

TRANSMITTAL

To:

THE COUNCIL

Date: 3/6/2018

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in blue ink, appearing to be 'Eric Garceiti', is written over the printed name and title.

(Ana Guerrero) for

ERIC GARCEITI
Mayor

JAN PERRY
GENERAL MANAGER

**CITY OF LOS ANGELES
CALIFORNIA**

ECONOMIC & WORKFORCE
DEVELOPMENT DEPARTMENT
1200 W. 7th STREET
LOS ANGELES, CA 90017



ERIC GARCETTI
MAYOR

February 28, 2018

Council File No.:
Council District Nos.: All
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The Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Mandy Morales, Legislative Coordinator

**RECONSTITUTION OF THE U.S. DEPARTMENT OF COMMERCE, ECONOMIC
DEVELOPMENT ADMINISTRATION GRANT-FUNDED REVOLVING LOAN FUND**

The General Manager of the Economic and Workforce Development Department (EWDD), or designee, respectfully requests that your office review this transmittal and forward to the City Council for further consideration.

RECOMMENDATIONS

That the Council, with the approval of the Mayor:

1. AUTHORIZE the General Manager, EWDD, or designee, to accept the U.S. Department of Commerce, Economic Development Administration's (EDA) Amendment to Financial Assistance Awards Numbers 07-19-03106 and 07-39-02236 (.01-.04) (Form CD-451) for the City of Los Angeles Revolving Loan Fund (RLF);
2. AUTHORIZE the General Manager, EWDD, or designee, to accept consolidation and reconstitution of EDA RLF Financial Assistance Awards Numbers 07-19-03106 and 07-39-02236 (.01-.04), (Form CD-451) into a new EDA RLF Financial Assistance Award Number 07-57-03106;

3. AUTHORIZE the General Manager, EWDD, or designee, to implement the EDA Revolving Loan Fund (RLF) Program in accordance with the City of Los Angeles RLF Special Award Conditions and Standard Terms and Conditions;
4. AUTHORIZE the Controller to:
 - a) Transfer \$1,200,000 from the Unappropriated Balance Fund 100/58, Account No. 580237, U.S. Economic Development Administration Grant Obligation, to EWDD's LA City Industrial-Commercial Revolving Loan Fund No. 58J.
 - b) Establish a new account 22PXXX, titled City of Los Angeles Revolving Loan Fund, within the LA City Industrial-Commercial Revolving Loan Fund No. 58J and transfer \$1,200,000 to this account.
5. INSTRUCT the General Manager, EWDD, or designee, to report back to Mayor and Council with the proposed City of Los Angeles RLF Administration Plan, including the program guidelines, term sheet and targeted clientele.
6. AUTHORIZE the General Manager of EWDD, or designee, to prepare Controller instructions for any necessary technical adjustments, subject to the approval of the City Administrative Officer, and instruct the Controller to implement the instructions.

FISCAL IMPACT

On May 25, 2017 (C.F. 17-0600), the Mayor and City Council approved an appropriation of \$1,200,000 in the City's 2017-18 budget, representing the first year installment of a proposed three-year phased-in reconstitution of the City of Los Angeles RLF grant. It is anticipated that the Mayor will submit a second installment appropriation request in the amount of approximately \$1,200,000 in the City's 2018-19 budget, and the third and last installment of in the amount of approximately \$1,302,978 in the City's 2019-20 budget.

BACKGROUND

In 1965 the U.S. Congress enacted the Public Works and Economic Development (PWED) Act which created the U.S. Economic Development Administration (EDA). The Act was amended in 1975 to create the Economic Adjustment Program to include Revolving Loans Funds (RLF). Two forms of assistance were included: Sudden and Severe Economic Deterioration (SSED); and, Long Term Economic Deterioration (LTED). Since the creation of the program EDA has funded over 800 RLF programs with state and local governments and non-profit corporations. These RLFs provide a capital base for economic development lending within a defined service area. The EDA RLF grant must include matching funds, labeled the Grant Rate, from the applicant. The rate is based on the level of economic stress in the RLF service area. The Federal share of the RLF funds is held in trust by the

grantee on behalf of the Federal Government. The Federal interest in these funds is maintained in perpetuity. The RLF grants may be modified with prior EDA approval. Such modifications may include changes in service areas, consolidation with another RLF, transfer or dissolution of the RLF. On December 19, 1994, in response to the Presidential Disaster Designation related to the Northridge Earthquake of 1994, EDA offered to amend the RLF Grant Award, essentially modifying the RLF grant to include Sudden and Severe Economic Deterioration grant criteria based upon the disaster. This amendment allowed the City to lend in any location impacted by the earthquake. However, the RLF funds could also be used for general economic recovery. This designation remains in place until changed by EDA.

In the 1970s and again in the 1990s, the City received grant funding for an industrial-commercial revolving loan fund (RLF) from the Department of Commerce, Economic Development Administration (EDA). The City received two grants totaling \$2,460,000 through the 1990s, as follows:

Grant 07-19-0310 EDA:	\$775,000	City:	\$338,545	Grant rate:	69.96%
Grant 07-19-0310 EDA:	\$1,685,000	City:	\$953,182	Grant rate:	57.35%

The City operated the RLF first directly and then through a subcontractor. In 2011, after protracted efforts to recover the City and federal RLF assets from the subcontractor, the City filed litigation to recover the RLF assets, resulting in a recovery of \$933,000 through a 2015 settlement agreement (CF 15-0356).

In 2017, the Mayor's Office of Economic Development (MOED) was involved in negotiations with EDA regarding reconstituting the EDA RLF grant by agreeing to administer it and providing the required matching funds to the City's RLF program, or terminating the federal grant, and returning contractually required funds. To terminate the current RLF grant contract and meet its outstanding grant obligations, the City would be required to provide approximately \$3.9 million to the federal government (\$3 million grant contract shortfall plus \$933,000 in litigation recovery funds on hand).

In June 2017, MOED and EWDD evaluated the options and determined that reconstitution of the City's RLF program and thereby retaining all funds in the City is in the City's best economic and fiscal interest. In a letter from the City to EDA dated November 1, 2017, the EDA accepted the City's proposed financial parameters for reconstitution of the RLF program, and implementation plan.

SUMMARY

EWDD recommends that the City accept an offer from the U.S. Department of Commerce, Economic Development Administration, to retain and reconstitute the City's two existing City of Los Angeles Revolving Loan Fund (RLF) grants into one consolidated grant. Currently, the City is holding approximately \$933,000 in recaptured City of Los Angeles RLF monies in the LA City Industrial-Commercial Revolving Loan Fund. To meet its existing EDA grant deficiency obligations, the City must provide an additional \$3,702,978 to its RLF, resulting in a reconstituted RLF capital base of \$4,635,978. If the City accepts the offer from the U.S. Department of Commerce, Economic Development Administration, the City will be able to phase-in its contribution to the RLF in three annual installments.

On May 25, 2017 (C.F. 17-0600), the City Council and the Mayor approved an appropriation request of \$1,200,000 in the City's 2017-18 budget, representing the first year installment of the three-year phased-in reconstitution of the City of Los Angeles RLF grant. It is anticipated that the Mayor will submit a second installment appropriation request of approximately \$1.2 million in the City's 2018-19 budget, and the third and final installment of approximately \$1,302,978 in the City's 2019-20 budget.

The Mayor's Office proposes to house the reconstituted RLF within EWDD. EWDD has the administrative capacity to manage the RLF and the operational capacity, both internally and externally, to issue the loans. EWDD currently manages the CDBG-Small Business Loan (SBL) Program with an available loan pool of approximately \$2.7 million and a current portfolio of approximately \$3.5 million. Furthermore, the department is in the process of implementing a CDBG-Microloan Program that will have an anticipated loan pool of up to \$1,500,000, incrementally over the next five years. Once reconstitution of the RLF is approved, EWDD will undertake the task of implementing and administering the program.

EWDD anticipates that administration and implementation of the City of Los Angeles RLF will require approximately 50% of an existing Finance Officer level staff time. The Finance Officer would be responsible for the development, implementation and administration of the terms of the loan program, the policies and procedures, the outreach and marketing strategies on an ongoing basis, and processing and underwriting of loan applications.

The reconstitution of a City of Los Angeles RLF grant will augment the department's ability to provide business financing by supplementing the existing CDBG programs. In addition, by diversifying the business program offerings, the City will be able to better meet the needs of business owners and mitigate potential losses associated with its overall loan portfolio. Furthermore, the City would have more resources to provide businesses with much needed access to capital to help create, retain and grow enterprises in the City, and generate job opportunities for City residents.

Under the RLF reconstitution terms, the City will be required to:

- Combine the two existing RLF grants into one reconstituted fund of approximately \$4,635,978, including the funds currently held in the City's RLF account of approximately \$933,000;
- Contribute additional appropriated General Funds in the amount of \$3,702,978 to the City's RLF program in order to meet the former grant's contractual obligations.
- The Federal share of the reconstituted RLF will be approximately \$2,840,561 or 61.27%, and the City share will be approximately \$1,795,417 or 38.73%;
- Phase in the reconstitution of the RLF over a term not to exceed three years. In Fiscal Year (FY) 2017-18 the City approved an appropriation of \$1,200,000 to the Unappropriated Balance as its the first installment for the reconstituted RLF (Account 580237 U.S. Economic Development Administration Grant Obligation).
- In FY 2018-19, it is anticipated that the Mayor will submit an additional appropriation request to continue the reconstitution of the RLF Grant of approximately \$1.2 million, and a final appropriation request of approximately \$1.3 million in the City's 2019-2020 budget;
- Acknowledge that the reconstituted RLF may not make any new loans until the Federal share of \$2,840,978 is fully funded and available in the City's RLF account, and a new RLF Administrative Plan is approved by the City Council, Mayor, and EDA;
- Develop a strategic plan for the use of RLF funds to support the economic development goals of the City;
- Establish a Loan Committee to guide EWDD in implementation of the RLF. This committee would be appointed by the General Manager of EWDD as an advisory group. Its function would be to advise EWDD regarding the strategic RLF Plan that would be submitted to EDA for approval. EWDD would also delegate certain authority to this loan committee to act on loan requests, and review program performance under the Grant Award;
- Develop an operational structure within EWDD to implement and govern the program. Including review of any proposals to use consultants or program partners as part of the implementation of the RLF Plan. Any such alliances or support assistance would be included in the RLF Plan; and
- Guide the preparation of an RLF Plan and the development of such other material necessary to obtain EDA approval to implement the reconstituted RLF. It is envisioned that the Plan would be available for EDA review and approval prior to approval of the City Council so that implementation could commence as soon as the full federal share is funded and available in the RLF and the necessary documentation is concluded with EDA.

Forthcoming RLF Administration Plan Components

The EWDD will report back with the required EDA RLF Administrative Plan, which will include program guidelines, term sheet and targeted City clientele and areas. The RLF Administrative Plan report back will include the following components:

PART I: Revolving Loan Fund Strategy

- A. Economic Adjustment Overview
- B. Business Development Strategy
- C. Financing Strategy
- D. Financing Policies
- E. Portfolio Standards and Targets
- F. RLF Loan Selection Criteria
- G. Performance Assessment Process

PART II: Revolving Loan Fund Operational Procedures

- A. Organizational Structure
- B. Loan Processing Procedures
- C. Loan Closing and Disbursement Procedures
- D. Loan Servicing Procedures
- E. Administrative Procedures

CONCLUSION

The reconstitution of the City of Los Angeles RLF will provide the City with an approximately \$4.6 million lending fund, which will augment the EWDD's ability to provide financing options to the City's business community. The City's RLF will help address areas of economic distress and help implement the City's economic development strategy.



JAN PERRY
General Manager

JP:SH:DH:MA