

**APPLICATION FOR COMMUNITY DEVELOPMENT BLOCK GRANT
BUSINESS LOAN FUNDS**

Applicant: La Plata County as lead county for Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

Date: June 1, 2023

Address: 1101 E. 2nd Ave. Durango Colorado 81301

Phone: (970) 382-6200

Contact: Ms. Marsha Porter-Norton

Title: Chairperson, Board of County Commissioners

Sub-Grantee: Region 9 Economic Development District of Southwest Colorado

Address: 135 Burnett Dr Unit 1, Durango, CO, 81301

Phone: (970) 247-9621

Contact: Laura Lewis Marchino

Title: Executive Director

Service Area: Southwest Colorado which includes the counties of Archuleta, Dolores, La Plata, Montezuma, and San Juan, ten municipalities and two tribes (Southern Ute and Ute Mountain Ute).

Requested: \$870,000

Proposed Budget:

	Activity	Amount	Source	Status
1	Assistance to Business	\$750,000	CDBG	Applied for Funds
2	Administration	\$120,000	CDBG	Applied for Funds
3	Other	\$366,574	Local	Available
4	Planning & Feasibility Studies		CDBG	Funds will be applied for on a case-by-case basis through the Financial Review Committee

Please outline the proposed *administrative* budget for *each* year of the proposed revolving loan fund contract term as follows:

NEW CDBG BLF BUDGET
For one Year of Operation

A. Administration

	Cost	Total	CDBG Funds Requested	Other Funds	Source of Other Funds
Personnel					
Executive Director	\$ 14,594				
Loan Officer	\$ 28,067				
Program Admin	\$ 24,701				
Deputy Director	\$ 16,840				
Office Manager	\$ 5,613				
Comptroller	\$ 22,453				
		\$ 112,268	\$ 40,500	\$ 71,768	Interest/Revolved
Operating					
Legal	\$ 5,000				
Advertising	\$ 10,000				
Audit	\$ 8,000				
G&A	\$ 3,700				
Insurance	\$ 3,000				
Credit/Filing	\$ 4,000				
Contractual	\$ 6,000				
Training	\$ 6,000				
		\$ 45,700	\$ 15,000	\$ 30,700	Interest
Travel	\$ 9,000	\$9,000	\$ 4,500	\$ 4,500	Interest
Other					
Allocated Cost ¹	\$ 76,319	\$ 76,319		\$ 76,319	Interest
TOTALS		\$ 243,287	\$ 60,000 ²	\$ 183,287 ³	

(1) Allocated Expenses include salary, rent, phone, utilities, insurance, and all other expenses that are general to the operation of Region 9 EDD.

(2) CDBG request per application is \$120,000 for two years, budget of \$60,000 is for one year.

(3) Other funds of \$366,574 is for two years, \$183,287 is for one year

B. OTHER FUNDS REQUESTED OR COMMITTED:

Please describe how the proposed Business Loan Fund (BLF) policies address the following required elements:

1. Job Creation/Retention (and National Objective):

All borrowers for the CDBG or Micro Enterprise Program (MEP) Creation/Retention Method will be required to demonstrate how they will create or retain jobs. One Full time Equivalent (FTE)

job is based on a 40-hour week, and part-time jobs are converted to FTEs on that 40 hour basis. The number of jobs projected to be created depends on the type of business and is based on prevalent practice in each industry. However, the cost per job is not anticipated to exceed \$20,000. On that basis, a minimum of 38 jobs will be created. Borrowers are generally required to create the jobs within 12 - 18 months of loan closing and must report results to Region 9 at least quarterly. The Federal Objective requires that at least 51% of the jobs are held by low- or moderate-income persons as defined by HUD guidelines. Although the primary purpose of this program is to develop and create new jobs, a secondary priority will be job retention. The retention of jobs can only be used to qualify for BLF financing if a business within the region can adequately demonstrate to Region 9 that jobs will be lost if the BLF business assistance is not provided.

Job Creation for the MEP will not be required under the Limited Clientele Method when the owners qualify as low- or moderate-income and the company has less than 5 employees.

2. Business Types:

The purpose of the CDBG BLF (or BLF) is to support business activities for which credit is not otherwise available on terms and conditions which would permit completion and/or successful operation or accomplishment of the project in the defined eligible areas to create and/or retain employment opportunities primarily for persons from low- and moderate-income households.

Generally, the CDBG BLF targets businesses that are non-competing in the local economy, primarily exporting a value-added product and importing revenue from outside the region, filling a niche in the local economy not currently being filled, and some consideration is given to local priorities such as agriculture. However, the BLF will consider assistance for any type of business providing that jobs are being created or retained. Categories and priorities for underwriting guidelines are as follows:

- a. Expansion of existing business: Projects receiving the highest priority are expansions of existing businesses which are value added product/service exporters and importers of revenue. Within this category, businesses which have the potential to hire low to moderate income persons would be given a higher priority. Usually, this type of business is looking to increase permanent working capital, acquire or upgrade equipment or other fixed assets, expand inventories, introduce a new product, or penetrate a new market with existing products/service.
- b. Retention of existing business employment: Projects receiving the next priority are existing businesses, which need assistance in retaining existing jobs. Within this type the business receiving priority would be the firms involved in value added product/service exporters and importers of revenue or filling a needed niche in the local economy and/or generating significant tax revenue stream for the local community. Retention situations may involve some modernization of plant, equipment, and/or working capital loans, to regain competitiveness or increase market shares. A business requesting BLF support for retention purposes must be able to demonstrate a history of effective management, viable markets for products and services and consideration by the Loan Committee as important to the local economy and business mix of the community.

In some instances, a portion of a business's work force scheduled for layoff may be retained in connection with an expansion loan, enabling the business to undertake larger projects and create new jobs. Other combinations and possibilities which fit within the framework of the program may also be considered.

- c. *Start up/new businesses:* The next priority will be given to start up and new businesses within the region which generally fall under the criteria described above: value added manufacturing, filling a special niche in the local economy, etc. Start up and new businesses usually involve a higher degree of risk. In response to this situation, a substantial amount and higher ratio of private capital will be required for start-ups and new businesses.

Loans will be to profit oriented businesses that fall under the SBA definition of small business. Locally owned companies, or those with local ownership are preferred. Loans to companies with non-local ownership will be considered if the established criteria are met and the employment impact is significant. Loans may also be made to non-profit entities.

Other considerations and standards to consider for BLF projects are as follows:

- a. *Primary Factor:* A primary factor in selection of projects for BLF assistance is the ability to meet employment, leveraging, environmental review standards, necessary or appropriate criteria, and to repayment ability.
- b. *Growth Potential:* Businesses identified as having significant growth potential may be given additional planning assistance, provided that financial needs meeting BLF criteria are indicated, a significant contribution to the market research and planning effort is being made by the borrower, leveraging commitments are strongly indicated and job and other benefits of the proposed project are attainable in the near term.
- c. *Linkages with Existing Economy:* Businesses that utilize local existing natural resources in a value added production process or support Direct based economic activity or clustering of like industries is encouraged.
- d. *Tax Revenues:* The generation of tax revenue for local governments by BLF assisted businesses is a criterion for consideration in the loan review process. The BLF program is viewed as a tool helping to add to or stabilize the Region 9's economy through real estate, capital equipment, and sales taxes generated by increased business and employee spending.
- e. *Purpose and Uses:* BLF loan funds must comply with all Federal, State and local laws.

3. Minimum & Maximum Amounts of loans to be made:

- a. *CDBG*: The minimum loan amount will be \$5,000 while the maximum loan amount to any one borrower is 15% of the total of Region 9 equity plus loan loss reserves as reported on the Region 9 balance sheet (approximately \$650,000).
- b. *MEP*: The maximum loan amount will be \$100,000.

4. Leveraging:

- a. *CDBG*: The overall target leveraging of CDBG funds will be 2:1 (the BLF will not exceed 33% of the overall financing). The 2:1 ratio may be exceeded on a case by case, special need basis if the overall average leveraging of the portfolio has achieved the 2:1 required leveraging. Assistance will be provided to all borrowers in securing other sources of financing for their business loans. This assistance in obtaining other financing will consist of introductions to local banks, other state and federal lending programs, etc. If possible, a pool of local commercial funds will be made available by the area banks. Borrowers without an identified source for their outside financing will be encouraged to seek their commercial financing from local banks. Documentation of the commitment for outside financing shall be provided to the Loan Committee with acknowledgment of the BLF loan portion including the proposed or requested BLF loan terms.
- d. *MEP*: Leveraging is not required for the MEP program.

5. Rates & Terms:

The loan interest rate for the CDBG and MEP shall be established by the loan committee based on the cash flow needs of the borrower. The minimum interest charged for CDBG funds will be zero percent (0%) per annum. The maximum interest rate on the CDBG loans will not exceed 2% above the prime interest rate as published by the Wall Street Journal, at the time of loan committee approval. MEP loans may be made with a variable interest rate at 3% above prime.

Loan terms for the CDBG and MEP can range from a minimum of 1 year to a maximum of 10 years, targeting five years, depending on the borrower's cash flow projections and the form (including economic life considerations) of the security. Interest and/or principal payments may be deferred up to a maximum of two years as needed for individual loans. Although the maximum loan term is 10 years, the loan can be amortized for a period of up to a maximum of 20 years with a provision to adjust the interest rate at the end of a five (5) year period.

6. Fees:

The following fees for the CDBG and MEP programs shall be charged for the business BLF loan:

- a. Up to 2% of BLF loan amount as an origination fee to assist in loan package preparation, charged at the discretion of the BLF loan committee.

7. Use of Proceeds:

BLF funds for the CDBG and MEP programs can be used to finance the following:

- a. Capital Equipment
- b. Inventory
- c. Working Capital
- d. Purchase of existing buildings

- e. Other fixed assets
- f. Refinance of existing debt (must demonstrate special need)
- g. Construction of new facilities and renovation of interiors and exteriors (discouraged due to Davis-Bacon Wage, Environmental Assessments and other Federal Requirements)

8. Collateral Requirements:

The BLF/CDBG and MEP programs will require collateral. Region 9 in all cases will take a security agreement on all business assets. When possible, Region 9 will take the next available lien position on equipment, buildings and real estate financed with BLF funds. If the borrower owns property in the local area, Region 9 will generally take the next available deed of trust position on the real estate along with the mentioned business assets, unless other collateral is agreed upon. If real property is taken Region 9 staff will evaluate, with consideration to the collateral value to Region 9, and make recommendations to the Loan Committee as to whether there should be title insurance or a mortgage guarantee. Region 9, except in certain occasions, will not take a Deed of Trust on non-local property and will require other collateral. Personal guaranties of the principals with at least 20% ownership will be required on all loans. Co-signers will be required when requested by the Loan Committee. All security interests will be perfected to adequately protect the BLF's security interests.

9. Types of Assistance: (loans, equity, guarantees, etc.):

Most assistance will be provided through loans. No loan guarantees are anticipated.

Past Performance: As of 3/31/2023

CDBG Funds Received:	\$	13,212,243
Program Income Generated:	\$	290,105
Miscellaneous Income Generated:	\$	
Other Funds Received:		
Administration:	\$	1,543,865
Loans:	\$	
Total Funds Loaned:	\$	11,741,051
Number of Loans Made:	\$	279
Amount Defaulted:	\$	809,429
Number of Loans Defaulted:	\$	18
Total Funds Lost:	\$	654,023
Number of Jobs Created/Retained	\$	1,093
Number of L/M Jobs Created/Retained	\$	733

Management:

- a. **Please describe your proposed administrative structure. Specify who is responsible for completing defined tasks. Be specific.**

Region 9 will administer the CDBG and MEP BLF program. The Executive Director and Deputy Director will provide overall coordination of the program. The Business Loan Officer, Program Administrator and an Independent Auditor will assist the Region 9 staff in monitoring the files for compliance and proper documentation and assist with collections and liquidations. The Business Loan Officer and Deputy Director will assist with spreading the borrower financial statements, analysis, and preparing the loan packages, including loan contract compliance, environmental review, loan analysis, loan packaging, loan closing documentation, report preparation for the Board of Directors and State Office of Economic Development. The Program Administrator will handle loan servicing and file preparation. The Office Manager will provide administrative support in filing, scheduling and coordinating Loan Committee Meetings, and other clerical support as necessary. The Comptroller will receive payments, prepare vouchers, prepare deposits, prepare checks, post expenses for general ledger, prepare quarterly financial statements and required reports and drawdown documentation.

- b. **Describe the composition of your loan committee. Describe its relationship to the governing board.**

A twelve-member loan committee, two members from each of the five counties and two at large, will review and approve all loans under the BLF. Approval of a loan application shall be by a majority vote of the members making up the quorum in favor of the application. Loans of less than \$25,000 can be approved by a unanimous vote of the Loan Officer, the Loan Committee Chairman and two members of the Loan Committee (preferably from the county where the business is located). If the vote is not unanimous then the decision is deferred to the entire committee. Loans over \$200,000 shall also be approved by the Region 9 EDD Executive Committee.

The membership of the Loan Committee represents banking and lending, accounting, real estate, legal field, and the business owner's community. Region 9's Bylaws outline all Loan Committee member responsibilities and procedures.

The BLF Loan Committee members shall be approved by the Region 9 Executive Committee. The Loan Committee appoints a Chairman and Vice-Chairman. A representative of the Loan Committee will report to the Region 9 Board of Directors as needed.

The Terms of the current Loan Committee members are two years. A person appointed to fill a vacancy will serve to the date of expiration. There is no limit to the number of terms a committee person may serve. The quorum for the Loan Committee meeting shall be five (5) members. In the event of less than a quorum, decisions may be ratified through ballots mailed or emailed to committee members and returned with votes by enough Loan Committee members to constitute a quorum. The Chair of the Loan Committee will vote only in the case of a tie vote among the other members.

- c. **Describe the relationship between the BLF and the unit of local government which is sponsoring this application.**

The La Plata County Board of County Commissioners has entered into a Memorandum of Agreement with the Region 9 Economic Development District of Southwest Colorado, Inc. for the implementation and administration of the Community Development Block Grant (CDBG) - funded portion of the business BLF. Region 9 shall establish and maintain a Loan Committee as outlined in the above section to make all loan decisions. The Loan Committee will make final loan decisions except in the case of an appeal or when a waiver is needed of the loan underwriting guidelines. In these latter situations the Region 9 Executive Committee shall make the final decision pending State approval. The Memorandum of Agreement will outline the services that the County will provide including accounting for grant funds and grant audit. Region 9 shall be allowed to receive all fees, interest, and other miscellaneous program and miscellaneous income from the operation of the business BLF. Both parties acknowledge that the business BLF will be a source of ongoing revenues for the administrative expenses of Region 9.

- d. **Describe the relationship between the BLF and lending institutions in the service area.**

The Region 9 BLF program has one representative from a local lending institution on the BLF Loan Committee. In cooperation with the Small Business Development Center at Fort Lewis College, the BLF program maintains good communications with most local lending institutions and visits the area banks to market the services of the BLF.

- e. **How does the BLF relate and coordinate with other economic development activities in the area?**

As an Economic Development Administration (EDA) designated and funded District, the BLF maintains good communications and works closely with local economic groups.

- f. **Please attach a proposed project list. The list should include type of project; amount requested; and status. (See Attachment).**

C. Acknowledgement

To the best of my knowledge and belief, statements and data in this application are true and correct and their submission has been duly authorized by the governing body of all participating jurisdictions.

(SEAL)

**BOARD OF COUNTY COMMISSIONERS
LA PLATA COUNTY, COLORADO**

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(SEAL)

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