



# COUNTY OF MENDOCINO

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## Mendocino County's COVID-19 Business Assistance and Recovery Business Loan Fund Program (20-CDBG-PI-12010)

California Department of Housing and Community Development's (HCD) encourages economic development activity with its Community Development Block Grant Program (CDBG) that "...select eligible activities that best meet the needs of their communities"<sup>1</sup>. Which can include direct assistance to businesses, "...programs funded under this eligible activity typically include programs that provide grants, loan, and/or forgivable loans to eligible businesses."<sup>2</sup>

In 2021, the County launched its most recent business assistance revolving loan program. The purpose of the revolving loan fund was to provide very flexible low interest loans to small and medium sized businesses to offset the negative impacts of the COVID-19 Shelter in Place (SIP) order and to assist those businesses with financial recovery and job retention and creation.

The County loan program was designed to provide access to low-cost capital to bridge the gap between the Payroll Protection Plan and Economic Injury Disaster Loan programs and the conventional financing available from local and regional banks. The program partnered with private and nonprofit lenders to connect borrowers to the program and arranged companion loans to expand the impact of the County loan program.

The CDBG-PI Business Assistance Loan Program was initially funded with \$500,000<sup>3</sup> in County CDBG Program Income funds. Of this amount, \$415,000 was budgeted for loan funds, and \$85,000 was allocated for program administration. In 2024, the County amended the budget with HCD and added \$263,278.05<sup>4</sup> to the program budget. This additional funding was used to cover \$50,000 in business assistance loan funds and \$213,278.05 in activity delivery to cover accumulated historical CDBG Program Income (PI) loan servicing expenses from previous years and current fiscal year costs.

The County allocated Program Income (PI) funds to the project to provide flexible low-interest (1%) loans to small and medium-sized businesses in the County's unincorporated areas with a provision for loan balance forgiveness when small businesses met target job creation/retentional requirements<sup>5</sup>. All loans were required to meet CDBG public benefit standards<sup>6</sup> and HUD's six CDBG underwriting standards, per

<sup>1</sup> California Department of Housing and Community Development (HCD) Community Development Block Grant Program (CDBG). Grants Management Manual. Appendix D: Economic Development Manual. Pg.7

<sup>2</sup> California Department of Housing and Community Development (HCD) Community Development Block Grant Program (CDBG). Grants Management Manual. Appendix D: Economic Development Manual. Pg.11

<sup>3</sup> Mendocino County Board of Supervisors Resolutions 20-065 (5/19/20) & 20-165 (12/8/20)

<sup>4</sup> Mendocino County Board of Supervisors Resolution 24-035 (2/27/24)

<sup>5</sup> Mendocino County 2020 CDBG COVID-19 Business Assistance and Recovery Loan Fund Program Manual, Determination of Loan Term (pg 12-13)

<sup>6</sup> "Projects normally meet a national objective standard when they create or retain jobs and provide over half; at least fifty one percent (51%), of the new job positions or retained positions to low/moderate income (LMI) qualified persons. For projects meeting national objective via jobs provided to LMI persons, the Public Benefit standard is jobs, and the maximum CDBG loan funding available is limited to \$35,000 per job." (Mendocino County 2020 CDBG COVID-19 Business Assistance and Recovery Loan Fund Program Manual).

federal regulation 24 CFR Part 570.483(e). These underwriting standards were required to document a minimum "due diligence" of the County and ensure that projects were financially sound enough to meet public benefit and national objective job retention standards.<sup>7</sup>

Funds were awarded to three separate businesses. These included:

- Happy Rides
  - Principal: \$105,000
  - 1% interest loan
  - Loan date: 1/18/22
  - Loan term: 5 years
  - Maturity: 2/1/2027
  - Job goal: create three new full-time equivalent (FTE) jobs with 51 % being filled by members of the Target Income Group (TIG) for a period of 24 months after the date the loan closes to meet the forgiveness element.
  - Loan proceeds to be used for the purchase a non-medical transport van.
- Cold Creek Compost
  - Principal: \$180,000
  - 1% interest loan
  - Loan date: 2/9/23
  - Loan term: 15 years
  - Maturity: 3/1/2038
  - Job goal: retain six full-time equivalent (FTE) jobs with 51% filled by members of the Target Income Group (TIG) by December 31, 2023.
  - Loan proceeds to be used in conjunction with a Savings Bank of Mendocino County (SBMC) loan to consolidate multiple business equipment loans, lowering the monthly debt service requirement. No forgiveness element.
- Geiger's Hopland Market
  - Principal \$180,000
  - 1% interest loan
  - Loan date: 2/21/23
  - Loan term: 10 years
  - Maturity: 4/1/2033
  - Job goal: create six new full-time equivalent (FTE) jobs with 51% filled by members of the Target Income Group (TIG) by July 1, 2024.
  - Loan proceeds to be utilized in conjunction with the borrower's personal funds, and a loan with Summit State Bank to purchase, and open a grocery store in Hopland, CA at the former Hopland Superette location. More specifically, the subject funds will be used to purchase inventory (\$100,000) and working capital (\$80,000). No forgiveness element.

Businesses seeking to retain or create jobs for low to moderate income (LMI) individuals agreed to allow the County, or their designated representative, to review and collect their payrolls. This review took place both before and after the loan closing. The purpose of this process was to ensure that over half of all job

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<sup>7</sup> The Six Underwriting Standards are: project costs are documented as reasonable (typically, third party cost estimates), all sources of funding for the project are documented with final commitments, to the extent practicable, CDBG funds are not substituted for private (non-federal) funds, documentation that project is financially feasible (based on cash flow projections to support jobs and debt service, etc.), to the extent practicable, the return of the owner's equity investment is not unreasonable (based on level of equity and proposed CDBG loan terms), to the extent practicable, CDBG funds are disbursed on a pro-rata basis with other financing provided for the project. (Mendocino County 2020 CDBG COVID-19 Business Assistance and Recovery Loan Fund Program Manual).

positions (at least 51%) were filled by LMI individuals, demonstrating that the project's job retention meets the national objective of primarily benefiting LMI persons, and allowing for the completion of loan requirements with the County and HUD.<sup>8</sup>

The County's subcontractor for this project, Community Development Services (CDS), monitored the three loan recipients and the provided documentation showing that they met the job creation and retention requirements specified in their loan terms. Compliance was demonstrated through payment records, payroll documentation, and employee self-certifications. Monitoring determined that grant funds helped create 12 jobs and retain 20 jobs, of which 24 jobs are held by the low/moderate income group, with 8 employees above the moderate-income level for Mendocino County. CDS also confirmed that Happy Rides, Inc. has submitted the required documentation, has made required 24 monthly loan payments, and has retained the necessary jobs. Therefore, the business is eligible for loan balance forgiveness according to the terms of their loan agreement and release of the lien on the property purchased with the loan (transport van). A resolution to this effect will be forthcoming in the next Board of Supervisors meeting.

CDBG funding for this program (grant # 20-CDBG-PI-12010) covered the performance period from June 4, 2021, to June 3, 2024. As the grant has now ended, the County has initiated the final phase of administration, which is the grant closeout process. On September 24, 2024, the project hearing required by HCD will be held as part of the closeout requirements. A total of \$650,682.90 in CDBG Program Income funds was disbursed, the remaining \$112,595.15 in Program Income is expected to roll over into the County's next PI-funded program<sup>9</sup>. During the closeout process, the Executive Office staff and CDS will work with HCD to prepare and submit the required combined closeout package and completion report, including the final activity and financial reports.<sup>10</sup> Loan servicing activities will continue after the closure of the grant.

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<sup>8</sup> Mendocino County 2020 CDBG COVID-19 Business Assistance and Recovery Loan Fund Program Manual. Meeting National Objective Standards. Pg. 7

<sup>9</sup> Economic Development, Technical Assistance to Businesses & Microenterprise PI only application submitted to HCD on 5/3/24 and currently under review by HCD (BOS resolution 24-033 2/27/24).

<sup>10</sup> California Department of Housing and Community Development (HCD) Community Development Block Grant Program (CDBG). Grants Management Manual. Chapter 12: Closeout.