



Small and Microenterprise Revolving Loan Fund (SMRF)

Presentation Agenda

- I. CDBG Overview
- II. Eligible Applicants and Nonprofit Development Organizations
- III. Small Businesses and Microenterprises
- IV. Eligible and Ineligible Activities
- V. Documenting the National Program Objective
- VI. Scoring Criteria
- VII. Application Illustration
- VIII. Questions and Answers

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I. CDBG Overview

TxCDBG Objectives:

- To improve public facilities to meet basic human needs, principally for low-to-moderate income persons;
- To improve housing conditions, principally for persons of low-to-moderate income;
- **To expand economic opportunities by creating or retaining jobs, principally for low-to-moderate income persons; and**
- To provide assistance and public facilities to eliminate conditions hazardous to the public health and of an emergency nature.



II. Eligible Applicants and Nonprofit Development Organizations (NDO)

Eligible Applicants

- Non-entitlement cities - populations less than 50,000 thousand persons;
 - Cities that are not designated as a central city of a metropolitan statistical area; or
 - Cities that are not participating in urban county programs.
- Non-entitlement counties generally have fewer than 200,000 persons in the non-entitlement cities and unincorporated areas located in the county.



II. Eligible Applicants and Nonprofit Development Organizations (NDO)

NDO requirements

- The organization meets an IRS definition of a nonprofit organization;
- The organization is organized under state or local law to serve or carry out community/economic development activities which address the development needs of communities;
- The organization is independent of the local government; and
- The organization will be carrying out the initial specified activity.



II. Eligible Applicants and Nonprofit Development Organizations (NDO)

Examples of NDOs

- Small Business Investment Companies organized under 15 USC Section 681,
- SBA Section 504 Certified Development Companies,
- Community Action Agencies,
- Community Development Corporations,
- Local Development Corporations, and
- Community Housing Development Organizations (CHDOs) under the HOME program



II. Eligible Applicants and Nonprofit Development Organizations (NDO)

NDO Performance

The NDO shall be responsible for servicing all SMRF loans and reporting job creation/retention activity by the small businesses and microenterprises. Responsibilities include:

- Document participant CDBG income eligibility and adequate number of employees
- Ensure set up of participant files to document all provided services and eligible costs
- The applicant will work with program participants and ensure compliance with these program guidelines.



II. Eligible Applicants and Nonprofit Development Organizations (NDO)

NDO Performance (continued)

SMRF Fixed Award amount of \$100,000

Minimum 10% cash or in-kind administrative match

No single loan may exceed \$50,000

Two years to complete job creation/retention activities

NDOs are encouraged to establish lending practices that narrow the eligible uses of SMRF monies to avoid activities triggering additional federal regulations.

e.g.:

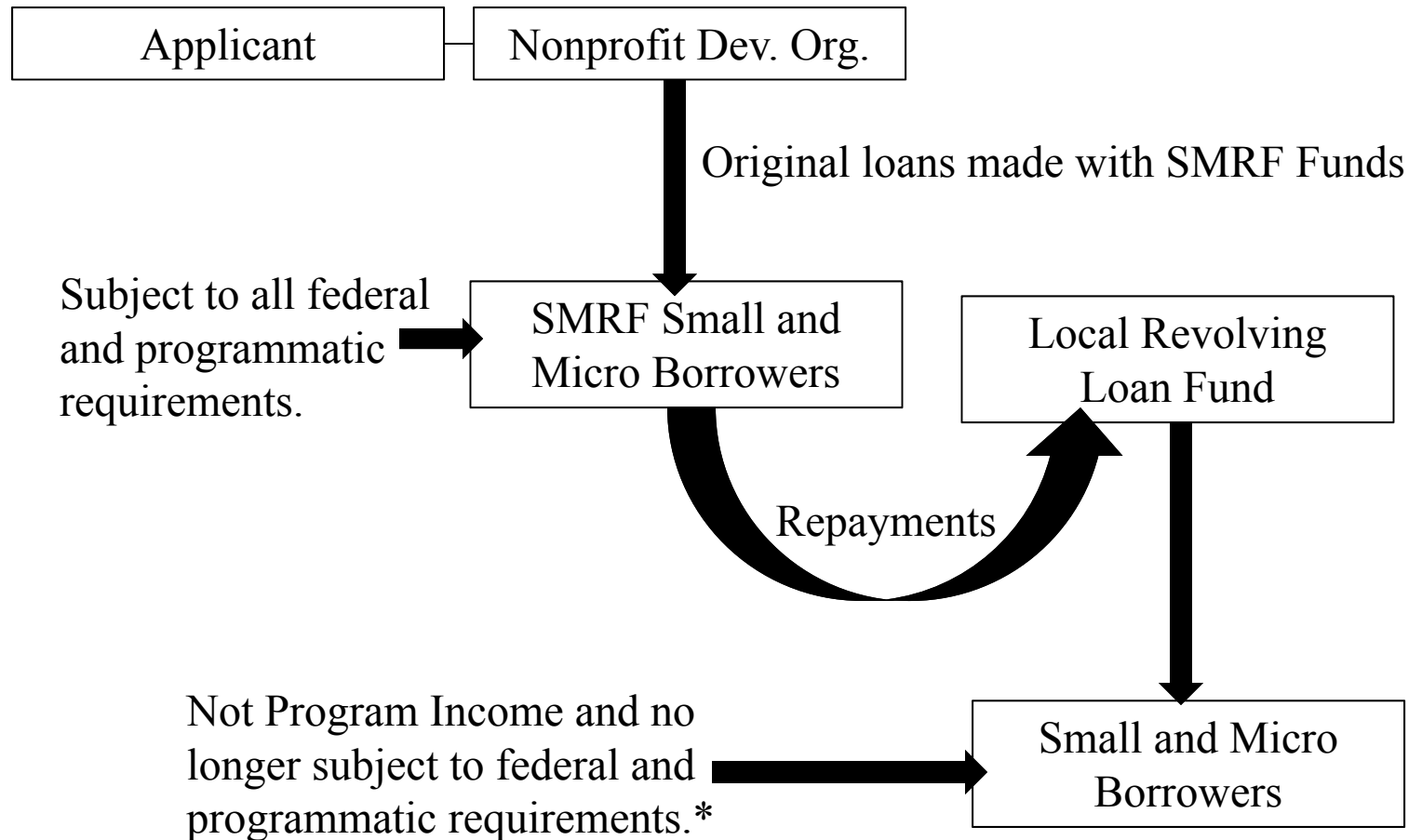
Davis-Bacon (construction labor)

Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (acquisition)

Environmental Review Requirements (project specific)



II. Eligible Applicants and Nonprofit Development Organizations (NDO)



*Per Section 105(a)(15) of the Housing and Community Development Act of 1974 (HCDA).



II. Eligible Applicants and Nonprofit Development Organizations (NDO)

Applicant/NDO Agreement

Applicant/NDO Agreement - This details duties and responsibilities of both the applicant and the NDO.

Must Contain:

- Define a FTE per TxCDBG requirements;
- Employees be employed for a minimum of 30 days;
- Require SMRF loan recipients to submit any other requested documentation;
- Loan recipients must be for-profit and meet definition of a small or microenterprise business;
- Charge an interest rate on all loans made to increase the value of the RLF;
- Ensure that all SMRF loan recipients have a business address or reside within the applicant's jurisdiction; and
- Establish rules governing the RLF.
 - Applicants are *strongly encouraged* to seek guidance from their legal counsel to assist with the drafting of the agreement.



III. Small Businesses and Microenterprises

Microenterprise Definition

The CDBG regulations provide the following definitions:

- A “microenterprise” is a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.
- "Persons developing microenterprises" means persons who have expressed interests in and who are, or after an initial screening process are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed. 24 CFR §570.201(o)(3)



III. Small Businesses and Microenterprises

Small Enterprise Definition

The TxCDBG regulations provide the following definitions:

- A “small enterprise” or “small business” is a commercial enterprise that has 25 or fewer employees, one or more of whom owns the enterprise.



IV. Eligible and Ineligible Activities

Eligible Activities

Through a nonprofit development organization (NDO), loaned SMRF funds are available to provide “general support” to establish, stabilize, and expand eligible small businesses and microenterprises. Generally, SMRF loaned funds may be used for the following:

- Lease Space
- Purchase Inventory
- Working Capital
- Machinery and Equipment (M&E)
- Raw materials



IV. Eligible and Ineligible Activities

Ineligible Activities

In general, any type of activity not described or referred to in Section 105(a)(22) of the Housing and Community Development Act of 1974, as amended, is ineligible for TxCDBG funding. Specific ineligible activities under the TxCDBG Program include:

- Leasehold Improvements
- As the national objective of the SMRF program is to support small businesses and microenterprises that create and/or retain jobs, principally for low and moderate income persons, wages are an ineligible use of SMRF funds.
- The applicant may not grant or otherwise transfer SMRF monies to a business.



IV. Eligible and Ineligible Activities

Ineligible Activities (continued)

- SMRF monies may not be used for speculation, investment or excess improvements over the minimum improvements needed for the business.
- SMRF funds may not be utilized for refinancing or to repay the applicant, a local related economic development entity, the benefiting business(es) or its owners and related parties for expenditures, prior to TDA approval.
- Government entities may not be the business creating/retaining the jobs.
- Non-profits are not an eligible small or microenterprise business.



V. Documenting the National Program Objective

SMRF funds shall be used to provide general support to small businesses and microenterprises that commit to create/retain jobs where at least 51 percent of the jobs benefit LMI individuals.

Identifying Activity Beneficiaries

- Survey of persons filling a created/retained job
- Presumption of LMI
 - Census tract poverty rate of at least 20%
- **Microenterprise assistance** can qualify under the limited clientele criteria for LMI benefit, if the business owner is LMI.



V. Documenting the National Program Objective

Jobs

1 FTE created for each \$25,000

1 FTE retained for each \$10,000

1 FTE +35 hours or more per week for 30 days

.5 FTE +20 hours or more per week for 30 days

- Seasonal jobs are not eligible for consideration in the program. The position must be required year-round.
- Contract jobs are not eligible for consideration. Only permanent employees may be counted toward job creation/retention requirements.
- Unfilled or vacant jobs/positions are not eligible for consideration.



VI. Scoring Criteria

Maximum score – 70 points

Minimum score – 30 points

Community Need

- Unemployment (15 points)
- Poverty Rate (10 points)

Nonprofit Loan Capacity

- Current Loan Program Years in Existence (5 points)
- Incidence of Default (15 points)
- Cash-on-Hand Ratio (15 points)
- Technical Assistance and/or Business Training (5 points)

Multi-jurisdictional Applications

- Multi-jurisdictional application (5 points)



VII. Application Illustration

Print Application



Texas Community Development Block Grant Program
Texas Capital Fund

Small and Micro Enterprise Revolving Fund (SMRF)

2016 Application

APPLICANT NAME

COUNTY

REGION



VIII. Questions and Answers

the
SMRF

