorain

- v. Have been in operation as a business for at least one year prior to March 22, 2020
- vi. NOT be currently in receivership, bankruptcy or have any Federal, state or county tax liens against the business

**b. Ineligible Applicants**

Businesses that are not eligible to apply for the program include:

- i. Any business with more than three (3) locations
  - ii. Non-storefront based small business and/or home-based businesses
  - iii. Gas stations, automotive parts shops
  - iv. Professional Service businesses
  - v. Any business operating as an entertainment device arcade
  - vi. Any business operating as a sexually oriented business as that term is defined in Section 2907.40 of the Ohio Revised Code
  - vii. Any business that primarily sells tobacco products, cigarettes, electronic smoking devices, or vapor products as those terms are defined in Section 2927.02 of the Ohio Revised Code
- Any financial institution that makes loans or issues credit to the public, including, but not limited to, banks, credit unions, payday lenders, or any other similar business

**3. Documentation Required**

To receive full consideration, an applicant must provide the following documentation:

- a. Fully completed application
- b. Financial statement (specifically 2019 Business Financial Statements including Income Statement and Balance Sheet as well as 2020 Year to Date Business Financial Statements)
- c. Credit Report
- d. Most recent business tax return (if applicable)
- e. Copy of valid property deed, existing mortgage or commercial lease
- f. Certificate showing that the business is registered with the Ohio Secretary of State to do business in the State of Ohio
- g. Resident Business Registration with the City of Lorain Treasurer
- h. A job description that shows the duties, salary level or wages that the employee would normally receive (for each employee being retained)
- i. W-2's, payroll sheets to confirm employee count/ date of employment and completed W-9 form
- j. Income Verification Form (from each employee being retained)
- k. Duplication of Benefit (DOB) Worksheet (described below)

Applications will not be considered until all the required documents listed above have been received and are complete. If an application is considered incomplete and/or the applicant fails to include all information required, the applicant will be notified by email of the incomplete submission. The applicant will then have fifteen (15) days to respond to the email with the necessary information to consider the application as complete. If response and information is not received within the fifteen (15) day timeframe the application will not be considered.

Please note: If an application is not complete, it may not be funded within the 15-day resubmission period as available program funds may be fully utilized within that timeframe.

Businesses must submit a fully completed application to [smallbusinessprogram@loraincountychamber.com](mailto:smallbusinessprogram@loraincountychamber.com) or by mail:

City of Lorain Small Business Stabilization Program  
Lorain County Chamber of Commerce  
226 Middle Avenue, 5th Floor  
Elyria, OH 44035  
(440) 328-2550

If a business cannot submit via email, a representative can contact the Chamber at the above phone number and make other arrangements to drop off the application or have it picked up by a Chamber representative.

#### **4. Duplication of Benefit Analysis**

The CARES Act requires HUD to ensure that there are adequate procedures in place to prevent any duplication of benefits for CDBG-CV assisted activities. Under federal law, a duplication of benefits occurs when Federal financial assistance is provided to a person or entity for the same costs from any other source (including insurance), and the total amount received exceeds the total need for those costs. HUD's Federal Register Notice for Community Development Block Grant Program Coronavirus Response Grants (FR-6218-N-01) requires the City to establish a set of policies and procedures for each CDBG-CV program and activity to prevent a duplication of benefits. These procedures, at a minimum, must include the following:

- a. A requirement that anyone who receives CDBG-CV assistance must repay duplicative assistance if and when it occurs
- b. A method to assess if duplicate financial assistance has already been or is likely to be received for any CDBG-CV program or activity
- c. Documentation of all CARES Act assistance available to help determine potential risks of duplication

The following criteria will be used to ensure that a duplication of benefits does not occur for the City's Small Business Stabilization program:

- d. Businesses must have first applied for the Paycheck Protection Loan Program through the Small Business Administration (SBA) and show proof if received a denial letter that no assistance will be provided
- e. Businesses cannot have received any assistance from either, the Economic Development Administration (EDA), Federal Emergency Management Agency (FEMA) or any other government agency.
- f. Businesses must complete a Duplication of Benefit (DOB) Worksheet and sign an Affidavit provided by the City.

Further details and related guidance appears at the City's Duplication of Benefits Policy website at <https://www.cityoflorain.org/>

#### **5. Application Review Process and Approval**

Once a completed forgivable loan application is received by the Chamber, it will be reviewed by the Small Business Stabilization Loan Committee (the Loan Committee). The Loan Committee will be comprised of representatives from the Chamber, SBDC and City of Lorain, specifically the Chamber President, the SBDC Director and the City's Program Manager.

Full consideration will be given to applications submitted by disadvantaged businesses, including those with at least 51% minority ownership (Minority Owned Business Enterprise (MBE) and Women Owned Business Enterprise (WBE)).

#### **a. Underwriting Guidelines and Standards**

To ensure that the U.S. Department of HUD "Guidelines and Objectives for Evaluating Project Cost and Financial Requirements" are met, the Loan Committee will follow these underwriting guidelines as described in Appendix A of the CDBG program regulations at 24 CFR Part 570 to ensure that:

- i. Project costs are reasonable
- ii. All sources of project financing are committed
- iii. CDBG funds are not substituted for non-Federal financial support
- iv. The project is financially feasible
- v. To the extent practicable, the return on the owner's equity investment will not be unreasonably high, and
- vi. To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other finances provided to the project

In addition, the Committee will determine a business's ability to repay in the case of default, specifically considering the following factors and information to be provided by the business:

- vii. Capacity of business to repay
- viii. Credit worthiness
- ix. Level of equity
- x. Secondary repayment
- xi. Credit enhancements

The City will order, obtain and provide a credit report on the business to the Loan Committee. The Loan Committee will examine that information and other required documentation to evaluate the business's ability to repay the forgivable loan in the event that loan proceeds are not successfully used to stabilize the business.

The Loan Committee will review the application for job retention criteria and applicable public benefit standards (if any) for the CDBG-CV program. *All applications must also demonstrate that the assistance will prevent, prepare for, or respond to coronavirus.* In addition, the committee will review Duplication of Benefit (DOB) Worksheet and determine if the applicant has received or is likely to receive potentially duplicative assistance. This procedure is performed according to the City Duplication of Benefit Policy.

#### **b. Loan Decision**

The Loan Committee will make a written recommendation of approval or denial for each completed application and submit that recommendation to the City of Lorain's Board of Control (the Board) for final action. The Board of Control is composed of the City's Safety Service

Director and Mayor. This body is empowered to make funding awards up to \$50,000 based upon Ordinance 124-20.

The Board will carefully review the Loan Committee recommendation and decide to concur with the recommendation or to return the application to the Loan Committee for further consideration. Final notification and explanation for the Board's approval or denial of the forgivable loan application will be officially sent from the City (with support from the Chamber) to the applicant. The Board's eventual decision to approve or deny the loan application will be final and binding on the applicant.

## **6. Loan Closing**

If the Board approves the loan application and authorizes a business to receive financial assistance under the SBSP, the City Attorney or designee will prepare documents for a loan closing. A completed loan closing package will be used to disburse proceeds from the loan to the qualified business at the loan closing. As part of the closing package, a forgivable no-interest loan will be provided in an amount not exceeding \$10,000 with the understanding that the business receiving the forgivable loan must reopen once the current restrictions are lifted and/or remain in operation for a period of one year from loan disbursement.

Upon completion of the closing documents, a loan closing will be scheduled with the business within two weeks of the official notification from the City. The loan documents will include a loan agreement, promissory note, DOB Affidavit, and other closing documents, as needed.

The loan closing will take place within the following City offices:

Lorain City Hall  
Building, Housing and Planning Department, 5<sup>th</sup> Floor  
200 West Erie Ave., Lorain, Ohio 44052.

In anticipation of the loan closing and completion of the loan documents, the Accounts Clerk will process a request to the Auditor's Office for a Purchase Order to draw funds from the City Treasury. A check will be signed according to the City's standard routine provided that the planned disbursement is supported by a complete loan closing package. (See the City's Administrative Policy regarding Financial Management.)

Prior to receiving loan funds at the closing, the business must agree to enter into a loan agreement between itself and the City of Lorain. At a minimum, the loan agreement will have the following provisions:

- a. Require the business to retain or create one or more job(s) (computed on a full-time equivalent basis) to be held by a low-and-moderate income person using the HUD Section 8 low-income limit for a one-person family.
- b. Require the business to use all loan funds for the purpose set forth in these guidelines and the program application and report accomplishments within one year from loan award.
- c. Require the business to follow and comply with all other provisions of these guidelines.
- d. The loan is based on the business providing all required information and documentation in its application to the city for assistance in a true and accurate manner.
- e. No principal or interest payments will be required from the business during the period of the loan.



- f. If the business fails to comply with any of the guidelines set forth in the loan agreement and promissory note, Duplication of Benefits Affidavit, or in any monitoring or audit of the agreement by the city or HUD, reimbursement of the funds to the City of Lorain will be required.
- g. If considered necessary or required, the business will also enter into a subrogation agreement with the City
- h. Loan servicing instructions to be managed by the City

The loan agreement and other documents will be executed between the approved business and the City and witnessed by the Chamber. Having supplied all necessary documentation of expenses incurred during their shutdown or after reopening, the City will provide loan proceeds to the approved business at closing.

If the business fails to reopen and remain in operation for one year, the loan funding may be recaptured in its entirety and the business owner waives any right or claim to the awarded funding. The business must also record and maintain all required documentation for a period of one year from disbursement of funds by the City.

#### **7. Integrated Disbursement and Information System (IDIS)**

The City will compile information to be entered into the City's financial records as well as the U.S. Department of HUD's Integrated Disbursement and Information System (IDIS) to report on the Small Business Stabilization Program's benefits, accomplishments and results. Reporting information will also be used to file quarterly CARES Act and annual reports to HUD (CAPER). Information received from the Chamber on each assisted business will be used for IDIS entries.

This will include number of jobs assisted, type of assistance provided, related demographic characteristics and any additional information necessary to show the full accomplishments of this activity.

The City notes that additional information is subject to review by HUD including the below items:

- Activity setup in IDIS (described on the following page) including reference to "Prepare, prevent, or respond to COVID-19"
- National Objective compliance for retaining or creating low- to moderate-income jobs (with documentation of job retained, along with selected person and income; or job created with salary level of position)
- Evidence of checking against Public Benefit standard (under CDBG-CV guidelines)
- Preparation of loan agreement between business owner and the City
- A loan file demonstrating the Loan Committee's review of the application against stated underwriting criteria
- Review uses of funding to ensure eligible use of CDBG-CV funding as well as respect for the cost reasonableness standard of 2 CFR Part 200.

Project set-up in IDIS will be completed as follows:

- a. The City's Program Manager will take the steps necessary to ensure that the project is listed appropriately, along with entering each individual business as a separate activity.
- b. While entering the activity, the Program Manager will ensure that the matrix code and national objective are being listed correctly for each forgivable loan.
- c. Once data is inputted into IDIS, the Finance Officer will fund the activity.
- d. As required under *Special Condition K.* of the grant agreement with HUD dated 7/9/20, all vouchers for economic development projects and activities funded under the City's 2019 CDBG, 2020 CDBG and 2020 CDBG-CV Action Plans must be submitted for prior review and approval by HUD before final submission in HUD's Integrated Disbursement and Information System (IDIS).
- e. The City's draft voucher submission for these activities shall be for reimbursement of the City's General Fund or other local funding source and shall not be for advance federal payment. Vouchers shall be submitted monthly and HUD's review, comment, and approval or denial shall occur within fifteen (15) business days of submission and otherwise not be unreasonably withheld.
- f. Once a voucher(s) is approved by HUD, drawdowns of funds will be initiated by the Accounts Clerk, with the Finance Officer as the final approver of all drawdowns.
- g. After allocation of funds, the Finance Officer will finalize the activity by documenting the accomplishments for each forgivable loan.

## **8. Quarterly Reports**

On a quarterly basis, the Chamber will collect and provide reports to the City for each assisted business during the term of the loan(s). The City will use the information to fulfill its responsibility to demonstrate that the CDBG National Objective of benefitting Low to Moderate (Low to Mod) Persons is met for each forgivable loan. The reports will be reviewed by the City for the following documentation:

- a. A job description that shows the salary level or wages that the employee would normally receive (for each employee being hired or retained).
- b. Income Verification form completed by new and retained employee(s).
- c. Quarterly payroll documentation submitted by the business for a period of one year.

## **9. Monitoring/Reporting/Recordkeeping**

The City will monitor the Chamber as a subrecipient consistent with the monitoring plan established in the City's CDBG Program Policies and Procedures. The monitoring will occur at least on an annual basis and more frequently, if necessary. The City will apply the CDBG National Objective requirement of Low to Moderate (Low to Mod) Job Creation or Retention Activities (LMJ) for each forgivable loan. This requirement will be monitored through the City's review of the following documentation:

- a. A job description that shows the salary level or wages that the employee would normally receive (for each employee being hired or retained).

- b. Income Verification form completed by new and retained employee(s).
- c. Quarterly payroll documentation submitted by the business for a period of one year.

Businesses receiving a forgivable loan that do not reopen after current restrictions are lifted and/or do not remain in operation for a period of one year from loan disbursement may be recaptured to repay the loan in its entirety. The business owner waives any right or claim to the awarded funding. The business must also record and maintain all required documentation for a period of one year from disbursement of funds by the city.

#### **10. Loan Forgiveness**

This is a one-time loan distribution. The loan will be forgiven if the business meets the specified low and moderate job retention criteria, re-opens and/or remains in operation for at least one year. The City will review each loan file upon closeout and determine if the business has satisfied provisions in the loan agreement, promissory note and any related document. Among other items, the review will examine quarterly payroll statements. Upon determining that satisfaction of the criteria has been accomplished, the City's Director of Buildings, Housing and Planning will issue a release and the proceeds of the loan will become a grant.

#### **11. Close-Out**

When all the forgivable loan funds have been drawn down for each assisted activity and all accomplishments data is fully documented in IDIS, the Program Manager will review the activity in its entirety to ensure that all compliance areas have been met. The Program Manager will select the final completion tab in IDIS to mark this activity as fully completed.

In addition, the City will submit a prepare and place in its files a summary report on the Small Business Stabilization Program. The City will also fulfill any final reporting requirements specified by HUD under the CARES Act.