

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 6, 2018

CAO File No. 0220-01024-2766

Council File No. 15-1041-S3

Council District: Various

To: The Mayor
The Council

From: Richard H. Llewellyn, Jr., Interim City Administrative Officer

Reference: Economic and Workforce Development Department Transmittal dated January 12, 2018; Additional information received through January 29, 2018

Subject: **ECONOMIC AND WORKFORCE DEVELOPMENT DEPARTMENT (EWDD)
REQUEST TO ESTABLISH A REVOLVING MICROLOAN FUND PROGRAM
FUNDED BY COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS**

RECOMMENDATIONS

That the Council, 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 (C.F. 16-1091) and according to the Microloan Program Term Sheet provided by EWDD and attached to their Transmittal dated January 12, 2018, and other recommendations in this Report;
 - b. Execute microloans in an amount from \$10,000 to no more than \$50,000 funded by the Community Development Trust Fund in compliance with the terms, conditions and evaluation procedures outlined in EWDD's Transmittal dated January 12, 2018 and its attached Microloan Program Term Sheet;
 - 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 City Administrative Officer, and instruct the Controller to implement those

instructions;

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 U.S. Treasury, in conformance with CDBG regulations;
3. Authorize and instruct the Controller to:
 - a) Establish a new account 43PXXX 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;
 - b) Deposit repayments of principal and interests and other fees related to the Microloan Revolving Loans into the Community Development Trust Fund No. 424;
 - c) Expend funds from Account Nos. 43P240-Microloan Program and 43PXXX-Microloan Program Repayments, Interests and Fees, upon request of the General Manager of 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; and,
5. Instruct the General Manager, EWDD, or designee, to report bi-annually to the City Council and the Mayor's Office on the status of the Microloan Program portfolio including, but not limited to, the description and status of loans funded and applications in the pipeline, average processing and review time, funds remaining, repayment rate, and estimated revolving rate of the Microloan Funds.

SUMMARY

In its Transmittal dated January 12, 2018 (C.F. 15-1041-S3) (Transmittal), the Economic and Workforce Development Department (EWDD) requests approvals to establish and implement a new revolving small business Microloan Program funded by \$250,000 in federal Community Development Block Grant (CDBG) funds approved in the Program Year 43 Housing and Community Development Consolidated Plan (PY 43 Con Plan) (C.F. 15-1041). Pursuant to EWDD's Transmittal and its Attachment, the proposed Program would support economic development and revitalization in Los Angeles by providing eligible small businesses and microenterprises with loans in amounts ranging from \$10,000 to \$50,000 with a maximum loan term of five years. EWDD requests to establish the Microloan Program as a Revolving Loan Fund (RLF) and projects that the RLF will self-sustain \$250,000 in loans annually with no need for further CDBG allocations by Year 6. The program is proposed to be implemented by existing staff at EWDD and the BusinessSource Centers, and a Loan Committee comprised of the General

Manager of EWDD, designated Assistant General Managers at EWDD, and Economic Development program staff. No new staff are requested and the full \$250,000 in funding is proposed for disbursement as loans.

This Office recommends approval of EWDD's request to establish and implement the new Microloan RLF funded by CDBG funds in the PY 43 Con Plan according to the Microloan Program Term Sheet attached to their Transmittal, and other recommendations in this Report. We also recommend that EWDD provide bi-annual reports to Council and Mayor on the status of the loan portfolio, repayments and the health of the RLF.

BACKGROUND

In the PY 41 Con Plan (April 2015 - March 2016 [C.F. 14-1382]), Council instructed EWDD, with the assistance of HCID, to report on the feasibility of creating a small business loan program for vulnerable communities. In the PY 42 Con Plan (April 2016 – March 2017 [C.F. 15-1041]), Council instructed EWDD to report regarding guidelines and procedures to implement the Microloan Revolving Loan Fund (RLF) program. CDBG grant funds in the amount of \$250,000 were approved in the PY 42 Con Plan (April 2016 – March 2017) PY for a business microloan program to be implemented by EWDD. The Economic Development Committee approved the EWDD Transmittal dated November 4, 2016 to establish the Microloan RLF program which was not scheduled for final Council approval. These funds were reprogrammed on November 16, 2017 to fund other City projects. In the current PY 43 Con Plan (April 2017 – March 2018 [C.F. 16-1091]), Council approved \$250,000 for establishment of the Microloan RLF program. To identify potential gaps in available financing for lower to moderate income businesses, the Department completed a survey of lending programs and financing options available to Los Angeles small businesses and microenterprises, including its own current programs, Small Business Administration (SBA) programs, community development lenders and non-profit organizations.

In its Transmittal, the EWDD states that in general, private lenders and the SBA Loans programs have strict underwriting guidelines and a lower tolerance for risk, creating difficulties for small local businesses who may lack the necessary strict qualifications for conventional low-cost loans. EWDD states that the new proposed Microloan Program is designed to fill such gaps in access to capital, and that it is proposed to be available to microenterprises and small businesses located or establishing a location in the City of Los Angeles. The Department plans to research and take other mitigating factors into account in an effort to maintain flexibility in offering financing to smaller, low income and/or vulnerable businesses. Current interest rates are set at seven percent to eight percent, depending on the loan term. Loan applications will be available upon request directly from EWDD and the BusinessSource Centers located throughout the City. Loan underwriting and review functions will be performed by EWDD staff. Recommendations regarding each eligible loan application will then be forwarded to the Loan Committee for review and approval. The Loan Committee will act as final approval authority and a Best Practices Second Review panel for declined transactions. Further information regarding the Microloan Program's terms are in the Attachment to EWDD's Transmittal. In order to comply with U.S. Department of Housing and Urban Development (HUD) requirements, EWDD requests to establish an account

at Union Bank to receive repayments from borrowers in the Microloan Program. The Department states that this will ease the process of receiving loan repayments from borrowers and transfers of the interest on the loan repayment balance to HUD as required.

The EWDD states that federal CDBG regulations consider assistance to microenterprise businesses as meeting a national objective with no further public benefit requirements, as long as 100 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. Additionally, 51 percent of the jobs created or retained as a result of this program must be made available to low to moderate income individuals. 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 states that it expects the program will be more attractive to microenterprises.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund. The recommendations in this 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 Community Development Block Grant funds approved in the Program Year 43 Housing and Community Development Consolidated Plan (PY 43 Con Plan) (C.F. 16-1091). Loan repayments are proposed to be used for continued funding of eligible business loans under the Revolving Loan Fund.

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