

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 9, 2020

CAO File No. 0220-01024-2779

Council File No. 18-0204

Council District: All

To: The Council
The Mayor

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

Reference: Mayor Transmittal dated November 14, 2019 and Economic and Workforce Development Department Transmittal dated October 30, 2019. Additional Information Received Through January 6, 2020.

Subject: **TRANSFER OF UNAPPROPRIATED BALANCE FUNDS FOR THE U.S. DEPARTMENT OF COMMERCE ECONOMIC DEVELOPMENT ADMINISTRATION REVOLVING LOAN FUND PROGRAM**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Authorize the Controller to transfer \$1,302,978 from the Unappropriated Balance Fund 100/58, Account 580237, U.S. Economic Development Administration Grant Obligation, to EWDD's LA City Industrial-Commercial Revolving Loan Fund No. 58J, Account No. 22S919, titled "Los Angeles Citywide Industrial-Commercial Revolving Loan Fund";
2. Authorize the Acting General Manager of the Economic and Workforce Development Department (EWDD), or designee, to make technical corrections as necessary to the transaction included in this Report to implement Mayor and Council intentions, subject to the approval of the City Administrative Officer; and,
3. Instruct the Acting General Manager of EWDD, or designee, to report back in 60 days with a strategy to deploy the funds to eligible businesses and projects, including but not limited to potential partnerships with community organizations engaged in business lending and plans to leverage private investments with EDA RLF grant funds.

SUMMARY

In a Transmittal dated November 14, 2019 (C.F. 18-0204), the Mayor submitted a Transmittal from the Economic and Workforce Development Department (EWDD) dated October 30, 2019 in which EWDD requests approval to transfer \$1,302,978 from the Fiscal Year 2019-20 Unappropriated Balance (UB) U.S. Economic Development Administration Grant Obligation line item. On June 5,

2018, the Council and Mayor authorized EWDD to execute grant agreements with the U.S. Department of Commerce Economic Development Administration (EDA) to implement the new Revolving Loan Fund (RLF) Program, subject to approval of the Administrative Plan and sufficient funding of the minimum required capital base (C.F. 18-0204). On July 5, 2019, the Mayor and Council approved the draft Administrative Plan with revisions for the RLF Program to be administered by EWDD, authorized EWDD to submit the revised Administrative Plan for approval to the EDA, and instructed EWDD to report back in three months with an update of the program, projects being funded and outreach efforts (C.F. 18-0204). The Mayor and Council also instructed EWDD to report on an annual basis regarding the status of the loan portfolio, projects, and outreach efforts.

This Office recommends approval to transfer \$1,302,978 from the 2019-20 UB budget to EWDD for the EDA RLF Program. This transfer represents the final installment of General Fund funding to establish the capital base for the EDA RLF Program. We also recommend that EWDD report back in 60 days with a strategy to deploy the funds to eligible businesses and projects in order to meet the Capital Utilization Standard of program funds required by the EDA.

DISCUSSION

The EWDD states that the EDA approved the RLF Program Administrative Plan on August 2, 2019. The approved Administrative Plan is attached to the Mayor and EWDD Transmittals (C.F. 18-0204). According to the grant agreement executed by EWDD on behalf of the City with the EDA, the City is to reconstitute the entire capital base of the RLF Program in the amount of \$4,635,978. With \$933,000 available from the proceeds of a City legal settlement with the previous subcontractor, the City General Fund funded the remaining balance of \$3,702,978 with three annual installments in the Unappropriated Balance Fund from FY 2017-18 through FY 2019-20. To date, EWDD has received \$1,200,000 in FY 2017-18 and \$1,200,000 in FY 2018-19 in transfers from the UB. With the \$933,000 received in the legal settlement from the former contractor implementing the prior EDA RLF Program, EWDD currently has a total of \$3,333,000 for the capital base of the program. The current year budget includes \$1,302,978 in the UB for the EDA RLF Program. With the approval of the UB transfer recommended in this Report, EWDD will have a total of \$4,635,978 for the RLF program as agreed upon with the EDA.

The EWDD states that the EDA RLF Program was announced as an upcoming program in outreach efforts prior to August 2019 and that official outreach and marketing was initiated in August 2019 subsequent to EDA approval of the Administrative Plan. The Department's outreach activities include marketing materials, community events, and engagement with Council offices. EWDD staff from the Business Response Unit have attended various community events to publicize the Department's various programs for businesses, including the EDA RLF Program. Regarding the status of the program as of January 6, 2020, no projects have been approved and there are currently no loan applications in the EDA RLF pipeline.

The grant agreement between the EDA and the City requires a Capital Utilization Standard (CUS) of 80%, which calls for 80% of the \$4,635,978 program capital base, or \$3,708,782, be deployed in projects by September 30, 2023. Once the Program begins receiving program income, these

additional funds will be included in the base to calculate the CUS amount. Should the City be non-compliant with the CUS, the EDA retains the authority to place excess idle funds in an interest-bearing account with expenditures directly controlled by the EDA. The EDA also requires the leverage of an aggregate of \$2 in private investment for every dollar of RLF funds invested. In light of the current status of activity in the program, our Office recommends that EWDD report back in 60 days with a comprehensive strategy to deploy the funds to eligible businesses and projects, including but not limited to potential partnerships with community organizations engaged in business lending and plans to leverage private investments with EDA RLF grant funds.

FISCAL IMPACT STATEMENT

There is no additional impact to the General Fund. The recommendations in this Report comply with City Financial Policies in that funds in the amount of \$1,302,978 have been budgeted in the Adopted Fiscal Year 2019-20 Unappropriated Balance for the outstanding City obligation to the U.S. Department of Commerce Economic Development Administration for implementation of the Revolving Loan Fund Program.

RHL:SAM:02200088C