

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 7, 2016

CAO File No. 0220-01024-2756

Council File No. 15-1041-S3

Council District: Citywide

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Economic and Workforce Development Department transmittal dated August 19, 2016; Received by the City Administrative Officer September 6, 2016; Additional information received through October 4, 2016

Subject: **ECONOMIC AND WORKFORCE DEVELOPMENT DEPARTMENT (EWDD)
REQUEST TO ESTABLISH A REVOLVING MICROLOAN FUND PROGRAM**

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 Micro-loan Program with federal Community Development Block Grant (CDBG) funds approved for this purpose in the Program Year 42 Housing and Community Development Consolidated Plan (C.F. 15-1041) and according to the Micro-loan Program Term Sheet provided by EWDD and attached to their Report dated August 19, 2016, and other recommendations in this Report;
 - b. 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;
 - c. Open an interest-bearing account at Wells Fargo Bank to be used exclusively for the Micro-loan Program to deposit Microloan Program principal and interest repayments and any fee income, in accordance with the Code of Federal Regulations;
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 Wells Fargo Bank account to the U.S. Treasury, in

conformance with CDBG regulations;

3. Authorize and instruct the Controller to:

- a) Deposit repayments of principal and interests and other fees related to the Micro-loan 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 Micro-loan program are received;
 - c) Expend funds from Account Nos. 43N240-Microloan Program and 43NXXX-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 Micro-loan 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 Micro-loan Funds.

SUMMARY

In its Transmittal dated August 19, 2016 (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 42 Housing and Community Development Consolidated Plan (PY 42 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 42 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 2014 - March 2015 [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 2015 – March 2016 [C.F. 15-1041]), Council instructed EWDD to report regarding guidelines and procedures to implement the MicroLoan program. CDBG grant funds in the amount of \$250,000 were approved in the PY 42 Con Plan (April 2015 – March 2016) for a business microloan program to be implemented by EWDD. 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 (C.F. 15-1041-S3), 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 the new Microloan Program 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 (C.F. 15-1041-S3). In order to streamline implementation of the Microloan Program, EWDD requests to establish an account at Wells Fargo Bank to receive repayments from borrowers in the Microloan Program. The Department states that this will ease the process of CDBG loan disbursements to borrowers and transfers of the interest on the loan repayment balance to HUD because the City's CDBG grant is deposited in the same bank (Wells Fargo).

Federal CDBG regulations consider assistance to microenterprise businesses as meeting a national objective with no further public benefit requirements, as long as 51% 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 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 42 Housing and Community Development Consolidated Plan (PY 42 Con Plan) (C.F. 15-1041). Loan repayments are proposed to be used for continued funding of eligible business loans under the Revolving Loan Fund.

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