



# JOBS 1<sup>st</sup> Program Guidelines

City of Garden Grove  
Community Development Block Grant (CDBG)  
Economic Development Initiative



**COMMUNITY AND ECONOMIC DEVELOPMENT DEPARTMENT  
OFFICE OF ECONOMIC DEVELOPMENT**

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# PROGRAM INFORMATION



## INTRODUCTION

The City of Garden Grove (“City”) has established the JOBS1st Program (“Program”) to stimulate economic growth aimed at improving living conditions for residents throughout the community. The Program provides zero-interest loans and grants to eligible businesses for the creation and retention of jobs.

## ELIGIBILITY

Eligible businesses must:

- ◆ Be located in Garden Grove
- ◆ Possess a valid GG Business License
- ◆ Create or retain jobs for low-income individuals

## FUNDING OPTIONS

Eligible businesses may apply for one of the following types of assistance:

- ◆ A zero-interest loan of up to \$50,000 to create jobs
- ◆ A grant of up to \$25,000 to retain at-risk jobs

**To fill out an application for the JOBS 1st Program, please visit: <https://apply.ggcity.org/>**

**For more information about this program, please contact:**

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# Table of Contents

<b>Introduction</b> .....	2
<b>I. Program Requirements</b>	
1.1 Eligible Activities .....	2
1.2 Ineligible Activities .....	2
1.3 Ineligible Applicants .....	2
1.4 Meeting a National Objective .....	3
1.5 Meeting Proper Public Benefit Requirement .....	3
1.6 Other Federal Requirements .....	3
1.7 Special Considerations .....	4
<b>II. Application Processing</b>	
2.1 Fair Lending Compliance .....	5
2.2 Application Processing .....	5
2.3 Applicant Confidentiality .....	5
2.4 Dispute Resolution/Appeals Process .....	6
2.5 No Conflict of Interest Allowed .....	6
2.6 Exceptions and Special Circumstances .....	6
2.7 Closing Process .....	6
<b>III. Description of Funding</b>	
3.1 Loan/Grant Amount .....	6
3.2 Funding Term .....	6
3.3 Interest Rate .....	7
3.4 Funding Types .....	7
3.5 Modification .....	7
3.6 Fees .....	7
<b>IV. Underwriting Standards</b>	
4.1 Initial Evaluation .....	7
4.2 Credit Requirements .....	8
4.3 Financial Information .....	8
4.4 Collateral .....	9
4.5 Experience/Management Capacity .....	9
<b>V. Loan Servicing</b> .....	9
<b>VI. Breach of Loan Agreement</b> .....	9
<b>VII. Program Oversight</b> .....	10
<b>VIII. Contractor Procurement</b> .....	10
<b>IX. City Contacts</b> .....	10

# Introduction

The City of Garden Grove (“City”) established the JOBS 1st Program (“Program”) to stimulate economic growth through job creation/retention activities aimed at improving living conditions for residents throughout the community. The Program provides affordable, non-conventional financing to eligible businesses and development projects. The Program Guidelines are in conformance with the U.S. Department of Housing and Urban Development (HUD) regulations pertaining to the use of Community Development Block Grant (CDBG) funds.

## Eligible Applicants

Funding under this Program is available to all eligible businesses located within the City of Garden Grove. Applicants must be an existing legal business located within the City with a valid City business license, insurance, and all applicable required permits. Start-up or new businesses are eligible to apply, but possession of proper licenses, permits, and insurance, will be a condition of funding.

# I. Program Requirements

## 1.1 Eligible Activities

CDBG funds under this Program are restricted to certain eligible costs including, but not limited to, the following:

- Working capital (including inventory, business license and building permit fees, and payroll reimbursement)
- Rehabilitation of leased space or owner-occupied buildings (including pre-development costs associated with engineering and architectural, and local building permit fees)
- Purchase of equipment (bolted down/real property, with or without installation costs)

In most cases, funds will be disbursed incrementally on a reimbursement basis, or direct payment of vendor/contractor invoices, as eligible costs are verified (see Section VIII a & b for further). Funds under this Program are provided to eligible businesses as loans or grants. CDBG underwriting (see Section 4.1) provides for greater flexibility for funding terms, lowered interest rates, and repayment terms. These flexible terms must be balanced by the Borrower and City with the obligation to meet CDBG and Program requirements.

Once approved, funds cannot be shifted from one approved type of cost to another without formal written approval by the Community and Economic Development (CED) Director.

## 1.2 Ineligible Activities

The goal of this Program is to stimulate economic growth and create/retain high quality jobs. There are restrictions in how CDBG funds can be utilized, as well as certain ineligible expenses. CDBG funds under this Program will **not** pay for:

- Reimbursement of expenses incurred prior to the City’s formal loan approval and/or completion of project’s environmental review;
- Support to another business in which the borrower may have an interest;
- Subsidy of interest payment on existing loans;
- Refinancing or consolidating existing debt;
- Reimbursement for legal or accounting expenditures.

## 1.3 Ineligible Applicants

Funds shall not be available for the following types of businesses:

- Speculative investment companies;
- Real estate investment companies;
- Lending institutions;
- Gambling operations;
- Non-profit organizations; and
- Other businesses not serving the interest of the City of Garden Grove.

## 1.4 Meeting a National Objective

All CDBG funded projects must meet a “National Objective” as described in the federal regulations (24 CFR 570.208). Use of funds under this Program must meet the National Objective of “benefiting a low and moderate income area by satisfying the requirement of “Job Creation/Retention”.

**Job Creation/Retention** - An applicant meets the Job Creation/Retention objective when the business in question uses Program funds to create or retain jobs, of which 51% will be held or made available to LMI persons. In order to meet this requirement, the Approved Business/Borrower shall certify the following:

Provide documentation of family household income levels of newly hired or retained employees to document that over half of them are qualified as low or moderate income;

- Provide documentation of family household income levels of newly hired or retained employees to document that over half of them are qualified as low or moderate income;
- Execute City documentation for creation of new jobs for LMI persons in the loan documents signed at loan closing;
- Report that new jobs have been created/retained and filled by low/moderate income individuals by submitting a self-certification form to be completed by each employee holding the new/retained positions.
- Provide documentation that the job retention by the business would have been lost without the CDBG assistance, if applicable.

All employee information is confidential and will not be released unless disclosure is required by law.

## 1.5 Meeting Proper Public Benefit Requirement

CDBG regulations (24 CFR Part 507.209(b)) require that Economic Development related activities provide benefit to the public. For qualifying Job Creation/Retention applicants under this Program, the following criteria is required:

- One full-time equivalent (FTE) job must be created/retained for each \$25,000 in assistance provided;
- More than one (1) Part-time staff may be combined to make up one FTE; and,
- One FTE consists of 2,080 staff hours per year.

As with the National Objective requirement outlined in Section 1.4, the job creation/retention requirements will be a performance condition under the terms of a loan/grant agreement between the City and Borrower at closing. The agreement requires that each business provide documentation through a monthly certification process to identify job creation/retention has been achieved and maintain through the term of the loan/grant agreement.

Each new hire, or retained position, must complete a Self-Certification Family Income Verification form. This form must be completed and provided to the City so that the demographic and income information can be included in the annual report submitted to HUD.

## 1.6 Other Federal Requirements

There are a number of other federal laws and requirements that are triggered by the use of CDBG funding. The City will require borrowers to comply with these CDBG regulations in conformance with standards set by HUD. Impacts these federal regulations will have on a proposed project will be explained to the borrower at the time of application.



**Environmental Review Record (ERR)** – National Environmental Policy Act (NEPA) regulations require an ERR to be submitted for each project/business funded with CDBG monies prior to award or approval of funds. The City is required to complete the proper NEPA review, along with any state review under California’s Environmental Quality Act (CEQA) review. The ERR level of review is based on the type of project proposed and all aggregated activities to be undertaken. Applicants will be informed of any additional time required for loan processing due to environmental review. The ERR will be prepared as soon as the City determines that the project is eligible for funding. No costs will be charged to the borrower for this process. Once an application is submitted, no activities can be performed on the project until completion of the ERR and CEQA, as applicable.

**Data Universal Numbering System ID (DUNS), Insurance, & Federal Debarred List** – All businesses participating in this Program will be required to obtain a DUNS number. The DUNS number is free and can be obtained online at [www.dnb.com](http://www.dnb.com). In addition, and prior to funding, the City will require that each business be checked to confirm they are not on the federal debarred contractors list. Applicants will be required to obtain all proper licenses and insurance to operate legally within the community.

**Federal and/or State Labor standards** – Federal and/or State Labor standards and provisions (Davis-Bacon Act) may apply for projects assisted with CDBG and/or other public funds. The Borrower attests that all applicable standards and provisions will be strictly adhered to, including, if applicable, prevailing wage requirements. It is recommended that the Borrower seek legal and/or other professional advice regarding prevailing wage requirements prior to applying for funding.

**Other requirements related to CDBG funds** – The Borrower agrees to comply with all other requirements associated with the use of CDBG funds, including but not limited to, Acquisition, Anti-Displacement, and Relocation provisions, Equal Opportunity and “Section 3” regulations, Contractor Eligibility and Certification provisions, and Procurement regulations (See Section 8).

**Underwriting Standards** – In addition to documenting that the project meets CDBG public benefit standard, the project must also be documented as meeting six HUD underwriting standards, per federal regulation 24 CFR Part 570.209. These underwriting standards are required to document a minimum “due diligence” of the Lender and ensure projects are financially sound enough to meet public benefit and national objective standards (i.e. creation of new or retention of existing jobs). The six HUD underwriting standards are general, qualitative and are supported by commercial underwriting standards in Section 4 of these guidelines.

The Six Underwriting Standards are:

1. Project costs are documented as reasonable (typically, third party cost estimates);
2. All sources of funding for the project are documented with final commitments;
3. To the extent practicable, CDBG funds are not substituted for private (non-federal) funds;
4. Documentation that project is financially feasible (based on cash flow projections to support jobs and debt service, etc.);
5. To the extent practicable, the return of the owner’s equity investment is not unreasonable (based on level of equity and proposed CDBG funding terms); and,
6. To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other financing provided for the project.

## 1.7 Special Considerations

Although all applications that meet the minimum requirements will be considered, preference will be given to those addressing one or more of the following:

- a. Demonstrate that funds are not available from other sources (e.g. SBA or bank financing);
- b. Show that the minimum requirements of job creation/retention will be exceeded while maintaining the ability to make loan payments;

- c. Able to secure loan funds via a lien on real property;
- d. Complete an approved entrepreneurial training course or other businesses training; and
- e. Address an urgent need within the community.

## II. Application Processing

### 2.1 Fair Lending Compliance

This Program will be implemented consistent with the City’s commitment to fair lending laws. No person or business shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Program funds on the basis of his or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status, physical or mental disability, sexual orientation, or other arbitrary cause. All personal information of loan applicants will be kept confidential unless disclosure is required by law.

### 2.2 Application Processing

Applications will be processed on a first-come, first-served basis unless identified as a “preferred application” per Section 1.7. Applications will generally follow these procedures:

- a. Applicants are directed to the online application portal to complete a basic questionnaire to determine eligibility. Qualified Applicants may advance to complete a full online application. Applicants that do not meet eligibility requirements will be notified with an explanation of outstanding deficiencies.
- b. Completed applications will be reviewed and underwritten by the Office of Economic Development (OED) and/or an alternate underwriter as determined by the Community and Economic Development Director, using the criteria detailed in Section 4 of this Program Guide.
- c. Applications deemed complete by the OED will require approval by the Internal Review Committee (IRC) for final funding recommendation.
- d. If necessary, a meeting and/or site visit will be conducted with the business owner(s) and City representatives to perform an inspection and determine the qualified scope of work.
- e. OED will prepare a file comprised of the information required to evaluate eligibility.

To complete an application for the Jobs 1st Program, please visit: <https://apply.ggcity.org>

### 2.3 Application Review Process

The IRC shall be established and recommended to be comprised of at least three members. The Committee members can be from local financial institutions, the City, or other interested parties who have the professional capacity to review and evaluate commercial loan and grant requests.

IRC meetings will be scheduled following the review and underwriting conducted by OED. The OED is responsible for reviewing each application funding proposal and preparing recommendations of consideration by the Committee. If the application is approved, the project can proceed with closing.

If IRC approval is not achieved, the applicant will receive a written denial correspondence detailing the reason(s) for the denial. Denied applicants may take dispute resolution actions, per Section 2.4 of these Guidelines.

Approved applications will, if applicable, enter into the bidding process where they will be required to follow HUD’s approved procurement procedures. (See Section 8)

### 2.4 Applicant Confidentiality

Persons serving as a City representative for this Program will not disclose any of the Borrower’s personal, confidential information as part of the approval process. All confidential information of businesses will only

be disclosed to persons required to view the information as part of review and approval. Notwithstanding the foregoing, records and information may be disclosed if required by law.

## **2.5 Dispute Resolution/Appeals Process**

Any applicant requesting assistance through this Program has the right to appeal if their application is denied. The appeal must be made in writing to the City within thirty calendar (30) days of receiving notification that the loan was denied. The appeal process shall follow the City's established procedure for appeals of department or City Manager level reviews.

## **2.6 No Conflict of Interest Allowed**

In accordance with Title 24, Section 570.611 of the Code of Federal Regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities in connection with the planning and implementation of the CDBG Program shall directly or indirectly be eligible for this Program. Exceptions shall only be made as permitted, and in accordance with, Federal and California State law.

## **2.7 Exceptions and Special Circumstances**

Except as otherwise stated herein, the City may consider requests for an exception in special circumstances if doing so would further the City's progress in meeting its Economic Development goals. A report on the request for an exception will be prepared, which shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The City's Community and Economic Development Director, or his/her designee, shall make a determination of the exception request.

Loan payments may, on a case by case basis, be deferred for a period of time to allow a start-up or expansion of a business to take place. This payment deferral determination is made by the City based on the break-even point of the business in the future and the ability of the owner to pay his or herself a regular salary.

## **2.8 Closing Process**

Upon approval, OED will prepare all required documentation for closing. The Borrower shall sign all the necessary documents and agreements within 30 days of receipt. If signed documents are not received within 30 days, the application will be considered withdrawn. The City will prepare the closing documents, title and lien searches, and UCC-1 filings, if appropriate. All documents shall be approved as to form by the City Attorney and signed by the CED Director. Escrow companies may be used to close loans and secure liens.

# **III. Description of Awards**

## **3.1 Loan/Grant Amount**

The Program provides for applicants to consider a loan or a grant request.

- a. The minimum funding amount shall not be less than \$5,000.
- b. The maximum loan amount for the job creation shall not exceed \$50,000.
- c. The maximum grant amount for the job retention shall not exceed \$25,000.
- d. Award amounts are determined based on the submitted Scope of Work, jobs to be created or retained, the ability of the business to repay the loan, and the reasonableness of the costs to be paid for by the funds.

## **3.2 Funding Terms**

The Program provides for flexibility with funding terms.



Under a Loan Request, the term will be determined by what is being funded and what security is being pledged for the funds. It will also take into account the use of proceeds, the useful life of the assets being financed, and the borrower's ability to repay the loan. If a business is seeking operating capital, then the term of the loan is normally two (2) to three (3) years, up to a maximum of five (5) years.

Under a Grant Request specific to business impacted by COVID-19, the grant term shall be a minimum of three (3) months in which performance related to job retention activity such as employee certification is required.

### 3.3 Interest Rate

The interest rate for loans awarded under this Program will be zero percent (0%).

In certain situations where including interest is warranted, the rate will be based on the current United States Prime Rate (3.25% as of March 2020) plus an additional maximum of five percent (5%), to be determined by the City at the time of approval. The interest rate will be based upon the underwriting analysis done by OED. Some of the factors that will drive the interest rate are:

- a. The amount of equity the business plans to contribute to the proposed project;
- b. The ability of business to service the loan;
- c. The rate of return the borrower will receive with a lower interest rate; and
- d. The credit risk factors and management experience.

### 3.4 Funding Types

The two types of funds offered under this program are loans and grants. The type of funding will be determined by the activity to be undertaken (e.g. Job Creation or Job Retention), as outlined by the applicant in their request for funding.

**Job Creation** – Funds awarded for the creation of new jobs will be considered a loan that must be repaid to the City. Loan terms will be determined as outlined in Sections 3.2 and 3.3. The entire loan amount is paid to the borrower upon closing.

**Job Retention** – Funds awarded for the retention of existing jobs will be considered a grant that requires no repayment to the City. Twenty-five percent (25%) of the total grant award is available at closing for non-payroll, general operation expenses, with the remaining balance to be disbursed on a month-to-month basis for the reimbursement of payroll expenses.

### 3.5 Modification

Modification requests will be reviewed on a case-by-case basis by the Internal Review Committee, and the final determination will be made by the Community and Economic Development Director or his/her designee.

### 3.6 Fees

Typically, there is a \$75 non-refundable application fee associated with this program, however, this fee may be waived by the Community and Economic Development Director or his/her designee. There is no pre-payment penalty on the loans under this Program.

## IV. Underwriting Standards

### 4.1 Initial Evaluation

Each project and business will be evaluated based on operation history as well as its future financial forecast. Specifically, the following questions will be asked of the applicant through the loan application process:

- a. Will the project meet a CDBG National Objective by creating or retaining jobs?
- b. Are the costs to be paid CDBG eligible?
- c. Are the business and its owner(s) credit worthy?
- d. Do they have good "character" (pay bills on time, collect on time)?

- e. Does the business have management capacity?
- f. Does the start-up have solid business plan and document market demand?
- g. Does the business have financial expertise to expand or start-up?
- h. Is the owner(s) contributing a reasonable amount of equity?
- i. Is the owner able to get conventional bank financing, if not, why not?
- j. Was the business financially viable in the past (net income covers expenses including debt)?
- k. Are there reasonable financial assumptions for future viability/success?
- l. Is there enough collateral available to secure the loan funds?

Based on responses and initial application review, a determination can be made about the strength of the applicant and likely success if given a loan/grant. After the initial review, the OED will collect additional information that may be required for loan underwriting. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start-up) and whether the project will create or retain jobs. Additional documentation may be required to clarify special circumstances of the business. Below are some of the basic underwriting requirements for a typical applicant (Sections 4.2 – 4.5).

## 4.2 Credit Requirements

The City requires a credit report for all owners of the business with twenty percent (20%) or more equity. For this Program, credit scores of 600 and above are generally considered acceptable credit.

## 4.3 Financial Information

In order to evaluate the credit-worthiness of each applicant, the City requires submittal of the following financial information:

**Credit Bureau Report** – Credit scores from the three primary reporting agencies (Experian, Trans Union, and Equifax) for all owners with 20% or more interest in the business.

**Federal Business tax return statements** – Required for each Applicant who own 20% or more ownership interest in the business for the past three (3) years.

**Business Cash-flow statements** – These statements should reflect 12 months of past and future revenue, and be prepared by the person normally responsible for doing the bookkeeping and finance management for the business. Future projections must include how the City’s loan will be repaid (if applicable), as well as showing the increased costs associated with hiring additional employees (if applicable). This will provide evidence of the benefit/increased profit the business will receive by receiving the award. The City may require audited financial statements and applicants shall provide these to the City upon request.

**Use of funds** – Applicant must demonstrate how the Program funds will be used. This data gives a clear idea of the use of the loan/grant proceeds and its information must be reflected in future projections as described above.

Using the information in these financial statements, along with any back up documentation required, the OED will conduct an analysis of the project and the creditworthiness of the business per HUD required underwriting guidelines as outlined in Section 1.6.

*Free and confidential business assistance is available through the Orange County - Small Business Development Center (OC-SBDC) and SCORE to prepare the documentation discussed throughout. For more information on available resources, please contact the OED at [jobsfirst@ggcity.org](mailto:jobsfirst@ggcity.org).*

## 4.4 Collateral

All loan requests under this Program may require collateral using normal commercial lending standards. Collateral coverage will be assessed based on assets available as security and the level at which liens already exist. The loan is typically in a subordinate position to banks and other lenders. It is the goal of the Program to get the best lien position possible to ensure loan repayments and program compliance. Types of collateral that may be used are listed below in preferential order:

- a. Secured liens on real property
- b. Standby Letter of Credit
- c. UCC liens on vehicles, machinery, equipment, inventory, or other fixtures
- d. Lease assignments, as appropriate
- e. Life insurance and other collateral, as appropriate
- f. Personal guarantees, as appropriate (if acceptable to the Loan Advisory Group and the City Manager in his/her sole discretion). If this option is used, a higher interest rate may apply (see Section 3.3)
- g. Corporate guarantees, as appropriate

Appraisal of assets may be required as part of determining how to obtain the best lien positions for the loan. Equipment and inventory secured should be properly discounted to reflect actual resale value when doing loan to value calculations. As applicable, borrower shall provide and maintain hazard insurance on all real and personal property collateral for the loan.

#### **4.5 Experience/Management Capacity**

Applicants shall submit resumes of each of the principals detailing experience of business owners and their management staff in successful operation of the existing business or a comparable business. This will be most important with start-up businesses or with applicants that wish to use CDBG funds to purchase an existing business that is closing. All start-up businesses and those open for less than one (1) year will be required to receive five (5) hours of business counseling from the Orange County Small Business Development Center (OC-SBDC).

## **V. Loan Servicing**

Servicing of loans will include monitoring payment performance, periodic reviews of the conditions of the loan approval, including but not limited to, financial data, job creation/ retention, collecting and posting payments, personal inspections and site visits, as deemed appropriate.

## **VI. Breach of Loan Agreement**

The Agreement shall be considered in material default when payments are more than 30-days past due. In the event of a default, awarded funds shall become due and immediately payable and the City shall promptly issue a notice of default to the business owner. The City may exercise its right to foreclose on the security on the funds after the date of default.

In the event of sale or transfer of the business, closure of the business, refinancing, or failure to occupy the premises, the funds shall become due and immediately payable. In the event of a sale, transfer, or closure of the business the business owner, subject to the City’s discretion, may have the option to continue making payments, pay off the loan, or transfer the loan to the new owner. For a transfer to be considered, the new owner must meet all eligibility requirements and possess sufficient collateral to securitize the remaining balance of the loan.

## **VII. Program Oversight**

The OED will serve as the primary contact for Program implementation. Upon approval, the Program Administrator will prepare the loan package and coordinate submittal for review including but not limited to the following:

- a. Facilitate execution of all loan documents and ensure requirements are met prior to signing by the borrower;
- b. Provide oversight regarding collection in the case of default, in conjunction with the City Attorney's Office;
- c. Complete the required HUD CDBG financial reports for Program income; and,
- d. Complete the proper quarterly and annual reports for review, approval, signature and submittal by the City to the appropriate HUD representative.

## VIII. Contractor Procurement and Payment

**Rehabilitation and Equipment Purchases** - For approved loans, the Borrower will be responsible for obtaining three (3) independent contractor bids to perform the determined scope of work. The bids will be submitted to the City, along with supporting documentation (i.e. resumes, past jobs, recommendations, accommodations, etc.) provided by the contractor that demonstrates their ability to complete the work efficiently and effectively. Upon receipt, the City will review the submissions and select the "lowest responsible" bidder.

The City will draft a "Multi-party" contract in which all three parties (the City, Borrower, and Contractor) agree upon a scope and cost of work. As work is completed, the contractor will submit invoices to the City, and the City will reimburse the contractor from the Borrower's loan account.

At no time may funds be used to pay for work outside of the original "scope of work" without prior written approval by the City.

**Working Capital** – Approved loan proceeds may be applied towards working capital and inventory such raw materials, work-in-process goods and completely finished goods that are considered to be the portion of a business's assets that are ready or will be ready for sale. Approved grant proceeds are available for use toward payroll reimbursement and general operating expenses.

- a. **Job Creation Loan** - At closing, the Applicant will receive one hundred percent (100%) of the approved loan amount. Performance requirement thereafter by each Applicant shall include the following:
  - Submittal of a monthly report detailing goods/services purchased with the loan proceeds until such time the entire loan balance has been accounted for.
  - At no time may funds be used to pay for ineligible goods/services. (See Section 1.2 Ineligible Activities)
- b. **Job Retention Grant** – At closing, the Applicant may request a disbursement of up to twenty-five percent (25%) of their approved grant for non-payroll uses such as general operation expenses. Performance requirement thereafter by each Applicant shall include the following:
  - Submittal of monthly documentation for job retention including employee certification for reimbursement of up to 75% of the total grant amount for payroll expenses;
  - Submittal of monthly documentation for non-payroll, general operating expenses including, but not limited to, rent, utilities, and insurance of up to 25% of the total grant amount.
  - Over the term of the grant (estimated at approximately three (3) months), the Applicant will continue to submit monthly reports until the entire loan/grant amount has been disbursed.
  - Reimbursement requests and subsequent issuance of reimbursement payments shall be subject to approval by OED Staff.
  - At no time may funds be used to pay for ineligible goods/services. (See Section 1.2 Ineligible Activities)