

ECONOMIC DEVELOPMENT COMMITTEE REPORT relative to Citywide Industrial Commercial Revolving Loan Fund settlement receipts.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. INSTRUCT the General Manager, Economic Workforce Development Department (EWDD) to:
 - a. Report in 30 days, with the assistance of the City Attorney, with an evaluation of the City's management and funding options for a long-term commercial and industrial revolving loan fund, including recommendations for the disposition of the settlement funds recovered for the former Citywide Industrial Commercial Revolving Loan Program Fund under Title IX of the Public Works and Economic Development Act of 1965.
 - b. Prepare Controller instructions and/or make any necessary technical adjustments consistent with Council and Mayor actions detailed in the May 6, 2016 City Administrative Officer (CAO) report, attached to the Council file, subject to approval of the CAO; and instruct the Controller to implement those instructions.
2. AUTHORIZE and REQUEST the Controller to:
 - a. Establish an interest-bearing fund entitled LA City Industrial-Commercial Revolving Loan Fund XXX to be administered by EWDD to track receipts and disbursements related the City's former Economic Development Agency's Revolving Loan Fund.
 - b. Establish a receivable within the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX from the Los Angeles Local Development Corporation, Inc. (LDC) for \$933,060 received from the LDC and other borrowers.
 - c. Transfer the cash collected from claim settlements and loan principal and interest payments up to \$933,060 and share of interest income earned temporarily recorded in the Miscellaneous Fund No. 45L to the newly-established LA City Industrial-Commercial Revolving Loan Fund No. XXX.
 - d. Establish a new account XXX Consulting and Professional Services within the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX, and upon receipt of claim settlements, loan payments and other collections, appropriate there from up to \$25,000 for related consultant and professional services with appropriations over \$25,000 and additional appropriation accounts requiring further Council approval.
 - e. Transfer cash, appropriations, encumbrances, expenditures and other financial transactions related to the loan program previously recorded in the Miscellaneous Fund No. 45L to the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX.

Fiscal Impact Statement Submitted: The CAO reports that there is no impact to the General Fund. The recommendations comply with the City Financial Policies in that the Special Revenue Fund to be created would be supported by non-General Funds.

Community Impact Statement: None submitted.

Summary:

On May 10, 2016, your Committee considered a May 6, 2016 CAO report relative to Citywide Industrial Commercial Revolving Loan Fund settlement receipts. According to the CAO, in the 1970s and again in the 1990s, the City received grant funding for a revolving loan fund from the US Department of Commerce Economic Development Administration (EDA). The federal grants capitalized the City's Revolving Loan Fund (RLF) under Title IX of the Public Works and Economic Development Act of 1965 and as such, the purpose of the RLF was to foster economic development in designated underserved areas through small business investment lending and job creation. The total cumulative federal award was \$2,460,000 through the 1990s.

In the early 1980s, the City created and then contracted with a non-profit entity, the Los Angeles Local Development Corporation (LALDC), to manage the RLF as the City's Operating Agency in compliance with the applicable federal government codes, regulations, and directives. In 2003, the final Operating Agency Contract (Contract No. C-99342) with the LALDC expired. The LALDC remained in possession of all RLF assets and did not submit reports to the City nor the EDA.

Subsequently, in 2006, pursuant to the Mayor's Office, the EDA placed the City on notice of material noncompliance of the federal program regulations. The City retained independent accountants to construct the required financial reports and negotiated a temporary regulatory compliance extension with EDA. In 2011, after protracted discussions with LALDC, the City filed a Civil Complaint to recover the City and federal assets in the RLF.

After a judicially ordered settlement conference, the lawsuit was settled in February 2015. RLF assets in the settlement package total approximately \$900,000, consisting of the assignment of two loans and the remainder in cash in an amount of approximately \$75,000 (as adjusted through calculation of the final principal balance of the two loans at the time of assignment). The City through the Mayor's Office is currently working with the EDA to resolve its outstanding liability under the original RLF grants. Pending the results of these discussions, the EWDD will be responsible for managing the recovered RLF loans and cash balances.

It is recommended that approval be given to create a separate fund to enable the EWDD to transfer and track the settlement receipts. Upon resolution of outstanding grant issues with EDA, the EWDD should report back to Council and Mayor with an evaluation of the City's management and funding options for along-term commercial and industrial revolving loan fund, including recommendations for the disposition of the current recovered RLF assets.

Additionally, it is recommended that authority be granted to the EWDD to expend these funds in an amount of up to \$25,000 to fulfill payment for auditing contractual services performed on behalf of the City which allowed the City to receive a settlement agreement in the litigation (Council File No. 15-0356).

