

**City of Capitola
Community Development Block Grant
(CDBG)
COVID-19 Small Business Rental Relief
Assistance Program**



Final Version

August 1, 2021

1. Program Overview

The City of Capitola is utilizing CDBG Cares Act funds for the purpose of establishing a business assistance grant program. The purpose of the program is to provide grant funds to small and medium sized businesses within the City limits of Capitola to offset the negative impacts of the COVID-19 Shelter In Place (SIP) order and to assist these businesses with financial recovery. All funding will be provided in the form of a grant to maximize the impact for these businesses who have been impacted.

Technical assistance will be included for those businesses that will benefit from additional specialized one-on-one or group training. The goal of the technical assistance is to improve the likelihood of the business owners' success in surviving and thriving post-COVID-19.

The City will be offering grants for up to \$7,500 per eligible businesses through the CDBG-CV program. It is estimated that approximately \$250,000 will be made available through this program with roughly 30 to 35 businesses receiving these funds.

All applicants are encouraged to carefully review these guidelines as successful applicants must submit completed applications before the deadline, and provide documentation that they meet the eligibility requirements, terms and conditions.

If the number of qualifying applications received exceeds the amount of funding available for disbursement, the City will implement a lottery system for all eligible small businesses.

2. Eligibility

To be eligible to apply for the COVID-19 Small Business Assistance Grant program, a business must attest to the need for financial assistance due to financial hardship or business interruption caused by the COVID-19 public health emergency and the regional State at Home order. The grants can only be used to cover eligible expenses incurred between April 1, 2020, and September 30, 2021.

3. Capitola Terms and Conditions

Applicants need to meet the following minimum requirements to be considered for grant funding:

- The business must be a for-profit business and located within Capitola city limits;
- The business must be brick and mortar with a physical presence in the City of Capitola;
- The business must be legally operating with any required local business licenses, insurances and permits for local, state and federal requirements;
- The business must be located in a commercial or industrial space. Home-based businesses are not eligible.

- The business must be in operation prior to January 2019;
- A business that has not already received funding for the same purpose as the funding request, or a “duplication of benefits”. Applicants will be required to disclose all COVID-19 relief funding, including but not limited to Paycheck Protection Program (PPP), Economic Injury Disaster Loan (EIDL), the County of Santa Cruz, the State of California or the City of Capitola; This will be documented by a self-certification that must be notarized and attached to the application
- The business must have 25 or less full-time, or an equivalent combination of full or part time employees, including the owner at the time of application;
- The business must be in good standing with the City, meaning: business license fees are current, no outstanding tax liens or existing municipal code violations;

4. Grant Amount

Applicants are eligible to receive a grant of up to \$7,500.

5. Eligible Activities / Costs

To be eligible under this grant program, rent or mortgage expenses must have been incurred on or after April 1, 2020 through September 30, 2021, and all grant funds awarded must be fully expended on eligible activities prior to any reimbursement.

- Grant awardees will be required to provide records and receipts showing that the expenses qualify as eligible activities. Proof of documentation will be required prior to closing out grant file. No funds will be provided prior to the expense being incurred and documented.
- Any use of funding other than for an eligible activity is strictly prohibited. The business must reimburse the program for any expenses found to be not in compliance with the program’s list of eligible activities.

6. Program Administration and Application Processing

The City partnered with the Santa Cruz Small Business Development Center (SBDC) to implement the business assistance grant program. The SBDC provides local business advising, practical tools, and access to sources of capital that foster business growth and success. Through partnering with the SBDC, the City believes they can reach the most businesses that will benefit from these grants along with technical expertise that they bring to the program.

Interested applicants are encouraged to visit the City of Capitola website to obtain more information and obtain an application for the program –<https://Cityofcapitola.org/covid19businessgrant> . A copy of the application as has been included as an attachment to these program guidelines as Attachment 1.

Applications will be processed on lottery system in order to serve as many businesses as possible and to maintain a level of “fairness” across the board. Applications will be due on September 30, 2021. Each applicant is encouraged to thoroughly review the application criteria and submit all requested documents as one completed package. Applications that are deemed to be insufficient or missing requested documents will be returned to the applicant. Only those applications that have been deemed “complete” will be entered into the random lottery for grant funds.

Once an application is deemed complete and selected, the City will send the business a grant agreement. Once the grant agreement is signed and submitted by the business, the City will mail (or hold for pick up) grant check to the address provided on the W-9.

The grant recipient will be responsible for providing documentation to the SBDC within 30 days that accounts for how the entirety of the grant monies received were used to fund eligible expenses. This documentation may include: statement from landlord, statement from mortgage holder, proof payment made, etc.. The City reserves the right to request additional back up documentation should any of the expenses be deemed questionable.

7. Documentation Requirements

Applicants will be required to complete and submit a program application through the SBDC as identified in Section 6 above. The following documents will be required along with the application:

- Complete Grant Application
- Active City of Capitola Business License
- 2019, 2020 and Current Profit and Loss Statement
- Copy of lease / grant deed demonstrating proof of commercial/industrial business address
- IRS W-9 Form
- National Objective Supporting Documentation
- Current Payroll documenting the number of employees
- Documentation the business has been negatively impacted by COVID-19 in one of the following ways:
 - o The business has been deemed non-essential and has been forced to shut down by the state or local government for 30 days or more;
 - o Sales from the business are down a loss of 10% or more compared to the same time period from previous calendar year; Example: Businesses may provide sales records or profit/loss statements from time periods affected by COVID.
 - o The business has had to lay off at least one of its employees;
 - o Need to purchase specialized equipment or other supplies.

8. Meeting National Objective Standards

All eligible activities funded under this program must meet a CDBG “National Objective” as described in the Act, Section 104(b)(3) and federal regulations 24 CFR Part 570.483. Projects not documented as meeting a national objective are an ineligible activity. Below is a general description of documenting how a project meets the national objective of benefit to low - moderate income (LMI) persons.

The proposed business assistance grant program will take place only within the city limits of Capitola. The following methods of meeting a national objective will be allowed for this program. All businesses will be required to meet **only one** component below.

1. LMI Limited Clientele Category: For any business that applies with 5 or fewer employees (including the business owner), the owner of the business may qualify for assistance if they meet the LMI definition. If this criterion is used, then the income of the business owner will be verified through a self-certification process and one source of backup documentation which confirm this (i.e. tax return from most recent year)
2. If the business does not meet #1 above, then the business will be required show they will retain permanent jobs, where at least 51% of which (computed on a full-time equivalent basis) are held by LMI persons. For example, if a business applies for funds and has 7 full time employees on payroll, then a minimum of 4 (at least 51%) must be held/retained for LMI persons. Business owners will be required to submit a self-certification along with payroll or W-2 which documents the employee along with the annual salary to meet this criterion.

9. Meeting Public Benefit Standards

All eligible project activities funded under this program must meet a minimum CDBG “Public Benefit Standard” as described in the Act, section 104(b)(17) and federal regulations; 24 CFR Part 570.483(f)(g). The standards have two levels: standards for individual activities and aggregate standards. The Capitola Business Assistance program will fall under the individual standards.

Standards for Individual Activities—An activity is considered by HUD to provide **insufficient** public benefit and cannot be assisted with CDBG funds if: The amount of CDBG assistance exceeds \$50,000 per full-time equivalent (FTE), permanent job (created or retained) **or** \$1,000 per LMI person to which goods and services are provided by the activity; In addition, an activity would be considered to have an insufficient benefit if it consists of or includes:

- General promotion of the community (as a whole);
- Assistance to professional sports teams;

- Assistance to privately-owned recreational facilities that serve a predominantly higher income clientele where the benefit to users clearly outweighs the benefit of jobs created or retained;
- Acquisition of land for which a specific use has not been identified (i.e., land banking); or
- Assistance to a for-profit business owner that is the subject of unresolved findings of noncompliance related to previous CDBG assistance

As part of the application and underwriting standards, the SBDC will analyze the need for funds for each business to determine the funds provide a public benefit standards in order to confirm these dollars are needed by the business, the business is sustainable moving forward and will provide the community with a return on investment.

10. Meeting CDBG Underwriting Requirements

In addition to documenting that the project meets CDBG public benefit standard, the assistance must also be documented as meeting six HUD CDBG underwriting standards, per federal regulation 24 CFR Part 570.483€. These underwriting standards are required to document a minimum “due diligence” by the City’s designated business assistance grant program operator to ensure projects are financially sound enough to meet public benefit and national objective job retention standards. The six underwriting standards are general, qualitative, and are supported in part by commercial underwriting standards defined below.

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 loan terms);
- 6) to the extent practicable, CDBG funds are disbursed on a pro-rata basis with other financing provided for the project.

11. Marketing and Outreach

The City of Capitola and SBDC will create marketing and outreach pieces to promote the CDBG business assistance grant program. The goal will be to alert small businesses throughout the city about the grant program and bring awareness to those small businesses that need this financial assistance.

The outreach and marketing for this program will include:

- City's website and social media channels
- SBDC website
- E-Flyers
- Email campaign to business license holders
- Outreach through chambers of commerce and other merchant associations
- Press releases

12. Notice of Grant award or Denial

All small businesses that are awarded or denied grants will be notified by the SBDC via email. Appeals must be submitted to the City of Capitola Community Development Department within 5 business days of denial email being sent.

13. Contact Information

For questions about the application or assistance in completing the application or to setup a one-on-one consultation, please contact the Santa Cruz Small Business Development Center at:

Santa Cruz Small Business Development Center
Kyle Roseman, Lending Specialist
(831) 346-6747
sbdcprocessing@gmail.com

For general questions regarding the Covid-19 Business Assistance Grant program, please contact the following:

City of Capitola
Katie Herlihy, Community Development Director
420 Capitola Avenue
Capitola, CA 95010
(831) 475-7300
economicdevelopment@ci.capitola.ca.us

14. Meeting Other Federal Program Requirements

Since these loans are provided from a federal funding source, there are a number of federal laws and requirements which are triggered by their use. The sections below are requirements of the program.

National Environmental Policy Act (NEPA): Every project funded under the program must be reviewed under HUD NEPA regulations 24 CFR Part 58 and the

City must sign and certify an Environmental Review Record (ERR) for each project prior to approval or disbursement of grant funds.

Job Pirating: Job pirating is prohibited per CDBG federal regulation 24 CFR 570.482 (h). Job pirating is defined as using CDBG public funds to facilitate the moving of a business and associated jobs from one jurisdiction to another (business attraction). As such, CDBG federal funds cannot be used to attract/subsidize a business to move from one labor market area to another or keep a business from moving out of a labor market by making a retention argument.

Conflict of Interest: In accordance with state and 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 (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the CDBG program shall directly or indirectly be eligible for this program.

Other Requirements:

Duplication of Benefits: All program applicants must sign an attestation stating that they are not requesting funding to pay for or reimburse costs already funded through another federal program or through insurance proceeds.

DUNS Number: All program applicants must obtain a DUN's number if they do not already have one. The DUN's number is free and can be obtained online. In addition, prior to loan approval, the City, through its designated loan program operator, will document that the business being assisted and all owners and affiliated businesses are verified as not being on the federal debarred contractors list HUD also requires that the Department and the City collect certain income and demographic data from the business and any beneficiaries of CDBG funds.

Debarment: A verification of the status of debarment will be included as a part of the review of the application. All applicants will be required to register their business on www.sam.gov for the purpose of ensure non-debarment to receive federal funds.

Attachment 1

City of Capitola COVID-19 Business Assistance Grant Application