

ALLEGHENY RECOVERABLE GRANT PROGRAM



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Allegheny Recoverable Grant Program

PURPOSE:

- To provide low interest financing, a portion of which is recoverable, to businesses unable at the time of application to acquire financing or service significant debt, but that demonstrate future capabilities of repayment

ELIGIBLE USES:

- The Recoverable Grant is only available for the purchase of machinery and equipment

RECOVERABILITY:

- Upon the expiration of a term, the length of which is determined by ACED, recoverable grant recipients are required to make a lump sum payment less than the full principal balance

LOAN TERM:

- ACED will determine the term for a recoverable grant based upon financial statements as well as future income projections provided in the application package

INTEREST RATE:

- Interest shall accrue at a rate of less than or equal to 6% for the term established by ACED without any obligation to make payment on principal or interest so long as the recoverable grant recipient has not defaulted on any warranties or covenants

LOAN AMOUNT:

- Loan amount will not exceed \$100,000

DEFAULT:

- Upon default of any covenants or warranties in the agreement, the full principal balance of the recoverable grant, plus all interest accrued, as well as any penalties, costs, or fees (including legal) associated with the recoverable grant shall immediately become due

JOB CREATION REQUIREMENT:

- Job creation requirements will be determined by ACED, but will typically mirror the CDBG requirements established by the US Department of Housing and Urban Development

LOW/MOD INCOME REQUIREMENT:

- 51% of newly created jobs must qualify as benefiting low to moderate families based on household income levels

SOURCE OF FUNDS:

- Funds distributed through the Allegheny Recoverable Grant Program are received by the Allegheny County Economic Development from the US Department of Housing and Urban Development

SECTION I

Program Description

Allegheny County is dedicated to expanding and diversifying the region's economic base to improve the quality of life for its citizens and businesses. In positioning itself for the future, Allegheny County must nurture the business environment by accommodating start up businesses and emerging industries. Start up businesses, in particular those located in targeted geographical areas, and "growth cluster" industries having difficulty obtaining financing based on their present financial condition, but with promising future revenue growth are the primary targets for the Allegheny Recoverable Grant (ARG) Program.

The ARG program promotes the establishment and expansion of new and existing business and industry, by providing financing for a term, which upon expiration a lump sum payment of less than the full principal balance is accepted in satisfaction of the "grant." Recoverable grants may be used for land development, building improvements, machinery and equipment acquisition, infrastructure development, and working capital, which will enhance the taxable base within Allegheny County, as well as create jobs for its residents.

Source of Funds

Funds dispersed through the ARG program utilize Community Development Block Grant (CDBG) funds received from the U.S. Department of Housing and Urban Development.

Allegheny County Economic Development (ACED) is the administrator of the ARG program, and thus all applications are packaged, closed, and managed by the ACED.

SECTION II

Eligible Businesses

An eligible business is a for-profit, legal business entity located within, or seeking relocation to, Allegheny County. In addition, the business must have the necessary owner equity and demonstrate future profitability.

Businesses located within communities with CDBG entitlement programs are not eligible for the ARG program unless such communities participate in the project financially or in kind. ACED reserves the right to require additional eligibility criteria from applicants.

Preference for Businesses Located in Targeted Geographical Areas and Growth Cluster Industries

Eligible businesses deemed to be a Targeted Growth Cluster industry will receive preference in the distribution of funds available. Lower interest rates may also be available to eligible

businesses located in, or seeking relocation to, a “Targeted Geographical Area.” A Targeted Geographical Area is any community that exceeds the exception criteria for CDBG eligibility. For a list of Targeted Geographical Areas” in Allegheny County please see Appendix A.

Targeted Growth Cluster Industries

Allegheny County has identified “Growth Clusters” industries. “Growth Clusters” are defined as businesses or industry sectors that have already been established as, or have the potential to become, a substantial factor in the Allegheny County economy. As such, projects identified within these “growth clusters” will receive preference in funds available for distribution and may be eligible for reduced interest rates. For a list of Growth Cluster Industries please see Appendix B.

SECTION III

Grant Amount

The amount available through the ARG program will be determined on an individual basis not to exceed \$100,000 . However, the maximum amount made available will be influenced by whether the applicant is located in a Targeted Geographical Area and/or Targeted Growth Cluster industry. Applicants may not receive more than one (1) ARG during any twelve (12) month period.

Recoverability

An ARG recipient shall make a lump sum payment of less than the full principal balance to ACED without notice, protest or demand upon the expiration of a term established by ACED. So long as Company has made the lump sum payment when due, and has complied with all of the job creation requirements, as well as any other terms and conditions of Grant Agreement, the obligation to repay the full principal balance of the Recoverable Grant, plus interest accrued, shall be forgiven.

Loan Term

The loan term will be individually determined by ACED. The length and duration of term may be based by the applicants’ projected profitability and financial statements provided at the time of application.

*The ACED reserves the right to consider exceptions to these loan terms.

Interest Rate

The Recoverable Grant shall bear interest at a fixed rate of less than or equal to six percent (6%). The interest rate shall be determined by ACED on a case by case basis. Interest shall accrue without any obligation of Company to make principal or interest payments so long as Company is not in default of any of the terms or conditions of the Grant Agreement.

Use of Proceeds

The following are examples of approved uses of the proceeds from the ARG program:

Machinery & Equipment

- The acquisition of equipment, machinery, or other fixed asset of depreciable value associated with the operation of the small business
- Computers, peripherals, and software integral to regular business operations are eligible for ARG program proceeds.

Machinery and equipment loans shall be based on the lower of equipment value or cost. Grants utilizing existing equipment as collateral shall be based on the depreciated value of the asset.

Restrictions

- The applicant and its principals may not be delinquent or in default of any existing loans related to the applicant, unless there has been a satisfactory workout agreement entered into with the respective creditor(s). Full compliance with the terms of such an agreement is required, demonstrated by the execution of an affidavit to that effect. For purposes of the ARG program, a “principal” of an applicant is any record or beneficial owner of 20% or more of an ownership interest in the applicant.
- The applicant and its principals must be current on the payment of all applicable federal, state, and local taxes unless a satisfactory workout agreement has been reached with the respective taxing authority and there is full compliance with the terms of such agreement.
- The applicant and its principals and managerial officers must disclose any potential conflicts of interest with any officials or employees of ACED or others involved in the review and disbursement process of the ARG program.
- None of the proceeds of the Recoverable Grant may be used for salary or wage obligations, debt payments, refinancing, construction, cleaning, demolition or any other purpose unless otherwise approved in writing by ACED.

Loan Security

All recoverable grants dispersed through the ARG program will be secured with the best possible lien position against any assets financed.

Other collateral may be accepted at ACED’s discretion dependent upon the value of the proposed collateral. Personal guarantees of the principal owners, those who own twenty

percent (20%) or more of the business, are required and where applicable corporate guarantees will also be required.

Default

Default shall occur if any one or more of the following events shall occur and extend beyond any applicable grace or cure period:

- Failure to make any payment within ten (10) days after written notice of all or any part of the principal or interest on the Note whether at maturity or by acceleration or otherwise.
- Failure to pay when due and payable any taxes, including but limited to real estate taxes, or insurance premiums.
- Failure to perform or observe any requirement of the Grant Documents; or if a breach shall occur with respect to any representation or warranty contained herein and such breach shall not be cured within thirty (30) days after written notice.
- The dissolution of Company unless the Recoverable Grant is paid in full.
- If Company shall be involved in any financial difficulty as evidenced by:
 - Failure of Company to pay its debts generally as they become due
 - Company's filing of a petition under any section of the Bankruptcy Code or the filing of a receivership or consenting to appointment of a receiver under Pennsylvania law
 - Making an assignment for the benefit of creditors
 - Company being adjudicated a bankrupt
 - Entry of a court order which shall not be vacated or stayed within ninety (90) days from the date of entry
 - Appointing a receiver or trustee for all or a substantial part of Company's property
 - Approving a petition filed against Company under any section of the Bankruptcy Code

In addition to such other remedies as may be set forth in any grant agreements, the ACED may, at its option, proceed to protect and to enforce its rights by suit in equity or action in law. In the event of any default of the Note, Company unconditionally agrees to pay all costs of County and/or ACED.

Job Creation and Low/Moderate Income Requirement

Job creation is a key component to the sustainability of economic development in the region. In particular, one (1) job is to be created for every thirty five thousand dollars (\$35,000) loaned. Retail and retail services businesses, located in Targeted Geographical Areas, are required to create one (1) job for every thirty five thousand dollars (\$35,000) loaned.

Loan recipients have three (3) years from the date of Loan Review Committee approval to fulfill their job requirements unless extended by the ACED. Additionally, at least fifty one percent (51%) of the jobs created must be filled by low/moderate income individuals as defined by CDBG guidelines. Failure to meet these requirements may also result in a retroactive increase in the loan's interest rate to the prime interest rate plus two percent (2%).

SECTION IV

Financing Application Procedures

Financing Application Processing

A complete Financing Application accompanied by all the required attachments and exhibits should be returned to the ACED for processing and analysis. After the ACED conducts due diligence associated with the application and determines the proposal's eligibility based upon both (1) the objectives of the ARG program and (2) concurrence with the project eligibility requirements, the ACED will submit the application for consideration by the Business Loan Review Committee.

Business Loan Review Committee

The Business Loan Review Committee is comprised of representatives from the private and public sectors that have proven expertise in both credit analysis and economic development. It may advise and provide expertise on the availability of any and all services and private and public funding sources which may be available to assist the development of the project. After review of the proposal, the Committee may take one of the following actions:

- 1) Approve and recommend the project for funding.
- 2) Approve contingent upon certain modifications.
- 3) Deny approval and recommend further analysis by the Department of Economic Development.
- 4) Deny approval with no recommendation for further review.
- 5) Table the application pending further review

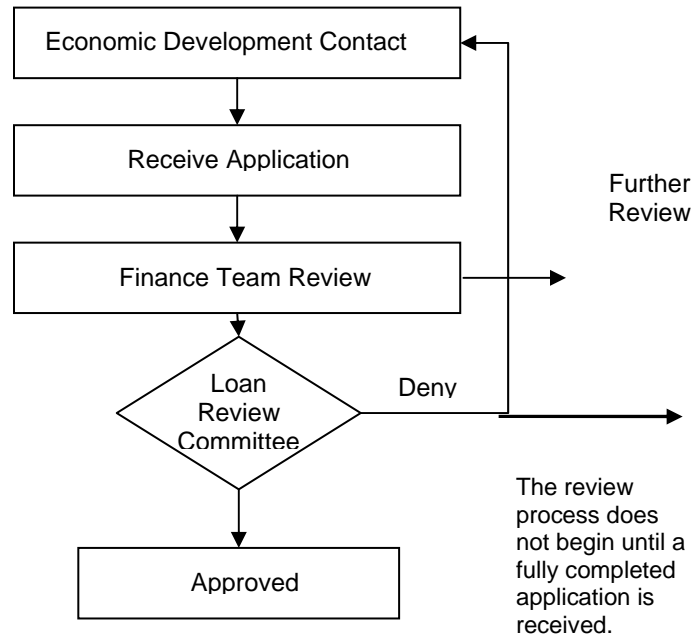
The Loan Review Committee meets on the third Wednesday of every month. Complete applications must be received by ACED by the first of the month in order to be considered on that month's agenda.

Loan Frequency

Additional loans may be available to businesses provided they are current on their existing loan, their job creation requirements have been met, and the loan being financed is a separate and stand-alone project. The maximum loan balances outstanding to any one business entity or affiliate under the ARG program is \$500,000. No more than two (2) loans may be outstanding under all Allegheny County funded loan programs.

Overview of Loan Process

Allegheny Recoverable Grant Application Process



General Requirements

- The applicant must meet all deadlines for the submission of documents as required by the ACED. The failure of the applicant to meet established deadlines may result in the cancellation of the application, or the applicant's loss of priority position in loan processing.
- Loan approval will be evidenced in writing to the applicant. Construction activity or equipment purchases prior to loan closing are prohibited and as such would be considered ineligible costs for the purpose of the ARG program
- Any denial of a loan application by the ACED will be communicated in writing to the applicant. In the event of an application denial, the applicant shall bear the cost of any and all expenses incurred in connection with either the preparation or processing of the loan application, including, but not limited to, credit reports, appraisals and feasibility studies.
- An applicant may withdraw a loan application from consideration for funding at any time after the Business Loan Review Committee approval, and prior to loan closing, by giving written notice to ACED. The applicant shall bear the cost of any and all expenses incurred to that point in connection with either the preparation or processing of the loan application or documentation.
- An applicant shall bear the cost of any and all expenses incurred in the preparation of loan documentation which shall be satisfactory to the ACED. All or a portion of these expenses may be financed.

Financing Application Evaluation Criteria

The following documentation will be the minimum amount of information required by ACED in order to evaluate the financing application. ACED reserves the right to request any and all information it deems necessary to evaluate a proposal/application for the ARG Program.

Financial Evaluation

The current performance of the business and the financial status of the proposed owners will be evaluated to determine the ability to repay the loan. The evaluation will include, but not be limited to the following criteria:

Financial Status of the Business

This involves an evaluation of prior years' and current financial performance. Independently prepared financial statements, with an accountant's opinion, and tax returns for the prior three years must be submitted. If the business is a start-up or if this documentation is unavailable, balance sheets, income statements and statements of cash flows must be provided.

Financial Status of the Owners

This involves an evaluation of the prior three years personal tax returns, personal financial statements, and credit history for any individual or entity owning twenty percent (20%) or more of the business seeking financing. A similar evaluation of a Guarantor, if applicable, will also be conducted.

Projected Cash Flow Analysis

Profit and loss statements and cash flow statements projected for at least the next three (3) years will be required.

Collateral/Security Analysis

An analysis of the assets which are used to secure the loan, showing evidence of their economic useful life, must be submitted. Appraisals, when necessary, are to be provided. Existing machinery and equipment utilized as collateral will be based on the depreciated value of the asset.

Business Evaluation

An evaluation of the proposed or present business will include, but not be limited to the following criteria:

Business Plan

A complete business plan, including in some cases a market study or market documentation acceptable to the ACED will be required. The business plan should demonstrate evidence for a strong potential market for the product or service through an evaluation of the relevant local and national market.

Management Ability

The general business skills, as well as the specialized experience in the particular industry of the owners, partners or directors will be evaluated. Evidence of expertise must be submitted.

Tenant Commitments

For build-to-suit projects, the strength of anchor tenant commitments will be thoroughly evaluated.

Public Purpose Evaluation

Because there may be insufficient funds to approve all eligible applications, priority will be given to those applications showing a significant "public purpose" or "benefit" based upon an evaluation of the following criteria:

- The total number of jobs created, with an emphasis on the number of employed Allegheny County residents.
- The quality of jobs in terms of salary, skill level, stability, etc.
- The ratio of ARG funds to private investment.
- The amount of alternative funding from sources other than the ARG proceeds invested in the project.
- The projected tax revenues for ten (10) years to Allegheny County and the municipality in which the project is located.
- The overall benefit to the community or neighborhood.
- Projects in Distressed/Act 47 communities.
- Reuse or maintenance of sites formerly or currently used for economic activities (brownfield sites) such as sites in established community business and industrial districts, provided project is consistent with municipal plans and land use regulations.
- Projects must be supported by the municipality in which they will be located, and the degree to which the project is supported or opposed locally will generally be a factor in decisions on applications.

Allegheny Recoverable Grant Fees

The Borrower will be responsible for the payment of the following fees:

Financing Application Fee

A non-refundable application fee in the amount of \$300 will be required to submit a financing application to the Allegheny Recoverable Grant Program. An applicant shall bear the cost of any and all expenses incurred in the preparation of loan documentation which shall be satisfactory to the Business Loan Review Committee. All or a portion of these expenses may be financed. The ACED retains the right to waive this fee.

Commitment Fee

A Commitment fee of \$500 for loans greater than \$25,000 will be due at loan closing.

Allegheny Recoverable Grant Closing Procedures

The legal counsel for the ACED will arrange with Borrower's counsel all matters regarding the loan closing, including the responsibilities for the preparation of certain loan documents.

Financing of Closing Costs

The Borrower may finance all or a portion of the closing costs of the ARG, including those incurred on behalf of ACED's legal counsel, construction loan inspection engineer, and any other professional services which the ACED deems necessary to expedite the loan process. The Commitment Fee and the initial Annual Administrative Fee may not be financed in this manner but rather must be paid at loan closing.

Waiver of Provisions

The ACED may waive certain provisions of these Program Guidelines based upon a determination of the private and public benefits are significant enough to warrant such a waiver.

For Additional Information regarding the Allegheny Recoverable Grant Program, you may contact the Allegheny County Department of Economic Development at (412) 350-1198.