URBAN REDEVELOPMENT AUTHORITY OF PITTSBURGH

PITTSBURGH ENTREPRENEUR FUND
Program Guidelines

I. Statement of Purpose

The Pittsburgh Entrepreneur Fund (PEF) will provide capital for new and growing businesses, including emerging technology-based firms, such as Information Technology, Life Sciences and Sustainable/Green and other emerging industry clusters. PEF will be available to all start up and growing businesses within the City of Pittsburgh and can be used for working capital, laboratory, computer, and scientific equipment, leasehold improvements, real estate, investments to lower energy usage, and other sustainable or Green elements..

PEF closes funding gaps growth businesses commonly face as they move from start-up to commercialization and fast growth.

The PEF is part of the Urban Redevelopment Authority's (URA) strategy to create high wage jobs and grow the City of Pittsburgh's tax base by assisting entrepreneurs and stimulating business growth in the City of Pittsburgh.

II. Program Funding

The PEF may be funded in part through the City of Pittsburgh, the Commonwealth of Pennsylvania Department of Community and Economic Development, the U.S. Department of Commerce's Economic Development Administration (EDA), and the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) sources.

III. Eligibility

The following criteria will be used to determine whether an applicant is eligible for a PEF loan:

A. Area Eligibility

PEF projects must be located within the City of Pittsburgh

B. Types of Businesses

Eligible businesses are defined to include wholesale and retail trades, service enterprises, commercial and industrial businesses, advanced technology concerns, manufacturing firms and other emerging industry cluster businesses.

Banks, savings and loan associations, non-independently owned gas stations, used car lots, bars, adult entertainment establishments, beer distributors, non-profit organizations, check cashing outlets, and furniture and appliance rental shops are not eligible for PEF loans.

C. Other Eligibility Requirements

1. Loans must satisfy the conflict of interest and any other requirements established by the CDBG regulations, state ethics and all requirements of funding sources.

2. The applicant must not be delinquent or in default on federal, state or local taxes or any existing private or publicly financed loan and will be required to sign an affidavit to that effect.

3. The proprietor, partner, director or any shareholder of the business must not have been convicted of a felony.

IV. Eligible Activities

A. Machinery and equipment, including acquisition, delivery and installation, limited to items directly related to the operation of the business.

B. Working capital for new sales growth. This will primarily include accounts receivable and inventory.

C. Leasehold improvements, including façade renovations.

D. Land costs, including acquisition and site preparation.

E. Building costs, including acquisition, construction and rehabilitation.

F. Soft costs associated with property development, including legal, architectural, engineering, surveys and other related costs.

Loan proceeds may not be used for: refinancing existing debts (including leveraged buy-outs); acquiring real estate; or distribution or payment to the owners, partners, shareholders, or beneficiaries of the applicant or members of their families.

V. Parameters of Loan

A. Loan Size: The maximum loan amount shall be the lesser of $200,000 or 60% of the total project cost, not to exceed the project gap. The minimum loan amount is $20,000.

B. Private Sector Investment: Typically, loans shall be made in conjunction with a private investment source.

C. Private Investment / Equity Requirements: Each project shall have a minimum equity investment by the applicant of ten percent (10%) or higher of the total project cost. Private share of project may include Venture Capital, Stock Purchases, Investor Equity, Intellectual Property and/or private debt.

D. Loan Security: All loans must be fully secured with a pledge of assets, which include but are not limited to, lien positions on land, buildings, personal residence and/or any other assets. Typically, personal guarantees are required. In some cases, the loan may be structured as a convertible note.

E. Insurance: Borrower shall be required to maintain insurance providing adequate coverage against the perils of fire, hazard, extended coverage, public liability and other insurance as the URA may require; in form and substance satisfactory to the URA naming URA as Mortgagee (where applicable), Lender Loss Payee, and additional insured. Further, title insurance and collateral assignment of life insurance may be required as necessary.

F. Term: Up to 5 years for working capital, up to 7 years for equipment, with a limit of 10 years and amortizations available for up to 25 years for real estate Generally the term to maturity shall not exceed the term of the private lender.

G. Interest Rate: The interest rate shall reflect the risk and return of the project being financed. Such interest rate shall generally not exceed the interest rate of the private lender and shall be fixed for the term of the loan.

H. Fees:

1. Application Fee: The Application Fee of $250 is non-refundable. This fee counts towards the applicant's equity requirement.

2. Due Diligence Fee: Two percent (2%) of the total URA loan, which may be financed as part of the total project cost. Upon acceptance of a loan commitment, one-half of the due diligence fee is due and is non-refundable.

3. Loan Servicing Fee: All PEF loans are assessed an annual loan servicing fee of one-half of one percent (.5%) of the outstanding principal balance, due and payable on the anniversary of the loan closing. The initial fee, based on the original loan amount, will be paid at closing and can be financed.

4. Construction Inspection Fee: One-half of one percent (.5%). If URA financing is applied towards construction costs, then a URA construction monitor is required. If the construction inspection is provided by a private lender. The construction inspection fee will be eligible for financing through PEF loan funds.

5. Filing Fees: All filing fees will be the responsibility of the applicant (i.e., Mortgages, UCCs, Assignment of Leases and Rents).

6. Loan Repayment: Loans shall be repaid in accordance with amortization schedule set at time of loan commitment. A monthly payment will be charged which will be applied to accrued interest and principal in that order. Automatic debiting of Borrower/Applicant's account will be required.

7. Loan Delinquency and Default: Loans shall be deemed delinquent if payment is not received within thirty (30) days of the payment due date. Loans shall be deemed to be in default to the extent that:

   a. Any payment required by the documents evidencing the loan is over thirty (30) days delinquent.

   b. There is a default in any other term or condition of the loan documents evidencing the loan.

   c. Any representation made in any document submitted to the URA in connection with the loan is determined to have been false or misleading in any material respect when made or anytime thereafter.

8. Loan Disbursement: Loan proceeds shall be disbursed in accordance with disbursement schedule set forth in loan commitment letter.

VI. Loan Application Processing

The URA shall establish written application processes and procedures that will facilitate the application process and will best serve the objective of the PEF. The procedures may be amended from time to time and shall be binding upon all Borrower/Applicants. An application fee of $250 per development will be charged. The application fee is non-refundable.

All loan applications shall be made using URA forms. The Borrower/Applicant shall submit any information that the URA requires, including any documentation needed to establish the eligibility and credit worthiness of the Borrower/Applicant, Borrower/Applicant's principals and guarantors, if any, and the feasibility of the development.

A. Loan Approval and Disapproval

1. The URA may approve or disapprove loans in accordance with these guidelines.

2. The Borrower/Applicant must meet URA deadlines for submission of documents at each stage of the application process. The Borrower/Applicant's failure to meet the stated deadlines may result in the cancellation of the application and/or the Borrower/Applicant's loss of a priority position in loan processing.

3. All applications will be processed through a two (2) step review and approval process. Where applicable, initial review will be conducted by an advisory PEF Committee comprised of the local technology based economic development organizations, local university technology transfer and entrepreneurship offices and others. Secondary review will be conducted by an advisory Loan Review Committee. Upon affirmative recommendations in steps 1 and 2, final loan approval will be made by the Business Development Center Manager or Economic Development Director.

4. Approval shall be evidenced by a written commitment to the Borrower/Applicant. Further action may not be taken toward closing the PEF loan until the Borrower/Applicant executes and returns to the URA a copy of the commitment letter with the acceptance fee. No construction activity or equipment purchases can occur prior to loan closing unless authorized by the URA prior to loan closing.

5. If a loan application is disapproved, the URA shall notify the Borrower/Applicant in writing. The rejection letter shall state the reason for the rejection of the loan application.

B. Withdrawal of Application

Any Borrower/Applicant may withdraw the loan application at any time before closing by giving written notice to the URA. The Borrower/Applicant shall bear any costs incurred for items including, but not limited to, credit reports, appraisals, and application fees.

C. Loan Closing

1. The loan closing will be scheduled at a time acceptable to the URA and to the Borrower/Applicant.

D. <u>Taxes and Assessments</u>

All taxes and assessments against the property and business which are due and payable shall be paid before or at closing, where applicable.

E. <u>Assumption</u>

Loans may be assumed <u>only</u> if approved by the URA <u>prior</u> to the assumption. The URA may charge an assumption fee. Loans that are not assumed are due on the sale of the business or property, whichever is applicable.

Refinancing of existing debt on a property during the PEF loan term is not permitted without the prior written consent of the URA.

VII. <u>Conditions of the Loan</u>

A. The applicant must generate one (1) new full-time equivalent job for each $30,000 of URA loan proceeds within three (3) years of the date of closing of funds to the applicant. New employment is defined as first-time hires, or existing employees who have been employed by the business for less than six (6) months.

B. Fifty-one percent (51%) or more of the new non-supervisory full-time equivalent jobs created by the project shall be made available to low- and moderate-income persons. You will be required to fill all new entry-level, non-supervisory, jobs by first considering for employment, and interviewing, candidates referred by CareerLink; or, alternatively, applicants secured through independent means that satisfy the criteria of the Workforce Investment Act (WIA). WIA eligibility may only be determined by CareerLink.

C. If any of the PEF loan is used for leasehold improvements or façade renovations, the applicant must ensure that federal prevailing wage rates are paid for the entire project, where applicable.

D. Any project over $250,000 in total cost must comply with the URA's requirements for a Minority- and Woman-owned Business Enterprise (MWBE) Plan. The MWBE Plan will document the applicant's strategy to purchase materials and services from minority- and woman-owned businesses. The MWBE Plan must be approved prior to loan closing.

E. If your project involves a construction contract of $200,000 or more, you may be required to comply with the Pittsburgh Works ordinance (Ordinance No. 18 of 2000) which requires that 35% of all employee work hours on the project be performed by City of Pittsburgh residents. Subcontractors with contracts exceeding $25,000 are also subject to the ordinance. A copy of the ordinance is available upon request.

F. Any use of loan funds must comply with Federal, State and local regulations concerning historic properties and environmental review.

G. URA reserves the right to require loan applicants to find and use technical assistance in such areas as business planning, marketing, accounting, cash management, and inventory control. When determined appropriate, the URA may contract with a third-party provider for this technical assistance.

VIII. Standard Application Evaluation Criteria

A. Business Evaluation

The historical performance of the business, if applicable, and the proposed owners will be evaluated to assess the ability to repay the loan. Specifically, this evaluation will include:

1. Financial Performance of the Business: If applicable, this involves an evaluation of prior three (3) years financial performance, including an examination of tax returns, balance sheets, income statements and cash flow statements.

2. Financial Performance of the Owners: This involves an evaluation of the personal tax returns of the prior three years, a personal financial statement, and a credit bureau check.

3. Market Performance: This involves an evaluation of the relevant local and national markets and a demonstration of the expectation for a strong potential market for the product or service.

4. Management Ability: This involves an evaluation of the experience and skills of the proprietor, partners, or directors. This includes general business experience as well as specialized experience in the particular industry.

B. Project Evaluation

The merits of the proposed uses of the funds will also be assessed to determine the ability to repay the loan. Early stage companies must demonstrate sufficient cash flow in order to repay the loan. Specifically, this evaluation will include:

1. Projected Income and Expenses: This involves an assessment of the validity and risk of the income and expense projections.

2. Projected Financial Statements: A thorough credit analysis will be performed using both historical and projected financial statements.

3. Value of the Assets and Collateral: Appraisals, when appropriate, will be required to assist URA in evaluating the ability to secure the loan.

4. Changes in Market Strategy and/or Management Strategy: A complete business plan will be required. Any proposed significant changes in the business plan, market strategy, or management team will be reviewed.

C. Public Benefit Evaluation

Loan applications will be evaluated based on additional criteria measuring public benefits.

1. The degree to which the feasibility of the project depends on the PEF loan. The applicant must demonstrate the inability to raise all of the project funds through private lenders or equity. The URA reserves the right to reject an application based on the corporate or personal net worth of the applicant.

2. The nature of jobs created and/or retained per URA dollar invested.

3. The percentage of jobs going to low- to moderate-income persons and the quality of those jobs in terms of skill levels, salary, stability, etc.

4. The total number of jobs created.

5. The percentage of sales or receipts generated outside of Pittsburgh.

6. The projected tax revenues to the City.

7. The impact on the neighborhood and quality of life.

8. The support of minority- or woman-owned business enterprises.

URA loans are made for the purpose of certain public benefits. Failure to meet requirements set forth herein may result in an assessment by the URA of liquidated damages.

IX. Waiver of Provisions

The Executive Director or the Board of Directors of the URA may waive certain provisions of these guidelines based on a determination of the private and public benefits of the project.

X. Notification

URA reserves the right to:

A. Notify the appropriate community-based organization of applications received from businesses in their neighborhoods.

B. Announce all loan commitments publicly.

XI. Additional Information

For additional information, please contact the Urban Redevelopment Authority, Business Development Center at (412) 255-6669 or via our Web site at www.ura.org. Our TDD number for the hearing impaired is (412) 255-6644.

The Urban Redevelopment Authority of Pittsburgh does not discriminate on the basis of race, color, sex, religion, marital status, disability, age, sexual orientation or national origin. No person, solely on the basis of any of the above factors, shall be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination under the loan and grant programs operated by the Business Development Center of the Urban Redevelopment Authority of Pittsburgh.

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