

TRANSMITTAL

To: **THE COUNCIL**

Date: **06/14/24**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in black ink, appearing to read 'Carolyn Webb de Macias', is centered on the page.

(Carolyn Webb de Macias for)

KAREN BASS

Mayor

CITY OF LOS ANGELES

CALIFORNIA

CAROLYN M. HULL
GENERAL MANAGER



KAREN BASS
MAYOR

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

444 FLOWER STREET 14TH FLOOR
LOS ANGELES, CA 90071

June 12, 2024

Council File:
Council District: All
Contact Person & Phone Number:
Daisy Hernandez, (213) 744-9340

The Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Heleen Ramirez, Legislative Coordinator

TRANSMITTAL: REQUEST FOR AUTHORITY TO IMPLEMENT THE CONTRACT FINANCING PILOT PROGRAM, COUNCIL ACCEPTANCE OF \$1 MILLION DONATION FROM BANC OF CALIFORNIA, AND APPROVAL TO DEPOSIT DONATED FUNDS IN THE ECONOMIC DEVELOPMENT TRUST FUND FOR IMPLEMENTATION OF THE PROGRAM.

SUMMARY

The Economic and Workforce Development Department (EWDD) is seeking authority to implement the Contract Financing Pilot Program (CFP) to facilitate access to capital for contractors that need funding for mobilization of contracts awarded by the City of Los Angeles. The CFP will promote more inclusive contracting opportunities in the City by offering short-term, below-market interest rate loans to small and diverse businesses to help secure the initial capital needed to buy materials and equipment, as well as hire employees to take on City contracts that would otherwise be unattainable.

Through this report, EWDD is also requesting that City Council accept, on behalf of the City, a \$1 million charitable donation from Banc of California to help launch the CFP. Upon acceptance on behalf of the City, EWDD requests that Council direct that the funds be deposited into a new account within the Economic Development Trust Fund (EDTF) and to be managed by EWDD in connection with the implementation of the CFP.

RECOMMENDATIONS

The General Manager of EWDD respectfully requests that the City Council and Mayor:

1. AUTHORIZE EWDD to implement the Contract Financing Pilot Program, as proposed in this transmittal report.

2. DETERMINE that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article II, Section 2.f of the Los Angeles CEQA guidelines.
3. REQUEST that City Council accept, on behalf of the City of Los Angeles, a donation from Banc of California of \$1,000,000 for implementation of the Contract Financing Pilot Program.
4. DIRECT that the donation to the City of Los Angeles from Banc of California of \$1,000,000 for implementation of the Contract Financing Pilot Program be deposited into the Economic Development Trust Fund No. 62L and create a new interest-bearing Account No. 22AXXX titled Contract Financing Program, to be administered by EWDD in connection with the implementation of the Contract Financing Pilot Program.
5. AUTHORIZE the Controller to:
 - a) Increase receivables within the Economic Development Trust Fund 62L from a donation from the Banc of California by \$1,000,000.
 - b) Establish new account and appropriation within the Economic Development Trust Fund No. 62L and appropriate as follows:

Acct #	Title	Amount
22AXXX	Contract Financing Program	\$900,000

- c) Increase appropriations within the Economic Development Trust Fund No. 62L as follows:

Acct #	Title	Amount
22A122	Economic and Workforce Development	67,206
22A299	Reimbursement of General Fund Costs*	29,138
22A112	City Attorney	2,664
22A166	Personnel	992
Total		100,000

*22A299: EWDD = \$27,135; City Attorney = \$1,353; Personnel = \$650

- d) Increase appropriations within Fund 100/22 as follows:

Acct #	Title	Amount
001010	Salaries General	49,323
001070	Salaries As Needed	386
001090	Overtime General	21
002120	Printing and Binding	6
002130	Travel	12
003040	Contractual Services	1,114
006010	Office and Administrative	12,191
006030	Leasing	4,153
Total		67,206

e) Increase appropriations within Fund 100/12 as follows:

Acct #	Title	Amount
001010	Salaries General – City Attorney	2,664
Total		2,664

f) Increase appropriations within Fund 100/66 as follows:

Acct #	Title	Amount
001010	Salaries General – Personnel	992
Total		992

6. AUTHORIZE the General Manager of EWDD, or designee, to negotiate and execute a contract with Merriwether and Williams Insurance Services, Inc. for up to \$426,000 to provide professional services needed for implementation of the Contract Financing Pilot Program, leveraging procurement completed by the City Administrative Office (CAO) for similar services. Contract will be subject to the approval of the City Attorney as to form.
7. AUTHORIZE the General Manager of EWDD, or designee, to make technical corrections to transactions included in this report, subject to the approval of the City Administrative Officer, to carry out Mayor and City Council intentions, as necessary, and authorize the Controller to implement those instructions.

FISCAL IMPACT

There is no fiscal impact on the General Fund as a result of this report. The CFP will be funded through a donation from Banc of California.

BACKGROUND

The City of Los Angeles and proprietary departments award competitive contracts worth billions of dollars on an annual basis. However, small and minority-owned businesses often face barriers, such as lack of capital, digital divide, language access, and the inability to navigate intricate procurement processes, which put them at a disadvantage in the bidding process. As part of the strategy to provide more equitable access to contracting opportunities in the City and increase contract awards to small and diverse businesses, the CFP will provide support to help eliminate the barrier to access to capital, while leveraging other EWDD resources to help overcome the other challenges that these small enterprises face when looking to do business with the City.

The CAO, in conjunction with Los Angeles World Airports, Port of Los Angeles, and the Los Angeles Department of Water and Power, is currently implementing a contract financing program similar to the proposed CFP. The key difference is that the CAO Program focuses on construction contracts awarded by the aforementioned proprietary departments, while the CFP will support both construction and professional service contracts awarded by the various City departments. The CAO has engaged Merriwether and Williams Insurance Services (MWIS) to assist with implementation of its contract financing program.

Banc of California has pledged a charitable donation of one million dollars (\$1,000,000) to launch the City's CFP. The donation is part of the bank's Community Reinvestment Act - Community Benefit Plan, which seeks to provide technical assistance and capacity building to support small businesses. Banc of California, established in 1941, is the third-largest full-service bank headquartered in California. Through this report EWDD is requesting that City Council accept the donation on behalf of the City and direct that the \$1 million be deposited into a new Contract Financing Program account within the Economic Development Trust Fund, to be managed by EWDD.

EWDD is requesting approval to implement the CFP using funds donated by Banc of California, as follows:

Use	Amount
EDTF - Contract Financing Program	\$900,000
Administrative set-aside for EWDD	\$100,000
TOTAL	\$1,000,000

DISCUSSION

The CFP will facilitate low-interest, short-term loans for small and diverse businesses that historically have had limited access to the capital needed to compete for City contracts. The program will help remove the access to capital barrier with a goal of increasing opportunities and inclusion in City contracting.

In alignment with the existing CAO Program, EWDD is proposing to engage MWIS to provide professional services to deploy the CFP. This will allow EWDD to leverage MWIS' established structure and processes for faster and more effective implementation of the program. The CAO

selected MWIS as a service provider through a Request for Proposals (RFP) in 2022, and EWDD seeks to leverage this procurement to enter into a separate one-year contract with MWIS to implement the CFP.

Services provided by MWIS will be paid with funds donated by Banc of California for an amount not to exceed four hundred twenty-six thousand dollars (\$426,000) with a proposed use as follows:

Use	Amount
Merriwether & Williams CFP services	\$276,000
Third-party fund administration/accounting support	\$150,000
TOTAL	\$426,000

The third-party fund administrator is a critical component of the CFP program design, as it will help mitigate risk to the participating lenders. The fund administrator will manage progress payment disbursements to ensure contract-related expenses are properly paid and documented. The proposed \$150,000 for this service is a budget allocation only. The funds will only be used for projects approved for financing. Any unused balance will be returned to the EDTF.

EWDD will assess CFP outcomes, measure success and make recommendations about continuity of the program, including potential resources to pay for future program costs.

CFP Overview

EWDD will be responsible for general oversight of the CFP, and upon approval, will engage MWIS services needed for CFP implementation, including, but not limited to:

1. Contractor onboarding, including online application / enrollment form intake.
2. Coaching and supportive services to businesses to better position them for a bidding process, including one-on-one and group training.
3. Collection and review of eligibility documents.
4. Business assessments and loan pre-approvals.
5. Loan underwriting and structuring.
6. Establishment of participating lenders.
7. Connecting pre-approved loans to participating lenders.
8. Invoice review and submission for disbursement of loan proceeds.
9. Loan servicing.
10. Loan contract risk mitigation.
11. Engage prime contractors for utilization of CFP participants as subcontractors.
12. Quarterly activity reports.
13. Participation in regular briefing meetings with EWDD staff.

The City and MWIS will seek collaboration with lenders committed in supporting small and diverse businesses to secure contract financing per the proposed CFP guidelines.

Process Flow

1. In coordination with EWDD, MWIS to conduct program outreach.
2. Contractor enrolls in CFP through MWIS.
3. MWIS provides technical assistance on program and process.
4. MWIS assessment of contractor capacity to meet a bid requirements before bidding. The assessment identifies what the contract cash flow requirements will be for contract costs such as project labor, materials and other areas specific to the contract.
5. MWIS pre-approval for funds based on successful completion of assessment, to be used for bidding purposes.
6. Submission of bid/proposal by contractor.
7. Loan approval following a winning bid.
8. Loan funding by a participating lender.
9. Funds released for contract expenses as needed, based on MWIS invoice review. No lump sum disbursements will be allowed.

CFP Guidelines**Eligibility for Pre-approval**, business applicant must:

1. Have a valid Business Tax Registration Certificate (BTRC) that is current and in good standing.
2. Be for-profit, and located in Southern California, though priority will be given to small businesses within City limits.
3. Be certified as a Small Local Business (SLB), Minority/Women Business Enterprise (MBE/WBE) and/or Disadvantaged Business Enterprise (DBE).
4. Intend to submit a proposal for a City contract under an open RAMPLA procurement.
5. If applicable, the business must be in good standing with the Secretary of State.

Eligibility for Funding, business applicant must:

1. Meet “pre-approval” eligibility criteria.
2. Have been issued a loan pre-approval.
3. Have been awarded a City contract.
4. Execute loan documents, as required by participating lenders.

Loan Terms:

The following are proposed loan terms and conditions for the CFP, subject to acceptance by participating lenders.

Loan Amount	Up to \$300,000
Interest Rate	Fixed, below market
Fees	Up to 1% of loan amount
Credit	No credit rating requirements
Collateral	<ul style="list-style-type: none"> • Contract / account receivables* • Other existing assets • Personal guarantees
Term	Up to 2 years, based on length of contract awarded
Loan repayment	From contract progress payments

*Contract cash flow must be used to pay contract invoices first, then required CFP loan payment, then contractor overhead and profit.

Eligible Uses of Funds:

1. Funds for approved City contract only.
2. Funds released as needed.
3. Purchase materials and equipment to fulfill the contract.
4. Payroll.
5. Bridge cash flow needs while waiting on payments for the contract.
6. Other contract mobilization expenses such as insurance, performance bond, etc.

Ineligible Uses of Funds:

1. Taxes (business, personal income, property, etc.).
2. Expenses for contracts other than the approved City contract.
3. Personal use of any kind.

Required Documents:

MWIS will collect documents needed as part of the business assessment and program eligibility review, including but not limited to:

1. Organizational information, such as résumés for key personnel and business legal structure.
2. Financial Information, including financial statements and schedule of other contracts.
3. Contract Award information, such as copy of contract, project description, timeline and cash flow projections.

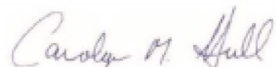
Supplemental Resources:

EWDD will leverage other resources available to provide wraparound services to businesses participating in the CFP, including:

1. Technical assistance through the BusinessSource Centers, as needed.
2. Coaching through the upcoming Contract Ready LA Program for additional contracting support, such as certification process.
3. Business legal structure and contract negotiations through the L.A. Regional Small Business Legal Aid Program.
4. Technology resources through LA Optimized.

CONCLUSION

The CFP will promote more inclusive procurement opportunities in the City with a goal of increasing diversity in City contracting. The program will help small and diverse businesses that generally do not have access to traditional financing, secure the initial capital necessary through a participating lender, to buy materials and equipment, and hire employees to fulfill obligations under contracts awarded by the City.



CAROLYN M. HULL
General Manager

CH:FJ:DH