

ECONOMIC DEVELOPMENT and HOUSING COMMITTEES' REPORT relative to establishing a revolving microloan fund program.

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

1. AUTHORIZE the General Manager, Economic and Workforce Development Department (EWDD), or designee, to:
 - a. Establish and implement the proposed EWDD Revolving Microloan Program with federal Community Development Block Grant (CDBG) funds approved for this purpose in the Program Year 43 Housing and Community Development Consolidated Plan (Council file No. 16-1091) as detailed in the Microloan Program Term Sheet and recommendations contained in the January 12, 2018 EWDD report, attached to the Council file.
 - b. Execute microloans in an amount from \$5,000 to no more than \$50,000 funded by the Community Development Trust Fund in compliance with the terms, conditions and evaluation procedures detailed in the January 12, 2018 EWDD report, attached to the Council file.
 - c. Open an interest-bearing account at Union Bank to be used exclusively for the Microloan Program to deposit Microloan Program principal and interest repayments and any fee income, in accordance with the Code of Federal Regulations.
 - d. Prepare Controller instructions and/or make any necessary technical adjustments consistent with Council and Mayor action on this Report, subject to approval of the CAO; and, request the Controller to implement said instructions and/or technical adjustments.
2. AUTHORIZE the General Manager, EWDD, or designee, and the General Manager, Housing and Community Investment Department (HCID), or designee, to remit the interest earned on the funds in the Union Bank account to the US Treasury, in conformance with CDBG regulations.
3. AUTHORIZE the Controller to:
 - a. Deposit repayments of principal and interests and other fees related to the Microloan Revolving Loans into the Community Development Trust Fund No. 424.
 - b. Establish a new account 43NXXX Microloan Program Repayments, Interests and Fees, within the Community Development Trust Fund No. 424, and appropriate as repayments of principal and interests and other fees related to the Microloan program are received.
 - c. Expend funds from Account Nos. 43N240-Micro Loan Program and 43NXXX-Microloan Program Repayments, interests and Fees, upon proper request of the General Manager, EWDD, or designee.

4. AUTHORIZE the General Manager, HCID, or designee, to prepare and process any amendments necessary for the Housing and Community Development Consolidated Plan as a result of this action.
5. INSTRUCT the General Manager, EWDD, or designee, to report bi-annually to City Council and the Mayor on the status of the Microloan Program portfolio including, but not limited to:
 - a. Description and status of loans funded and applications in the pipeline
 - b. Average processing and review time
 - c. Funds remaining
 - d. Repayment rate
 - e. Estimated revolving rate of the Microloan Funds

Fiscal Impact Statement: The CAO reports that there is no General Fund impact. The recommendations contained in the February 6, 2018 CAO report are in compliance with the City's Financial Policies in that the proposed new revolving Microloan Program is funded by \$250,000 in Federal CDBG funds approved in the Program Year 43 Housing and Community Development Consolidated Plan (PY 43 Con Plan) (Council file No. 16-1091). Loan repayments are proposed to be used for continued funding of eligible business loans under the Revolving Loan Fund.

Community Impact Statement: None submitted.

Summary:

On November 8, 2016, the Economic Development Committee (EDC) considered an October 7, 2016 CAO report and August 19, 2016 and November 4, 2016 EWDD reports relative to establishing a revolving microloan fund program. According to the EWDD, on April 28, 2016, Council adopted the 42nd Program Year Housing and Community Development Consolidated Plan (Council file No. 15-1041). The Plan included CDBG funds in the amount of \$250,000 for a Microloan Program with instructions for EWDD to report back with guidelines and procedures to implement the program. As further discussed in this report, the Microloan Program will invest in Microenterprises and Small Businesses that may have difficulty obtaining financing through the private lending institutions. EWDD proposes to administer the Microloan Program as a revolving loan program, which is expected to be fully funded from loan repayments within five years. Assuming EWDD makes \$250,000 in loans per year, this program is expected to fund approximately 75 loans totaling \$1,250,000 over the next five years.

It is estimated that every dollar loaned to a small business or microenterprise generates approximately two dollars of economic activity. As such, the Microloan Program could generate \$2,500,000 in stimulus to the Los Angeles economy over the next five years. The goal of the Microloan Program will be to support the economic growth and revitalization of Los Angeles by strengthening locally owned and operated microenterprises and small businesses that create

and/or retain jobs for low- and moderate-income Los Angeles residents. The Microloan Program will be available to microenterprises² and small businesses located or establishing a location in the City of Los Angeles. CDBG regulations consider assistance to microenterprise to meet a national objective with no further public benefit requirements, as long as 51 percent of these businesses are owned by a low- to moderate- income person. Assistance to small businesses however requires the business to meet an additional public benefit test of one job created for each \$35,000 of assistance, or portion of \$35,000 of assistance. This means that a small business borrowing \$10,000 would be required to create one job, while a microenterprise borrowing the same amount would not have to meet this requirement. As a result, while the Microloan Program is available to both types of businesses (small and microenterprises), EWDD expects the program will be more attractive to microenterprises. After further consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the recommendations contained in the November 4, 2018 EWDD report and to note and file the October 7, 2016 CAO and August 19, 2016 EWDD reports.

Subsequently, on February 13, 2018, the EDC further considered additional February 6, 2018 CAO and January 12, 2018 EWDD reports relative to this matter. After consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the recommendations contained in the February 6, 2018 CAO report, as amended, to lower the borrowing amount from \$10,000 to \$5,000. On February 14, 2018, the Housing Committee also considered the above reports and after consideration and having provided an opportunity for public comment, the Housing Committee moved to concur with the EDC. This latter is now submitted to Council for its consideration.

Respectfully Submitted,

ECONOMIC DEVELOPMENT COMMITTEE



<u>MEMBER</u>	<u>VOTE</u>
PRICE:	YES
BUSCAINO:	ABSENT
HUIZAR:	YES

HOUSING COMMITTEE



<u>MEMBER</u>	<u>VOTE</u>
CEDILLO:	YES
KREKORIAN:	YES
HARRIS-DAWSON:	YES

ARL
2/15/18

-NOT OFFICIAL UNTIL COUNCIL ACTS-