PLACER COUNTY

REDEVELOPMENT AGENCY

MEMORANDUM

TO:	Honorable Members of the Redevelopment Agency Board
FROM:	Richard E. Colwell, Chief Assistant CEO-Redevelopment Director James LoBue, Deputy Director
DATE:	January 27, 2009
SUBJECT:	Adopt Two Resolutions Approving: 1) Tax Increment Business Improvement Loan Program (Revised) and Increases in Commercial Rehabilitation Loan and Façade Loan Limits to $150,000 and $30,000 respectively, and 2) Delegation of Authority to the Redevelopment Director to Make Administrative Changes to the Tax Increment Business Improvement Loan Program.

ACTION REQUESTED: Adopt two resolutions approving: 1) Tax Increment Business Improvement Loan Program (revised) and increases in Commercial Rehabilitation Loan and Façade Loan Limits to $150,000 and $30,000 respectively, and 2) delegation of authority to the Redevelopment Director to make administrative changes to the Tax Increment Business Improvement Loan Program.

LOAN COMMITTEE RECOMMENDATION: At their December 18, 2008 meeting, the Loan Committee recommended approval of the new Business Improvement Loan Guidelines, as presented.

BACKGROUND: On March 21, 2000, your Board approved the Tax Increment Business Improvement Loan Program to promote commercial redevelopment in the North Lake Tahoe, North Auburn, and Sunset Industrial Redevelopment Project Areas (Redevelopment Project Areas). This program currently consists of two loan programs: the Commercial Rehabilitation Loan Program and the Façade Loan Program. On October 8, 2002, the Tax Increment Housing Set-Aside Loan Program (Housing Loan Program) was approved by your Board to provide down-payment assistance loans and promote the rehabilitation of existing housing for low- and moderate-income residents within the Redevelopment Project Areas. Since that time, the Agency has successfully marketed and administered the commercial and housing loan programs, funding 25 loans and administering a loan portfolio currently valued at approximately $1,500,000. Recent commercial improvement projects in the North Auburn Redevelopment Project Area financed through Agency loans include: Oakfire Grill Restaurant at 2515 Grass Valley Highway, Confluence Kitchen at 13471 Bowman Road, Auburn Animal Medical Clinic at 1525 Grass Valley Highway, and the Potter Commercial Building located at 4150 Grass Valley Highway.

In the past, your Board has approved various changes and amendments to these programs and their guidelines. These amendments were commonly necessitated by changes in California Community Redevelopment Law or changes in the program needs of the community. The most recent amendment to the Business Improvement Loan Program, in August 2003, was the result of a change in law that required the addition of language pertaining to prevailing wages. The Agency is now requesting approval of further changes and additions to the Business Improvement Loan Program. To allow for greater flexibility in its programs, faster response to identified community needs, and changes in redevelopment law, the Agency is also requesting the delegation of authority to the Redevelopment Director to make future administrative changes to specific provisions of the Business Improvement Loan Program. In order to be able respond to changes in standard industry lending practices and prevailing market conditions, it is proposed that the Director be authorized to modify the guidelines in regards to loan interest rate, term, debt service payment deferral allowance, debt service coverage ratio, and assets/liabilities ratio. The remainder of the program guidelines, including modification of maximum loan amount, delegation of authority, and appeal procedures for the program, would continue to require an action by your Board. Future administrative changes made by the Redevelopment Director would be documented in writing and reported in a timely manner to the Placer County Loan Committee.

In summary, the guidelines for the Business Improvement Loan Program have been updated to a more contemporary and functional format. The Agency is proposing several substantive changes to the program, including the implementation of a new Mixed-Use Pre-development Loan Program. This new program would assist redevelopment projects in the early stages of planning, design and environmental review. The new Guidelines include a provision to increase the current loan limit for Façade Loans from $15,000 plus an added prevailing wages differential to a new $30,000 all inclusive limit. They also include a provision to increase the Commercial Rehabilitation Loan limit from $100,000 to $150,000. These proposed loan limit increases are intended to address the increased market need resulting from higher project costs. The complete list of proposed changes to the Business Improvement Loan Program is summarized in the attached table. These proposed changes primarily serve to simplify and streamline procedures, lower borrower costs to better serve a wider range of potential beneficiaries, and generate greater public demand for the program. No changes to the Housing Loan Program are currently proposed.

FISCAL IMPACT: There is no direct impact to the Agency budget. The requested changes do not approve any specific project or expenditure.

RECOMMENDATION: Adopt two resolutions approving: 1) Tax Increment Business Improvement Loan Program (Revised) and Increases in Commercial Rehabilitation Loan and Façade Loan Limits to $150,000 and $30,000 respectively, and 2) delegation of authority to the Redevelopment Director to make administrative changes to the Tax Increment Business Improvement Loan Program.

Attachment: Resolutions
Proposed Business Improvement Loan Program Guidelines (Revised)
Previously Adopted Guidelines
Summary of Business Improvement Loan Program Guidelines Changes

cc: Karin Schwab, Agency Counsel

Before the Placer County
Redevelopment Agency Board of Directors
County of Placer, State of California

In the matter of:

Delegation of authority to the Redevelopment Director to make administrative changes to the guidelines for the Tax Increment Business Improvement Loan Program

Resol. No:..............................

Ord. No:..............................

First Reading: ....

The following Resolution was duly passed by the Redevelopment Agency Board

of the County of Placer at a regular meeting held________________,

by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Attest:
Clerk of said Board

____

Chair, Agency Board

WHEREAS, the Placer County Redevelopment Agency Board of Directors desires to streamline and increase efficiencies of the implementation of Redevelopment Agency loan programs; and

WHEREAS, it will be beneficial to the programs and their participants to quickly implement certain administrative program changes to conform to changes in redevelopment law and to better respond to identified community needs.

NOW, THEREFORE, BE IT RESOLVED that the Placer County Redevelopment Agency Board of Directors hereby delegates authority to the Redevelopment Director to be able to make changes to the guidelines for the Tax Increment Business Improvement Loan Program in regards to the following specific loan parameters and criteria: loan interest rate, loan term, debt service payment deferral allowance, debt service coverage ratio, and assets/liabilities ratio.

BE IT FURTHER RESOLVED that loan program changes approved by the Redevelopment Director shall be documented in writing, kept on file in the office of the Redevelopment Agency, and communicated in a timely manner to the Placer County Loan Committee.

Before the Placer County Redevelopment Agency Board of Directors County of Placer, State of California

In the matter of:

Tax Increment Business Improvement Loan Program (revised) and increases in Commercial Rehabilitation Loan and Façade Loan Limits to $150,000 and $30,000 respectively

Resol. No:..............................

Ord. No:..............................

First Reading: ....

The following Resolution was duly passed by the Redevelopment Agency Board

of the County of Placer at a regular meeting held ____________________,

by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Chair, Agency Board

Attest:
Clerk of said Board

WHEREAS, the Placer County Redevelopment Agency established a Business Improvement Loan Program and approved the Program Guidelines by action of the Redevelopment Agency Board of Directors on December 18, 2000, as subsequently amended; and

WHEREAS, the Redevelopment Agency Board of Directors desires to amend the Tax Increment Business Improvement Loan Program Guidelines; and

WHEREAS, the Redevelopment Agency Board of Directors desires to increase the limit of the Commercial Rehabilitation and Façade Loans to address the increased market need resulting from higher project costs; and

WHEREAS, the Redevelopment Agency Board of Directors desires to increase the limit of the Commercial Rehabilitation Loan from $100,000 to $150,000; and

WHEREAS, the Redevelopment Agency Board of Directors desires to increase the limit of the Façade Loan from $15,000 to $30,000; and

WHEREAS, changes to this program and its guidelines and loan limits are intended to improve program efficiency, clarify program requirements and loan criteria, address market changes, and better serve a wider range of potential beneficiaries.

NOW, THEREFORE, BE IT RESOLVED that the Placer County Redevelopment Agency Board of Directors hereby adopts the Tax Increment Business Improvement Loan Program Guidelines (revised) as shown in Attachment A to this resolution.

NOW, THEREFORE, BE IT RESOLVED that the Placer County Redevelopment Agency Board of Directors hereby increases the Commercial Rehabilitation Loan limit to $150,000 and the Façade Loan limit to $30,000, which loan limits are set forth in Appendix A of the Tax Increment Business Improvement Loan Program Guidelines (revised).

DRAFT

Placer County Redevelopment Agency

Tax Increment Business Improvement Loan Program Guidelines

DRAFT

TABLE OF CONTENTS

Tax Increment Business Improvement Program

Criteria At-A-Glance

Purpose: To provide financial assistance to business and commercial property owners for the improvement or expansion of commercial properties.

Eligible Projects	Eligible Applicants	Maximum Loan Amount[1]	Property Location	Long-term Restrictions
Renovations, upgrades, and improvements to commercial properties (see below for specific items covered by each category)	Businesses authorized to do business in California	See Appendix A for current thresholds.	Within a Placer County redevelopment project area	Forgiven or deferred loans may become payable upon sale of, or failure to maintain, the property during the loan period

*This information is intended as a general overview; additional terms and exceptions apply as described in the following sections.
[1] Maximum loan amounts are established by Board resolution or by a designee authorized by the Board to establish maximum loan amounts in compliance with federal and state regulations and redevelopment law.

About These Loans

Overview

- The purpose of the Business Improvement Program ("BIP") is to provide financial assistance to business owners for façade renovations, improved signage, interior/exterior commercial rehabilitation, associated public pedestrian walkways, landscaping, street improvements, and/or hazardous materials clean-up.
- The Agency has three loan categories:
  - Façade Loans
  - Commercial Rehabilitation Loans
  - Mixed-Use Pre-Development Loans

About The Loan Committee

Loan Committee Composition and Purpose

- The Loan Committee was formed in 1999 to assist the Agency in approving loans below a certain dollar threshold (determined by the Agency Board and the Board of Supervisors). This threshold may be amended from time to time by Board action. Proposed loans in amounts higher than the established approval authority of the Loan Committee are submitted for consideration to the Placer County Board of Supervisors or the Redevelopment Agency Board, depending on the proposed source of funding.
- The Redevelopment Director has been authorized by the aforementioned governing Boards to appoint members to the Loan Committee.
  - The Loan Committee is comprised of five members from diverse backgrounds which may include lending, planning, building, economic development, and affordable housing advocacy, or other relevant backgrounds.
  - One Agency staff person serves as the Committee Secretary and another serves as Committee Chair. Neither of these individuals is a member of the Loan Committee or participates in the voting.
  - Three Loan Committee members constitute a quorum.
  - The Loan Committee's membership may change from time to time, as approved by the Director, but shall at no time be less than five members.
  - New Loan Committee members may be proposed by current Loan Committee members or by Agency Staff.
  - To ensure a quorum when a regular member cannot attend a meeting, the Director may appoint alternate Loan Committee members from the above diverse backgrounds. However, in no instance shall an Agency staff person be designated as an alternate Loan Committee member.
  - The Loan Committee may make exceptions to program guidelines on a case-by-case basis, providing the exception does not exceed the Committee's board-delegated authority.
- The Loan Committee approves both commercial and residential loans under the aforementioned dollar threshold, (the exception being housing, down-payment assistance loans, which are approved by Agency management staff members). The Loan Committee also acts in an advisory capacity in reviewing, as needed, proposed changes to the overall loan program. The Loan Committee generally meets monthly.

Loan Application Appeals Procedure and Dispute Resolution

Application Appeals

- Loan applicants have the right to appeal if an application is denied.
- The applicant shall engage in the following process to appeal a decision.

1. Appeals must be made in writing within 30 days of the date of the disputed decision and mailed to:

   Redevelopment Director
   c/o Placer County Redevelopment Agency
   PO Box 7096
   Auburn, CA 95604-7096

2. The Redevelopment Director will review the appeal and render a written decision to the applicant within 30 days from the date the appeal application was received.

3. Decisions of the Redevelopment Director are final.

Dispute Resolution

- During pre-construction, construction, or post construction periods, the borrower may have disputes with their contractors.
- **Any contractual obligation is between the contractor and the borrower. The Redevelopment Agency assumes no responsibility to resolve disputes between private parties.**
- The Agency may refer disputes between borrowers and their contractors to Placer County Dispute Resolution or equivalent.

> Façade Loans

Overview

- Façade loans are provided to businesses located in a redevelopment project area to improve the physical appearance of storefronts and signage, to enhance the business environment and attract more business patronage to the area.
- The cost of prevailing wages to perform the façade improvement is generally required and will be calculated and included in the loan amount.
- This program may be combined with a Commercial Rehabilitation or Mixed-Use Pre-development Loan. Each loan must have its own project budget, and there can be no co-mingling of loan proceeds. Proceeds from one Agency loan cannot be used to meet the match requirement of another Agency loan.

Façade - Qualification Criteria

Applicants

- Applicants may include:
  - Owners of commercial property located in a Placer County redevelopment project area
  - Business tenants may receive full program benefits with the property owner's written consent waiver.
- Eligible applicants include ongoing private business concerns, corporations, partnerships, sole proprietorships, and cooperatives that are duly organized in their state of formation and are authorized and licensed to do business in California.

Properties

- Eligible property types include those authorized by zoning and other government regulations to conduct business operations.
- The property must be located within the local Redevelopment Project Area.

217

Properties

- Properties not eligible to be granted loans under this program include:
  - Gambling establishments
  - Religious institutions
  - Adult entertainment establishments
  - Retail stores larger than 50,000 square feet
  - Auto dealers larger than one (1) acre

Projects

- Loans can be made for:
  - storefront renovation
  - signage
  - exterior doors
  - windows
  - shutters
  - awnings
  - exterior lighting
  - roofline modifications
  - landscaping
  - sidewalks and street improvements
  - improvements required to meet Americans with Disabilities Act requirements
  - design and engineering fees
  - soft costs directly related to the above as approved by the Deputy Director
- General property improvements **not eligible** include:
  - interior renovations, other than incidental to eligible exterior work
  - roof repair

Loan Limits

- Maximum loan amounts are established by Board resolution in compliance with federal and state regulations and redevelopment law.
- See Appendix A for current thresholds.
- All applicants must provide at least 40% of the cost of the improvement, including prevailing wage.

Contingencies

90-Day Look Back Period

- Costs incurred prior to submittal of the loan application are not eligible to be financed by the Agency loan. However, work funded by other sources and done no more than 90 days prior to Agency loan approval may be considered as match if the work is an eligible expense included in the initial loan application/ project budget and is properly documented.

Bids

- A minimum of three (3) construction bids from licensed contractors must be obtained by loan applicant to substantiate the cost of proposed façade work. If three (3) bids cannot be reasonably obtained, the applicant must substantiate in writing to the Agency's satisfaction applicant's efforts to procure three (3) bids. The Loan Committee shall determine if less than three (3) bids will be accepted.

Prevailing Wage

- Prevailing wage requirements shall be applied to all construction contractor work unless specifically excluded by State law.

Loan Security

- Generally, façade loans will be fully secured by collateral. No unsecured loans shall be made.
- The preferred collateral shall be deeds of trust on the property to be rehabilitated and additional collateral as appropriate.
- Real property other than the property to be rehabilitated may be accepted by the Agency as security, based on the Agency's evaluation of the risk.
- If the applicant owns no real property in Placer County that is of sufficient value or has insufficient equity to secure the loan, property located in other California counties or Washoe County or Douglas County, Nevada may be accepted by the Agency as security, based on the Agency's evaluation of the risk.

- Property located outside of California and Washoe County and Douglas County, Nevada shall not be accepted as security for any Agency loan.
- In special cases and subject to Loan Committee review, a bond or personal guarantee with documented loan coverage may be substituted for full collateral secured by the real property.

Loan Disbursement Procedures

- All requests for funds must be fully documented. Agency staff will provide forms and instruction on how to submit a loan draw request.
- Loan funds paid directly to the borrower will be on a reimbursement basis only.
- Checks may be issued directly to a contractor or vendor only if paid through a title company account.

Façade - Interest Rates and Repayment Terms

Standard Financing Terms

- Façade loans are forgivable loans according to the terms below.
- Interest and term:

Loans of up to $14,999	Loans of $15,000 or More
• Minimum interest rate is based on the Agency's cost of funds • Five (5) years, one-fifth of interest and principal forgiven at the end of each year	• Minimum interest rate is based on the Agency's cost of funds • Ten (10) years, one-fifth of interest and principal forgiven yearly at the end of years 6-10 of the term

- Should the property not be adequately maintained within the loan term, then the entire principal amount and accrued interest will be due upon demand.
- Should the property be sold within the loan term, principal and interest amounts that have not yet been forgiven will be due on demand.

Loan Processing Costs

- No loan fee will be charged. Borrowers will pay for the entire cost of an appraisal if needed and 50% of any other direct costs incurred in loan processing and closing, such as recording fees, attorney fees, escrow fees, etc.
- Direct costs related to loan processing and closing may be included in the financing of the project.

Loan Payments

- There is no prepayment penalty.

> Commercial Rehabilitation Loans

Overview

- Commercial Rehabilitation loans are provided to businesses to stimulate building improvements and upgrade the appearance of commercial properties in the Agency's three redevelopment project areas.
- The program is designed to provide gap financing in conjunction with a private lender or to serve as a lender of last resort for projects that fall within program limits.
- The program may be combined with the Façade Loan Program or Mixed-Use Pre-Development Loan Program. Each loan must have its own project budget, and there can be no co-mingling of loan proceeds. Proceeds from one Agency loan cannot be used to meet the match requirement of another Agency loan.

Commercial Rehabilitation - Qualification Criteria

Applicants

- Applicants may include:
  - Owners of commercial property located in a Placer County redevelopment project area
  - Business tenants may receive full program benefits with the property owner's written consent.
- Eligible applicants include ongoing private business concerns, corporations, partnerships, sole proprietorships, and cooperatives that are duly organized in their state of formation and are authorized and licensed to do business in California.

Properties

- Eligible property types include those authorized by zoning and other government regulations to conduct business operations.
- The property must be located within the local Redevelopment Project Area.
- Properties not eligible to be granted loans under this program include:
  - Gambling establishments
  - Religious institutions
  - Adult entertainment establishments
  - Retail stores larger than 50,000 square feet
  - Auto dealers larger than one (1) acre

Projects

Loans can be made for:

- design fees
- architecture fees
- engineering costs
- building improvements or expansion
- structural rehabilitation
- associated public pedestrian walkways
- landscaping
- street improvements
- hazardous waste clean up
- other improvements or soft costs directly related to the project as may be approved for lending by the Deputy Director
- costs incurred prior to submittal of the loan application are not eligible for Agency financing

Loan Limits

$

- Maximum loan amounts are established by Board resolution in compliance with federal and state regulations and redevelopment law.
- See Appendix A for current thresholds.

Loan Security

- Generally, commercial rehabilitation loans shall be fully secured by collateral. No unsecured loans shall be made.

Loan Security

- The preferred collateral shall be deeds of trust on the property to be rehabilitated and additional collateral as appropriate.
- Real property other than the property to be rehabilitated may be accepted by the Agency as security, based on the Agency's evaluation of the risk.
- If the applicant owns no real property in Placer County that is of sufficient value or has insufficient equity to secure the loan, property located in other California counties or in Washoe County or Douglas County, Nevada may be accepted by the Agency as security, based on the Agency's evaluation of the risk.
- Property located outside of California and Washoe County and Douglas County, Nevada shall not be accepted as security for any Agency loan.
- In special cases and subject to Loan Committee review, a bond or personal guarantee with documented loan coverage may be substituted for full collateral secured by real property.

Commercial Rehabilitation - Interest Rates and Repayment Terms

Standard Financing Terms

- Larger commercial loans will be considered for a term of up to twenty years, depending on the borrower's financial position and the demonstrated need for the BIP loan funds. However, loans in the amount of $25,000 or less will be considered for terms up to ten (10) years.
- Interest and term:

Commercial Rehabilitation Loan Terms
• Interest rate based on the amount requested and strength of applicant; minimum rate based on the Agency's cost of funds • Repayment term up to twenty (20) years, depending on size of loan, borrower's position, and need

Loan Processing Costs

- Borrowers will pay for the entire cost of an appraisal, if required, and 50% of any other direct costs incurred in loan processing and closing, such as recording fees, attorney fees, escrow fees, etc.

Loan Payments

- There is no prepayment penalty.
- Deferral of loan payments will be considered on a case-by-case basis, depending on the borrower's financial position.
- Interest will continue to accrue for deferred loans.

> Mixed-Use Pre-Development Loans

Overview

- Mixed-Use Pre-development loans are provided to restore commercial viability in redevelopment project areas by promoting new town center spaces and pedestrian environments for workers, shoppers, residents and visitors. Pre-development loans are provided to reduce the risk to business and property investors in the planning and design stages of projects.
- The program may be combined with the Façade Loan Program and the Commercial Rehabilitation Loan Program. Each loan must have its own project budget, and there can be no co-mingling of loan proceeds. Proceeds from one Agency loan cannot be used to meet the match requirement of another Agency loan.

Mixed-Use Pre-Development - Qualification Criteria

Applicants

- Applicants may include:
  - Owners of commercial property located in a Placer County redevelopment project area
- Business tenants may receive full program benefits with the property owner's written consent waiver.
- Eligible applicants include ongoing private business concerns, corporations, partnerships, sole proprietorships, and cooperatives that are duly organized in their state of formation and are authorized and licensed to do business in California.

Properties

- Eligible property types include those authorized by zoning and other government regulations to conduct business operations.
- The property must be located within the local Redevelopment Project Area.
- Properties not eligible to be granted loans under this program include:
  - Gambling establishments
  - Religious institutions
  - Adult entertainment establishments
  - Retail stores larger than 50,000 square feet
  - Auto dealers larger than one (1) acre

Eligible Projects

- Loans can be made for:
  - design fees
  - soil studies
  - environmental review studies
  - architectural fees
  - engineering survey fees
  - permit application fees
  - other County or other government agency costs directly related to the project
- Ineligible
  - construction
  - property acquisition
  - costs not directly related to the planning and permit processing of the project

Loan Limits

$

- Maximum loan amounts are established by Board resolution in compliance with federal and state regulations and redevelopment law.
- See Appendix A for current thresholds.

Contingencies

- Mixed-Use Pre-development loans shall be fully secured.
- In most cases, the collateral shall be deeds of trust on the property. No unsecured loans shall be made.
- In special cases and subject to Loan Committee review, a bond or personal guarantee with documented loan coverage may be substituted for full collateral secured by real property.

Mixed-Use Pre-Development - Interest Rates and Repayment Terms

Standard Financing Terms

- Interest and term:

Loans up to $24,999	Loans of $25,000 or More
• Interest rate is based on the Agency's cost of funds • Up to ten (10) years	• Minimum interest rate set is based on the Agency's cost of funds • Up to twenty (20) years

Loan Processing Costs

- Borrowers will pay for the entire cost of an appraisal, if needed, and 50% of any other direct costs incurred in loan processing and closing, such as recording fees, attorney fees, escrow fees, etc.

Loan Payments

- There is no prepayment penalty.
- If the Agency is a participant in the project in a role other than the mixed-use or façade loan, the loan payments are deferred for up to two (2) years.
- Interest will continue to accrue for deferred loans.

General Tax Increment BIP Application Procedures and Guidelines

Property and Project Priorities

- Completed applications are processed on a first-come, first-served basis.

Application Submission and Acceptance

- All materials collected from potential borrowers are to be considered confidential to the extent allowable by law.

Application Submission and Acceptance

☑

- All borrowers are to be considered under the County's Equal Opportunity Policy. The Agency must insure that no one is excluded from participating in, or benefiting from, the BIP program on the basis of race, color, religion, national origin, sex, sexual orientation, marital status, ancestry, or disability.

Agency Review

- Once an Agency staff member has identified a potential project, they will conduct a preliminary review for eligibility under BIP criteria.
- If the project appears to meet the criteria, the applicant will be asked to submit preliminary information as specified by an underwriter.

Required Documents

☑

- Preliminary information and supporting documents should include but not be limited to:
  - Signed business and personal tax returns for the previous three years
  - Business financial statements (balance sheet and income statement) for current year
  - For start-up businesses, a business plan or pro forma may be substituted for business financial statements
  - Current personal financial statements
  - Credit history
  - Proposed project summary
  - Pre-leasing information (if appropriate)
- The Agency may require additional information on a case-by-case basis to be able to determine the eligibility of the applicant and appropriate terms for the loan.

Credit Requirements

☑

- Generally an applicant must:
  - Show ability to operate a business successfully by providing income and expense, balance sheet and/or other financial reports which adequately provide financial position information,
  - Show the proposed loan is of sound value or reasonably secure to assure repayment, by providing a business plan

Underwriting Tasks

- The Underwriter, who may be an Agency staff member or a designated consultant, will:
  - Screen all applicants for eligibility
  - Obtain from the applicant an application, along with accompanying financial information
  - Prepare the loan review package describing the underwriting analysis and providing a recommendation to the approving authority

Key Ratios

- Key ratios which may be analyzed include:

Ratio	Description and Calculation
Current Ratio	Current assets/current liabilities. This ratio is an indication of an owner's ability to service current obligations. A ratio of 2:1 is considered secure.
Debt Service Coverage Ratio	Earnings before interest & taxes/ annual interest expenses. This ratio is a measure of a firm's ability to meet interest payments. Cash flow coverage of 1.15 debt service shall be used as a guideline.
Debt to Worth	Total liabilities/tangible net worth. This ratio is the relationship between debt and net worth of the business. A lower ratio is an indication of greater long-term financial safety and greater flexibility to borrow. In general, a debt to worth ratio of higher than 5:1 should not be exceeded. Exceptions exist when the industry average is high due to its capital-intensive nature or when projections show the ratio lowering quickly.
Collateral Coverage	The value of collateral to the amount of the loan. Typical underwriting guidelines suggest that 100% of all debt be used, depending on the quality and security of the collateral. In addition, collateral requirements may be a cause of "financial gaps." The BIP shall use 100% as a guide.

- Additional financial factors, such as cash-flow coverage or quick ratios, may be considered at the underwriter's discretion. The financial and ratio analyses must be supported by the business plan or historical financial performance. The business plan must provide a clear understanding of the project, competition, market strategy, sales estimates, management capacity, and other factors.

Underwriting Tasks

- If the review is positive, the applicant will be invited to submit a formal application for presentation to the Redevelopment Loan Committee.
- The Underwriter will review with the applicant the appropriate financial documentation and required information, forms, and financial schedules deemed necessary to complete the loan package (see Appendix D "Required Information for Commercial Loans").

Financial Gap

- In order to receive BIP funds, Commercial Improvement loans must have a documented "financial gap."
- There are three types of financial gaps:

Ratio	Description and Calculation
Unavailability of Capital	• The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources. • The gap may be a result of a lender's loan to value requirements or the inherent risk of the project. For example, the lender will only loan 70% of the project's cost. In this case, the business may not have the cash to bridge the gap, or if the business bridges the gap, its cash flow may be so restricted as to jeopardize the business. • In order to document this gap, several steps need to be taken. The Agency will consider the business owner(s) personal financial statements for potential funds, including home equity loans. • Finally, in addition to examining the business and personal financial statements and tax returns, a pro forma cash flow analysis needs to be prepared by the applicant, with and without BIP funds, to demonstrate a gap.

Financial Gap

Cost of Capital	• The project cannot support the interest rate, loan term and/or collateral requirements of a lender. • In analyzing this gap, discussions with the lender are important to determine any flexibility in terms. • A single project may not be able to support the rate, terms and/or collateral requirements. In addition, the gap may only exist in the early years of the project. • To determine the gap, business and personal financial statements and tax returns shall be analyzed and sources of equity explored. Pro forma cash flow analysis may be analyzed with and without the BIP funds to demonstrate the gap. • Depending on the gap, the terms or rate may be adjusted to a rate that allows the project to proceed. • Terms can be adjusted to allow for deferrals of principal and/or interest, or to allow loans to be amortized over a longer period.
Rate of Return	• The project's financial returns are projected to be too low to motivate the business and/or investor to proceed with the project. • The risks of the project outweigh the returns. The return is the amount of cash that the investor/business is projected to receive in relation to their initial equity. • To analyze this gap, the projected return on investment can be compared to the return on investment for similar projects. If it is shown that a gap does exist, then the BIP financing rate and terms must be set at a rate, which provides a return equal to the "market rate".

☑

- In determining any of the three gaps, financial statements for both the business and individuals must be analyzed, along with tax returns and projections.
- Income and expense costs shall be evaluated and compared to past history, where applicable, and compared to industry averages (using guides such as Robert Morris' Annual Financial Statements).
- Project costs, including both hard and soft costs, must be determined to be reasonable.
- Accurate project costs are vital to determining project feasibility and subsequent necessary and appropriate analysis.
- Outside sources may be used to verify cost estimates.

Financial Gap

Appropriate Loan Terms

- If a gap has been determined and the financial analysis indicates the business' strengths and management capacity, then the terms and conditions of the BIP loan must be appropriate, including:
  - In general, the interest rate shall be set at a rate where available cash flow is able to meet debt obligations, after other obligations are met, with enough cash flow remaining to operate successfully.
  - The loan term typically is based on the asset being financed. The term should not exceed the economic life of the asset being financed. However, a longer loan amortization schedule, with the loan due at the end of the economic life of the asset, may be justifiable.
  - In no case should a loan be secured by collateral that does not closely approximate and have a real (verified) value comparable to the amount of the loan. For example, if a business borrows $50,000 to finance rehabilitation of its business property and provides the lender with a second deed of trust on real estate whose present value is unconfirmed or it is determined that the borrower only has $25,000 equity in the property; the appropriateness may not be adequate.
- Each loan application review shall include a written explanation of the necessary and appropriate analysis that was undertaken, and the reason the terms and conditions of the loan were recommended.

Conditions of Approval

- Agency staff will determine if the project meets County permit or other local requirements, as well as determine the necessary environmental review.

Submission for Approval

- Loans will be submitted to the Placer County Loan Committee for review and approval. The Loan Committee may approve or deny the loan, or may approve the loan with additional conditions.

Loan Portfolio Administration

General

- Loan administration policies outlined in this guide may apply only to the programs listed in this guide.

Loan Default, Delinquency, and Foreclosure Policy

- Default, delinquency, and foreclosure policies are fully addressed in the Loan Portfolio Administrative Guidelines section of this document.

Loan Assumption Policies

- The loans in this program are not assumable.

Loan Subordination Policy

- The Placer County Redevelopment Agency shall not subordinate its deed of trust to an increased risk position, except for special circumstances or if adequate security is identified, as reviewed by the Administrative Services Officer and approved by the Deputy Director.

APPENDIX A

MAXIMUM LOAN LIMIT FOR COMMERCIAL REHABILITATION LOANS

$150,000

MAXIMUM LOAN LIMIT FOR FAÇADE LOANS

$30,000

BUSINESS IMPROVEMENT

GRANT AND LOAN PROGRAMS

August 2003

Program Areas:

Tahoe City Business District
Kings Beach Business District
North Auburn/High way 49 Commercial District
Bowman/I-80 Commercial District
Sunset Commercial District

PLACER COUNTY
REDE VELOPMENT AGENCY
11493 B Avenue, Auburn, CA 95603 (530) 889-4240 Fax: (530) 889-6890

TABLE OF CONTENTS

1.0 PROGRAM DESCRIPTION - BUSINESS IMPROVEMENT PROGRAM

The purpose of the Business Improvement Program ("BIP") is to provide financial assistance to business owners for façade renovation, interior fixtures, signs, exterior doors, windows, awnings, exterior graphics, exterior lighting, pedestrian walkways, public parking, and landscape improvements. Rehabilitation of interior improvements will be eligible only upon written approval of the Placer County Redevelopment Agency.

1.1 GUIDELINES & FEATURES:

A. LOW INTEREST RATE LOANS

Loan Amount: Minimum $10,000
Maximum $100,000

This amount only applies to the BIP loan portion of the project. The maximum amount of the BIP loan may be exceeded on a case-by-case basis as approved by the Loan Advisory Committee, and Redevelopment Agency Board at a public meeting.

Loan Terms: Up to twenty years, depending on the "financial gap," and the demonstrated need for the BIP loan funds. However, intermediate-term (two to ten year) loans will be encouraged over-a longer term to accelerate the repayment of funds available for loans.

Interest Rate: The interest rate is based on the needs and demonstrated "financial gap" on each loan. If the financial gap is the availability of capital, the interest rate shall be at market rates determined by the Placer County Loan Advisory Board (LAB). If the financial gap is the cost of capital (rate, term or collateral requirements), then the interest rate is set by what make the project viable. The minimum rate set shall be derived from Agency cost of funds.

Prepayment Penalty: None

Deferral of Payments: On a case by case basis, determined based on the "financial gap".

Collateral Requirements: All BIP loans shall be fully secured by collateral in order to maintain the BIP Program. No unsecured loans shall be made. The collateral shall be deeds of trust on the property to be rehabilitated and other collateral as appropriate.

Loan Fee: A maximum loan fee of one (1) point may be charged to each borrower. The fees will be used to offset the cost of loan packaging and underwriting and will not duplicate program costs. Additionally, borrowers will pay for any direct costs incurred in loan processing and closing, such as recording fees, attorney fees, escrow fees, etc. Loan fees may be adjusted by the Placer County Loan Advisory Board for individual projects when sufficient evidence of need or justification is presented. Loan fee terms must be part of the loan approval. The Placer County Loan Advisory Board may elect to waive the fees dependent on economic need. Fee waiver decisions may be appealed to the Agency

Loan Approval Committee, consisting of the Placer County Redevelopment Agency Executive Director or his designee, the Placer County Redevelopment Agency Deputy Executive Director or his designee and the Director of the Office of Economic Development for Placer County. Decisions of the Agency Loan Approval C Committee shall be final.

B. FACADE LOANS

Loan Amount:	Minimum $ 500 Maximum $15,000 plus cost differential related to utilization of prevailing wages for owner selected bid.

This amount only applies to the Facade portion of the project. A minimum of three bids will be obtained to substantiate the cost of proposed façade work. If three (3) bids cannot be reasonably obtained (e.g. only two (2) bids can be secured, the Owner must document in written form that the Owner made efforts to procure three (3) bids. Within each bid will be two components: 1) The cost to complete work based on standard wages and materials; 2) The cost to complete work when prevailing wages are paid for labor, with same materials expense. Based on the recommendation of Redevelopment Agency staff and at the approval of the Loan Advisory Committee, the full amount of prevailing wage differential (as judged reasonable) will be included in loan amount. The fifteen thousand dollar cap amount for the Facade portion of the loan may be exceeded on a case-by-case basis as approved by the Loan Advisory Committee. Forgivable loans are subject to these dollar limitations and will be provided only on a matching funds basis (1:1) with the loan equaling the amount of equity or other loan funding the business owner provides.

Loan Terms: Forgivable loans of $5,000 or less will have a term of five (5) years, and will be forgiven one-fifth of principal at the end of each year. Forgivable loans of $10,000 or more will have a term of ten (10) years and will be forgiven one-fifth of principal it the end of each year in years 6-10 of the term. In all cases, the principal amount will only be forgiven if the business owner continues to maintain the property pursuant to the loan documents, and does not sell the business property for five (5) years from the date of loan note. Should the property be sold or not maintained within the five-year period, then entire principal amount will be due upon demand. Appeal to the Loan Advisory Committee may be utilized to negotiate repayment terms, however full repayment of original principal amount will be required whenever feasible.

Interest Rate: The interest rate is set based on market rate as determined by the Placer County Loan Advisory Board (LAB). The minimum rate set shall be derived from Agency cost of funds.

Prepayment Penalty: None

Deferral of Payments: None

Maintenance Obligation: All borrowers will be required to continue to maintain the properties in the condition and for the time as set forth in the loan documents, but which will be for a minimum of five years after completion of rehabilitation.

Collateral Requirements: All Facade loans shall be fully secured by collateral in order to maintain the BIP Program. No unsecured loans shall be made. The collateral shall be deeds of trust on the property to be rehabilitated and other collateral as appropriate.

Loan Fee: No loan fee will be charged. Borrowers will pay for any direct costs incurred in loan processing and closing, such as recording fees, attorney fees, escrow fees, etc. Direct costs may be included in financing of project.

1.2 GENERAL ADMINISTRATIVE FEATURES:

• Confidentiality of Client Financial Information, as allowed by law (which means actual financial information regarding the client1will not be released, but certain financial ratios or statistics about the loan applications may be discussed at the Placer County Loan Advisory Board meetings, which are public meetings).
• Equal Opportunity Policy.
• Attorney review of all contracts and legal forms.
• Monitoring and Reporting Forms.
• Collection and Foreclosure Policy
• The County Loan Processing Consultant will be responsible for loan evaluation, loan packaging, and monitoring. The Placer County Loan Advisory Board will be the loan approving body.

1.3 PROJECT EVALUATION CRITERIA:

- The financial viability of the proposed project
- The demonstrated need for the BIP funds (necessary and appropriate test)
- The overall economic and environmental enhancement of the community
- The conformity of the Project with the applicable Placer County Redevelopment Plan and redevelopment strategies.

1.4 GENERAL CREDIT REQUIREMENTS:

A Loan Applicant must:

- Show ability to operate a business successfully,
- Have enough borrowing ability or equity to operate, with the BIP loan, on a sound financial basis,
- Show the proposed loan is of sound value or reasonably secure to assure repayment, and
- Show that the past earning record and future prospects of the business indicate ability to repay the loan and other fixed debt.

1.5 LOAN PACKAGING:

The staff of the Placer County Redevelopment Agency (the "Agency") and the County Loan Processing Consultant will be responsible for BIP loan packaging activities, including review of all proposals presented to the Placer County Loan Advisory Board.

1.6 LOAN REVIEW:

The Loan Advisory Board (LAB) shall be responsible for reviewing funding proposals and making decisions for funding. All decisions of the LAB may be appealed to the Agency Loan Approval Committee, consisting of the Placer County Redevelopment Agency Executive Director or his designee, the Placer County Redevelopment Agency Deputy Executive Director or his designee and the Director of the Office of Economic Development for Placer County. Decisions of the Agency Loan Approval Committee shall be final. At a minimum, the LAB shall be comprised of:

- A County Staff representative
- One representative of the Placer County business community (appointed by the RDA Board of Directors)
- One representative of the Placer County financial community (appointed by the RDA Board of Directors)

All projects meeting the established criteria shall be brought before the LAB.

1.7 LENGTH OF REVIEW PROCESS:

On average, the BIP review process takes six to eight weeks from submittal of a complete loan application to LAB review. Loan funds can be disbursed two to three weeks after signing the BIP documents, depending on the financing and level of environmental clearance required. Final approval will be contingent upon private lender and/or SBA approval if such sources are assisting the rehabilitation effort. Every effort will be made to facilitate the process to coincide with the private lender, if any, and the project's requirements.

2.0 ELIGIBILITY:

2.1 ELIGIBLE APPLICANTS:

Eligible applicants include on-going private business concerns, corporations, partnerships, sole proprietorships and cooperatives that are incorporated and licensed, and are located in Placer County. Start-up businesses will be eligible if they show substantial management background and strong equity position.

2.2 ELIGIBLE USES:

The project must be commercial or industrial. BIP funds can be used for rehabilitation expenses.

2.3 INELIGIBLE USES:

Projects cannot be residential in nature. Projects must have reasonable assurance of repayment. Projects are not eligible if they create a conflict of interest pursuant to California Government Code Section 87100 et q.

2.4 ELIGIBLE PROJECTS:

Projects must be located within specified target areas within the North Auburn, Sunset, and the North Lake Tahoe Redevelopment Project Areas within the County of Placer. The target areas are shown on the map attached as Appendix D to these Guidelines.

2.5 ELIGIBLE COSTS:

A. LOW INTEREST RATE LOANS

Building costs, including real estate, engineering, architectural, legal and related costs associated with rehabilitation of buildings, including leasehold improvements.

B. FACADE LOANS

The Facade Improvement Loan program was created to provide direct assistance to business and property owners within local Business Districts. These improvements are seen in the upgraded appearance of their storefronts, enhanced business signage, improved shopping environment, and better business exposure. Matching funds (dollar to dollar) are required for forgivable loan eligibility.

Improvements eligible for funding must be visible from the public right-of-way and include signs, awnings, doors, windows, paint, some landscaping and other exterior façade improvements. Applicants are encouraged to upgrade the interiors of their buildings to complement the facade improvements and commercial loans are available for this purpose.

Today the Facade Improvement Loan program, which is available to business or property owners within selected Redevelopment Business District boundaries, offers:

- Architectural design services paid by the Redevelopment Agency
- Site planning and permit application processing and fee payment
- Bidding and construction management assistance

2.6 INELIGIBLE COSTS:

- Costs incurred prior to the submittal of the loan application.
- Costs other than those listed as eligible in Section 2.5.

3.0 ROLE OF THE PARTICIPANTS:

3.1 ROLE OF THE COUNTY LOAN PROCESSING CONSULTANT:

The Consultants staff will, as required:
1) screen all applicants for loans;
2) refer candidates that are not eligible, do not meet the BIP criteria or need technical assistance to the Sierra College Small Business Development Center or other counseling groups;
3) ask promising candidates to submit preliminary information and an application, along with accompanying financial information;
4) prepare package, along with recommendation to LAB;
5) if approved by LAB, process and close the loan;
6) once closed, monitor the loan, and maintain the loan records.

3.2 ROLE OF THE LOAN COLLECTION AGENT:

The Placer County Redevelopment Agency anticipates providing in-house loan servicing but reserves the option to contract with a local lender to act as the loan collection agent. The duties of the collection agent will include the following
1) loan servicing and accounting;
2) provide monthly receipts of loan payments to Agency;
3) provide quarterly statements on each loan to Agency;
4) in concurrence with Agency's legal counsel, undertake loan collections, including asset liquidation.

3.3 ROLE OF AGENCY STAFF:

The Placer County Redevelopment Agency staff will make the daily decisions called for, or implied, regarding the activities of the BIP. Decisions to foreclose and declare defaults will be the responsibility of the Executive Director or his designee of the Placer County Redevelopment Agency (the "Agency") in consultation with Agency legal counsel, based upon recommendations of staff and the Consultant. The Agency staff will monitor on-going operations of the loan recipient, in conjunction with the Consultant. Staff will consult and monitor the Consultant during the term of the contract. Staff will review all reports, financial information and performance reports on each loan during the term of the loan.

Agency staff will meet with each BIP applicant to ensure that, it the applicant is given a loan, the applicant understands and will provide the documentation required by the loan documents after the loan has closed. Agency staff will brief applicants on their obligations under, and requirements of, the Program.

Agency staff and the Consultant will refer potential applicants, including those ineligible or denied

BIP financing that need technical and management assistance to the appropriate organization. This will include referrals to the Sierra College Small Business Development Center, the SCORE program, and financial institutions. As a condition of the loan, the Loan Advisory Board may require that applicants receive loan counseling.

Agency staff will be responsible for monitoring all redevelopment law compliance, including environmental review requirement, state labor requirements and other compliance requirements.

3.4 ROLE OF THE LOAN ADVISORY BOARD (LAB):

The Loan Advisory Board (LAB) shall be responsible for reviewing funding proposals and making loan decisions. The Agency board has passed a resolution authorizing the Executive Director or his designee of the Agency to execute loan documents based on the decisions of the Loan Advisory Board. Decisions of the Loan Advisory Board may be appealed to the Agency Loan Appeal Committee, consisting of the Agency Executive Director or his designee, the Agency Deputy Executive Director or his designee and the Director of the Office of Economic Development for the County. Decisions of the Agency Loan Appeal Committee shall be final.

4.0 LOAN SELECTION & APPROVAL PROCESS:

4.1 SELECTION PROCESS:

4.1 (a) MARKETING

The marketing of the Business Improvement Program will be accomplished by a variety of means. Agency staff will provide media coverage, marketing brochures, and joint marketing through existing loan packaging and financial services. Local lenders will recommend clients and projects, when appropriate. The Sierra College Small Business Development Center, local Realtors, and Chamber of Commerce will also refer potential applicants. The Agency might also cosponsor special workshops that explain the various financing options available to the local business community.

4.1 (b) SCREENING PROCEDURE

Once a potential project has been identified, the Consultant's staff will conduct a preliminary review for eligibility with BIP criteria. If another lending source is more appropriate, or the project does not meet the BIP criteria, the staff will refer the prospective borrower to a commercial lender or another organization for assistance.

If the project appears to meet the criteria, the applicant will be asked to submit preliminary information. Preliminary information and supporting documents should include but not be limited to: Business and Personal Tax Returns for the last three years or since commencement of operations (whichever is less), business financial statements (balance sheet and income statement) for current year and prior three years, current personal financial statements, credit history, proposed project summary, pro forma projections and pre-leasing information. Start-up businesses must submit a business plan, which includes market analysis and proforma financial statements for the first year.

The Consultant's staff will review the preliminary information. If the project is viable, a draft loan analysis will be prepared by the Consultant If the Consultant's staff decision is to recommend denying the request, the project will be submitted to the Loan Advisory Board with a recommendation to deny with documentation supporting the recommendation. If the LAB denies the loan request, then the Consultant's staff will provide the applicant with a written explanation of the denial. Denials can be appealed to the Agency Loan Appeal Committee. Decisions of the Agency Loan Appeal Committee shall be final. If appropriate, referrals to other organizations will be made.

4.1 (c) LOAN PACKAGING PROCESS

If the review is positive, the applicant will be invited to an application conference with a Loan Specialist and to submit a formal application to the Consultant, which will be presented to the LAB for their recommendation. At the application conference, the Consultant will review with the applicant the formal BIP checklist and required information, forms and financial schedules deemed necessary by the Consultant to complete the loan package. The Consultant will determine project needs/conformance with local requirements, as well as determine the necessary environmental review for the project.

COMMERCIAL DEVELOPER LOAN REQUIRED INFORMATION

The following is the type of information that may be requested, depending on whether the business is a start-up or existing business:

1. Business Information:

_____ Completed Loan Application or Letter of interest related to loan program
_____ Business Plan including marketing analysis (if business less than 18-months old)
_____ Resume(s) of Principal(s) (those with 20% ownership or more)
_____ Articles of Incorporation/By-Laws
_____ Partnership Agreement
_____ Franchise Agreement (most recent)
_____ Fictitious Name Statement

2. Project Information:

_____ Title Report on Property to be assisted
_____ Preliminary Plans and Specifications
_____ Cost Estimates for Rehabilitation (including Prevailing Wages)
_____ Construction Plans and Specifications
_____ Lease Agreement (s) or Evidence of Ownership
_____ Project Appraisal
_____ Applicable Permits and Licenses
_____ Sources and Uses of All Funds into the Project (all contract quotes must conform to California State Law and SB 975 Prevailing Wages Regulations)
_____ Copy of Land Purchase Agreement and Escrow Instructions
_____ Copy of Commitment Letter from Interim and Permanent Lenders

3. Financial Information (Sign all documents submitted):

a. Business

_____ Financial Statement (Balance sheet which includes supporting details similar to SBA
_____ financial statement, and Profit & Loss) - past three years plus current (within 60 days)
_____ Aging Schedules of Accounts Receivable/Payable (same date as Balance Sheet)
_____ Schedule of Existing Debt (same date as current Balance Sheet)
_____ Business Federal Tax Returns (past three (3) years)
_____ Income and Cash Flow Projections (next two (2) years)
_____ Evidence of Ability to Provide Equity Injection

b. Personal:

_____ Personal Financial Statements of Principal Owner(s) (normally those with 20% Ownership or more)
_____ Individual Federal Tax Returns of Principal(s) including depreciation, K-1 's and all schedules

4. Other Information:

_____ Corporate Resolution to Borrow
_____ Authorization to Release Credit Information

4.2 APPROVAL PROCESS

4.2 (a) LOAN ADVISORY BOARD REVIEW

Upon completion of the necessary information, and receipt of the private lender commitment (including any applicable SBA approval) if other financing is necessary for the rehabilitation project, applications will be presented by the Consultant to the LAB. The presentation will include a completed BIP Project Evaluation Form. if the private funds are from equity, then the commitment letter must be from the applicant. The Consultant presentation will include a recommendation. This recommendation will include the proposed terms and conditions, based upon the identified "financial gap" and the necessary and appropriate test undertaken by the Consultant, a long with a checklist insuring that the loan meets the BIP guidelines and criteria.

The LAB will decide to approve or to decline the loan request. If declined, the staff will inform the applicant in writing as to the reason. If recommended, the LAB's recommendation can be under the terms and conditions proposed by the Consultant or the LAB can recommend alternative terms and conditions. LAB's decisions may be appealed to the Agency Loan Appeal Committee. Decisions of the Agency Loan Appeal Committee shall be final.

4.2 (b) ENVIRONMENTAL REVIEW:

Once a loan is determined to be viable under the BIP criteria, Consultant staff will work with the County Planning Department to initiate the Environmental Review process for the project specific activity. Because some projects in Placer County are covered under Tahoe Regional Planning Agency, these projects will be subject to CEQA and TRPA Guidelines.

4.2 (c) LOAN CLOSING:

Upon approval by the LAB, the Agency staff will prepare for the loan closing. The Borrower will sign all the necessary documents and agreements. The Agency will prepare the loan closing documents, prepare title and lien searches, and UCC-1 filings, if appropriate. Agency legal counsel will review all agreements and documents, as necessary and Agency and Consultant staff will undertake loan-closing procedures.

At the time of closing, the Borrower will be provided with a checklist outlining its obligations under the BIP Program, including labor standards requirements if they apply. A funds disbursal schedule will be established.

The Agency and Consultant will complete any remaining legal, regulatory or other items. Monitoring and compliance files will be set up at this time.

4.3 MONITORING:

Monitoring requirements will vary depending on the use of funds.

4.3 (a) Labor Standards Requirements
A new prevailing wages law, became effective on January 1, 2002. Under this law, most transactions utilizing public funds will be subject to State prevailing wage laws, including the types of assistance provided under the BIP. The borrower will sign loan documents that include acknowledgement of adherence to state prevailing wage laws.

4.3 (b) Equal Opportunity
The Agency must insure that no one is bin excluded from participating in, or benefiting from, the BIP program on the basis of race, color, religion, national origin, sex, sexual orientation, marital status, ancestry or disability.

4.3 (c) Portfolio Management :
Two separate loan files will be maintained. The first is the legal file, which holds all the original loan documentation, along with the original documents. The second is a credit file, which shall contain the day-to day administrative records of the loan. The legal file may include the following, as deemed advisable by the LAB and/or Agency legal counsel:

- Note
- Loan Agreement
- Mortgage
- General Security Agreement
- Personal Guaranty
- Corporate Guaranty
- Subordination Agreement
- Liability Insurance Policy and Assignment
- Hazard Insurance Policy and Assignment
- General Resolution
- Certificate of Secretary
- Opinion of Borrower's Counsel
- Inter-creditor Agreement, if applicable

A reporting system will be established for each loan and the loan portfolio as a whole. The report should be up-dated at least quarterly. Consultant shall be responsible for preparation of this report. The report will be used by the Consultant to monitor the loans and identify problems. The report will contain the following:

- Fund Report Balance: A monthly summary of the beginning fund balance, principal and interest recaptured during the month, disbursements made during the month and funds committed but not yet disbursed, and amount remaining in the BIP which is unencumbered.

- Portfolio Summary Report: A quarterly summary of the total loans outstanding and authorized loans. The report shall include a quarterly statement on each loan. The quarterly report shall include the last payment date and loan balance. Delinquent loans shall be identified and a summary of actions to date to collect delinquent loans.

- Loss and Loan Delinquent File: A list of all loans that have been classified as uncollectible and a summary of foreclosure procedures to date on the loan. Loans that are delinquent will also be listed, along with a summary of recommended steps, and steps taken to date.

- . Tickler File: A listing of the current loan portfolio and dates for receipt of financial statements, employment information, renewal of UCC-1 filings, review date, dates for insurance renewal and other information.

APPENDIX A

BIP UNDERWRITING CRITERIA

A. LOW INTEREST RATE LOANS

The loan underwriting policies of the Placer County Redevelopment Agency Business Improvement Program (BIP) are designed to insure the Program's on-going viability, assist businesses that could not proceed without the BIP and ensure that the BIP assistance is necessary and appropriate.

GAP ANALYSIS:

In order to receive BIP funds a project must have a "financial gap". This gap must be documented. There are three types of financial gaps. One project may have two different gaps. The types of gaps are as follows:

1) Unavailability of Capital: The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources. The gap may be a result of a lender's loan to value requirements or the inherent risk of the project. For example, the lender will only loan 70% of the project's cost. In this case, the business may not have the cash to bridge the gap, or if the business bridges the gap, its cash flow may be so restricted as to jeopardize the business. In order to document this gap, several steps need to be undertaken. The lender needs to be contacted to determine if there is any ability to increase the size of their loan. Other lending sources, both public and private, need to be explored. This includes examining the business owner(s) personal financial statements for potential funds, including home equity loans. Finally, in addition to examining the business and personal financial statements and tax returns, a pro forma cash flow analysis needs to be prepared and analyzed, with and without BIP funds, to demonstrate the gap.

The terms and conditions of a loan under this gap analysis should be at market.

2) Cost of Capital: The project cannot support the interest rate, loan term and/or collateral requirements of a lender. In analyzing this gap discussions with the lender are important to determine any flexibility in terms. A single project may not be able to support the rate, terms and collateral requirements, or may just face a single hurdle. In addition, the gap may only exist in the early years of the project. To determine the gap, business and personal financial statements and tax returns shall be analyzed. Sources of equity shall be explored. Public and private funding sources that would bridge the gap shall be evaluated. Pro forma cash flow analysis shall be developed with and without the BIP funds to demonstrate the gap. Depending on the gap, the terms or rate shall be adjusted to a rate that allows the project to proceed but are not too generous. Terms can be adjusted to allow for deferrals of principal and/or interest, or to allow loans to be

amortized over a longer period. Interest rates can be adjusted, including increases in the rate over time as cash flow allows.

3) Rate of Return: The project's financial returns are projected to be too low to motivate the business and/or investor to proceed with the project. The risks of the project outweigh the returns. The return is the amount of cash that the investor/business is projected to receive in relation to their initial equity. To analyze this gap, the projected return on investment must be compared to the return on investment on similar projects. If it is shown that a gap does exist, then the BIP financing rate and terms must be set at a rate, which provides a return equal to the "market rate". Real estate appraisers and lenders are important sources of information on "market rate" returns.

In determining any of the three gaps, the current and past financial statements for both the business and individuals must be analyzed, along with tax returns and projections. The assumptions behind the projections must be critically analyzed. Income and expense costs shall be evaluated and compared to past history, where applicable, and compared to industry averages (using guides such as Robert Morris' Annual Financial Statements). Project costs, including both hard and soft costs, must be determined to be reasonable. Accurate project costs are vital to determining project feasibility and subsequent necessary and appropriate analysis. Outside sources shall be used to verify cost estimates.

B. FACADE LOANS

Evidence of sufficient business or personal capital to cover the minimum 50% injection into the project will be required prior to loan committee approval. Copies of bank or investment statements, tax returns, or ,financing commitment letter are considered acceptable evidence of liquidity. In processing the financing request, credit reports, tax returns, and financial statements will be reviewed on both individuals and subject business. Financial and general business analysis will be utilized in making an initial credit decision, with final approval resting with the loan committee.

Copies of bids which include both standard and prevailing wages for all improvements to property will be required prior to submission to loan committee. Before commencement of work, all required permits and Design Review approval (if required) must be in file. Review of preliminary title report will be competed on subject property, and any proposed real property that will be used as collateral, prior to loan closing.

FINANCIAL ANALYSIS:

The purpose of the financial analysis is not only being able to determine the gap, and structure the terms and conditions of the BIP loan as discussed above, but also to determine that the proposed project is feasible. In addition, using prudent underwriting guidelines, the analysis will show that the proposed loan is of sound value and that past earnings (if appropriate) and future prospects indicate an ability to meet debt obligations out of profit.

Information that the applicant will be required to submit will depend on the project, ownership structure and whether it is an on-going or start-up business. In general, the information required is outlined in the BIP checklist in the exhibits.

The financial analysis will differ depending on whether the business is a start-up or existing business. For existing businesses, the analysis will include a spread of the current and past financial statements to determine trends. The pro forma statements will then be compared to these past statements. Key financial ratios will be analyzed. The statements and key ratios will be compared to industry averages. For a start-up business, the projections will be analyzed and key ratios developed, and both compared to industry averages.

Key ratios that will be analyzed include:

- Current Ratio: current assets/current liabilities. This ratio is a rough indication of an owner's ability to service its current obligations. A ratio of 2:1 is considered secure.
- Quick Ratio: cash & equivalents plus accounts & notes receivable/current liabilities. This ratio is a refinement of the current ratio. A ratio of 1:1 usually indicates ample liquidity.
- Cash Flow Coverage: net profit & depreciation & depletion-amortization expenses/current portion of long-term debt. This ratio is a measure of the ability to service long-term debt.

Another coverage ratio is earnings before interest & taxes! annual interest expenses. This ratio is a measure of a firm's ability to meet interest payments. Cash flow coverage of 1.25 debt service shall be used as a guideline.

- Debt to Worth: total liabilities/tangible net worth. This ratio is the relationship between debt and net worth of the business. A lower ratio is an indication of greater long-term financial safety and greater flexibility to borrow. In general, a debt to worth ratio of higher than 5:1 should not be exceeded as an underwriting policy. There are exceptions when the industry average is high due to its capital-intensive nature or when projections show the ratio lowering quickly.

- Collateral Coverage: The value of collateral to the amount of the loan. Typical underwriting guidelines suggest that 125% of loan balance be used. However, this highly dependent on the quality and security of the collateral. In addition, collateral requirements are a cause of "financial gaps". The BIP shall use 125% as a guideline, which shall only be lowered with specific and detailed analysis and explanation.

The financial and ratio analyses must be supported by the business plan. The business plan must provide a clear understanding of the project, competition, market strategy, sales estimates, management capacity and other factors.

For start-up businesses, the analysis will rely on evidence of a business plan, a marketing analysis, ability to provide an equity injection, cash flow projections and evidence of the proposed borrower's financial condition.

APPROPRIATENESS ANALYSIS

If a gap has been determined and the financial analysis indicates the business' strengths and management capacity, then the terms and conditions of the BIP loan and/or façade loan must be appropriate. In general, the interest rate shall be set at a rate where available cash flow is able to meet debt obligations, after other obligations are met, with enough cash flow remaining to operate successfully. The loan term typically is based on the asset being financed. The term should not exceed the economic life of the asset being financed. However, a longer loan amortization schedule, with the loan due at the end of the economic life of the asset, may be justifiable.

Also part of the appropriate test is the collateral required to secure the loan. In no case should a loan be secured by collateral that does not closely approximate and have a real (verified) value comparable to the amount of the loan. For example, if a business borrows $50,000 to finance rehabilitation of its business property and provides the lender with a second deed of trust on real estate whose present value is unconfirmed or it is determined that the borrower only has $25,000 equity in the property, the appropriateness of the loan terms is suspect.

Each loan or loan guarantee shall include a written explanation of the necessary and appropriate analysis that was undertaken, and the reason the terms and conditions of the loan or loan guarantee were approved.

Rehabilitation costs estimates will be provided by applicant and will need to be verified by third party estimates. The business plan, as well as past financial history, resumes and interviews will be used to measure management capacity. Site control will be demonstrated by deposit receipt, purchase agreement, title reports, etc.

APPENDIX B

DELINQUENT LOAN AND FORECLOSURE POLICY

The collection function of servicing a loan is typically organized into several areas. This includes collection of past due payments, counseling of borrowers with financial difficulties and initiating foreclosure actions when necessary. The collection effort is vital to the viability of the BIP Program; without collection of payments when due, the efforts of sound under-writing and originating the loan are fruitless.

Beyond solid underwriting and loan origination procedures, loan monitoring is critical. The Consultant shall review the on-going financial statements submitted for early detection of problems. When problems or negative trends are noted, the business shall be referred to the Sierra College Small Business Development Center for business counseling. In addition, when the loan-servicing agent notifies Agency of a late payment, business counseling will also be recommended.

Dealing with loan collection, and perhaps foreclosure, is complicated and requires compliance with strict legal standards. Foreclosure must be invoked as a last result. Under the BIP Program, the loan collection agent will provide loan collection, servicing and asset liquidation. Asset liquidation will only be undertaken with concurrence with the Agency's legal counsel.

The collection process will usually begin when a borrower fails to remit payment. The first step is that the loan-servicing a gent will s end a reminder notice. T he notice will ask the borrower to check their records and to disregard the notice if payment has been sent. If payment is still not received by the specified date, the loan-servicing agent will inform the Agency and will send out notice that the payment is delinquent and due immediately. The loan-servicing agent will contact the borrower personally to determine the reason for the late payment. Business counseling will be set-up. If the business is experiencing financial difficulties and unable to meet their obligations, a meeting between the business, Consultant and Agency staff will be set-up.

Communication between the business and the loan servicing agent/Agency is critical and a required part of the loan collection process. Judicious personal contact at this stage can prevent future problems, including legal actions. Based upon the personal contact, review of the financial statements and business counseling, a decision will be reached by the Agency, based upon the loan servicing agent and staff advice on whether or not additional counseling will improve the problem. If not, then there are essentially two options. The first is debt restructuring. This arrangement may call for reduced payments for a period of time. These discussions shall involve other lenders in the project. Such arrangements require careful analysis of the borrower's situation and cooperation. Any arrangement constitutes a legal modification to the loan and must therefore be a written agreement. If the new agreement is breached, the Agency has preserved its legal right to foreclose. There may be other options, such as recasting of the loan. However, any restructuring shall be made after consultation between the Agency and Consultant, including Agency's legal counsel..

If nothing can be resolved following the above steps, the loan-servicing agent will send a demand letter to the Borrower. This letter will give the Borrower a specified time period in which to respond. If no response or an unsatisfactory response is received, then the loan-servicing agent shall undertake foreclosure procedures (with Agency's legal advisor providing concurrence). Foreclosure is the last step due to legal and other costs. The loan-servicing agent shall undertake its normal foreclosure procedures and liquidate the assets to recover all or a portion of the BIP funds.

APPENDIX C

LOAN DISBURSEMENT PROCEDURES

When disbursing funds, care will be taken to not put public funds at risk. A Work Confirmation and Disbursement Request will be used in order to formalize the procedure.

Whenever possible, borrower equity will be expended first. This may not be possible if the public funds are to be used for a particular expenditure item that may require that different sources be tapped at different times. In these cases, a budget will be developed allocating Agency funds to specific expenditures.

Loan disbursement will follow one of three forms: 1. Utilization of an escrow account; 2. Reimbursement to business upon evidence vendor(s) have been paid in full (copy of invoice marked paid, initialed by vendor, with check number notated); 3. Direct payment to vendor after confirming work has been completed.

APPENDIX D

MAP OF TARGET AREAS
WITHIN THE NORTH AUBURN, SUNSET,
AND NORTH LAKE TAHOE
REDEVELOPMENT PROJECT AREAS

PROPOSED CHANGES TO PREVIOUSLY ADOPTED BUSINESS IMPROVEMENT LOAN PROGRAM GUIDELINES

COMMERCIAL REHABILITATION LOAN PROGRAM

- **Page 1 (of previously adopted Guidelines):** Changes program name from 'Low Interest Rate Loans' to 'Commercial Rehabilitation Loans'

- **Page 1:** Changes Maximum Loan Limit from $100,000 to $150,000

- **Not addressed in previously adopted guidelines:** Allows real property other than the rehabilitated property to be used as loan security and allows real property located in other California counties, or Wahoe or Douglas Counties, Nevada, and other types of financial guarantees, other than liens on real property, to be used if borrower owns no Placer County property of sufficient value to secure the loan

- **Page 5:**
  Changes eligible activities from:
  - building costs, including real estate
  - leasehold improvements
  - engineering and architectural costs
  - legal and related costs

  to the following:
  - architectural and engineering fees
  - building improvements or expansion
  - structural rehabilitation
  - public pedestrian walkways and street improvements
  - landscaping
  - hazardous waste clean up
  - other improvements or soft costs directly related to the project as may be approved for lending by the Deputy Director

FAÇADE LOAN PROGRAM

- **Page 2:** Changes loan limits from $15,000, plus the cost of prevailing wages, to $30,000, including the cost of prevailing wages

- **Page 2:** Changes the loan match requirement from 50% for the basic project cost, plus 100% Agency financing for the prevailing wage cost differential, to a straight 40% applicant match for the entire cost.

- **Not addressed in previously adopted guidelines:** Clarifies that proceeds from another Agency loan cannot be used to satisfy the match requirement for the Façade Loan.

- **Not addressed in previously adopted guidelines:** Allows real property other than the rehabilitated property to be used as loan security, allows real property located in other California counties or Wahoe or Douglas County, Nevada, to be used as loan security if borrower owns no Placer County property of sufficient value to secure the loan, and allows types of financial guarantees other than liens on real property to secure the loan.

- **Page 5:**
  Changes eligible façade loan activities from:
    - signs
    - doors, windows, awnings
    - walkways and public parking
    - paint
    - landscaping
    - other exterior façade improvements

  To the following:
    - storefront renovation
    - signage
    - exterior doors
    - windows, shutters, awnings
    - exterior lighting
    - roofline modifications
    - landscaping
    - sidewalks and street improvements
    - design and engineering fees
    - soft costs directly related to the above as approved by the Deputy Director

- **Page 5:** Removes the following services to be provided by the Agency:
    - Architectural design services
    - Site planning and permit application processing and fee payment
    - Bidding and construction management assistance

- **Not addressed in previously adopted guidelines:** Adds language that requires improvements to meet Americans with Disabilities Act requirements

- **Not addressed in previously adopted guidelines:** Specifies the following *ineligible* costs:

- interior renovations, other than incidental to eligible exterior work
- roof repair

NEW PROGRAM: MIXED USE PRE-DEVELOPMENT LOANS

- Loan limits of $150,000

- Eligible activities:
  - soil studies
  - environmental review studies
  - architecture and engineering fees
  - permit application fees

- Specifies that if the Agency is a participant in the project in a role other than lender, Mixed-Use Loan payments may be deferred for up to two (2) years

ITEMS APPLICABLE TO ALL BUSINESS IMPROVEMENT LOAN PROGRAMS

- Specifies properties not eligible to be granted loans under these programs include:
  - gambling establishments
  - religious institutions
  - adult entertainment establishments
  - retail stores larger than 50,000 square feet
  - auto dealers larger than one (1) acre

- Allows a Façade Loan project to be combined with a Commercial Rehabilitation Loan project or Mixed-use Development Loan project, conditioned on no co-mingling of project budgets or loan proceeds

- Clarifies that tenants may use the program with property owners' consent

- Removes the potential one point loan fee and specifies that the borrower pays for the full cost of appraisal and 50% of processing fees, such as recording, attorney, and escrow fees

- Modifies the Loan Application Appeals and Dispute Resolution Policy

- Underwriting key ratio guidelines are changed: debt service coverage from 1.25 to 1.15 and collateral coverage from 125% to 100%

- Loan disbursements are no longer allowed directly to a third party vendor; payments are allowed as reimbursements to the borrowers or as payments through escrow.

- Allows project costs incurred no more than 90 days prior to loan approval to be used as a private match for Agency financing