

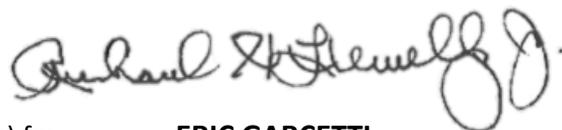
TRANSMITTAL

To: **THE COUNCIL**

Date: **10/08/21**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in black ink, appearing to read "Eric Garcetti". The signature is fluid and cursive, with a large, stylized "G" at the end.

(Rich Llewellyn) for

ERIC GARCETTI
Mayor

CITY OF LOS ANGELES

CALIFORNIA



ERIC GARCETTI
MAYOR

**ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT**

1200 W. 7TH STREET
LOS ANGELES, CA 90017

CAROLYN M. HULL
GENERAL MANAGER

September 20, 2021

Council File No.:
Council District Nos.: All
Contact Persons and Phone No:
Alex Lakshtanov, (213) 238-2621
Daysi Hernandez, (213) 744-9340

The Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Heleen Ramirez, Legislative Coordinator

TRANSMITTAL: RECOMMENDATION TO APPROPRIATE THE U.S. DEPARTMENT OF COMMERCE - ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY (CARES) ACT FUNDING AND AMEND THE APPROVED EDA REVOLVING LOAN FUND ADMINISTRATIVE PLAN TO INCORPORATE THE IMPLEMENTATION OF THE CARES REVOLVING LOAN FUND PROGRAM.

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

SUMMARY

The Department of Commerce's Economic Development Administration (EDA) awarded the City a non-competitive CARES Act Revolving Loan Fund (CARES RLF) allocation in the amount of Two Million Five Hundred Ninety-One Thousand Eight Hundred Fifty-Six Dollars (\$2,591,856) to help communities prevent, prepare for, and respond to the coronavirus (COVID-19) pandemic (EDA-CARES Funds). The authorized budget allows \$2,360,000 for the RLF and \$231,856 for administrative costs.

Through this report, EWDD is requesting authority to accept the EDA-CARES Funds and to implement a new CARES RLFP Program that provides financing to businesses that have been negatively impacted by COVID-19.

After eighteen months since the pandemic started, small business owners continue to experience significant financial setbacks that are being exacerbated by challenges in accessing the capital needed to continue their operation. The CARES RLF will be another tool in the City’s toolbox to provide relief to businesses in need. However, in order to deploy loan funds more efficiently and expeditiously, EWDD recommends new loan terms that differ from the existing EDA RLF program, in order to offer more favorable terms during a time that businesses are not able to incur more liabilities as a result of decreasing revenues due to the ongoing pandemic. Table 1 provides a breakdown of the loan term proposed for the CARES RLF:

Table 1

	Existing Terms EDA RLF	Proposed Terms CARES RLF	Justification
Application fee	\$250	\$150	Reducing the application fee will help make the funding more accessible for struggling business owners.
Loan origination fee	2%	1%	Reducing the loan fee will help business maximize the net loan proceeds and make the funding more accessible and affordable.
Interest rate	Prime plus 2%	0% for twelve (12) months. Interest would convert to a fixed Wall Street Prime rate after the deferment period.	Waiving interest charges for 12 months will help business owners save a significant amount of money during a period of business re-stabilization to help them focus on their recovery. Interest would start incurring at the end of the 12-month deferment period.
Repayment	Monthly payments due	Payments deferred for the first twelve (12) months.	Deferring payments for 12 months will help struggling businesses improve their cash flow while their business gets back on track. Repayment of the loan would start at the end of the deferment period.
Leverage	Requirement of leveraged investment from other lenders	Leverage requirement waived	This waiver of leverage in financing would eliminate a barrier in accessing EDA funding.
Job creation or retention	1 Full-time equivalent (FTE) for every \$35,000 of borrowed funds	1 FTE for every \$75,000 of borrowed funds	Lowering the job creation requirement will continue to meet public benefit standards while providing more flexibility to business owners.

In addition, EWDD recommends for the CARES RLF to allow loan requests of up to \$75,000 to be internally reviewed and recommended for approval by EWDD staff underwriters. Loan requests exceeding \$75,000 must be approved by the EDA RLF Loan Committee.

If approved, the terms for the CARES RLF will be incorporated as an addendum to the existing EDA RLF Administrative Plan, which was approved by the Mayor and City Council in 2019. The Administrative Plan Addendum for the CARES RLF will be submitted to the EDA for final approval. Terms for the regular EDA RLF Program will not change.

RECOMMENDATIONS

The General Manager of EWDD respectfully requests that the City Council, subject to the approval of the Mayor as required:

1. AUTHORIZE the General Manager of EWDD, or designee, to accept the U.S. Department of Commerce, Economic Development Administration's (EDA) Financial Assistance Award Number 07-79-07609, under the Coronavirus Aid, Relief and Economic Security (CARES) Program totaling Two Million Five Hundred Ninety-One Thousand Eight Hundred Fifty-Six Dollars (\$2,591,856).
2. AUTHORIZE the General Manager of EWDD, or designee to incorporate an addendum to the existing EDA Revolving Loan Fund Administrative Plan to encompass the new CARES Revolving Loan Fund Program for the purpose of disbursing the EDA-CARES Funds, as proposed in this report.
3. AUTHORIZE the General Manager of EWDD, or designee to submit the CARES RLF Administrative Plan Addendum to the EDA for final approval.
4. AUTHORIZE the General Manager, of EWDD, or designee, to implement the CARES Revolving Loan Fund Program.
5. AUTHORIZE EWDD to open a new interest-bearing account at US Bank to be used for the deposit and disbursement of EDA CARES Funds for the CARES Revolving Loan Fund.
6. AUTHORIZE the Controller to establish a new interest-bearing fund titled EDA CARES Revolving Loan Fund No. XXX to be administered by EWDD.
7. AUTHORIZE the Controller to:

- a) Establish a receivable within the newly established EDA CARES Revolving Loan Fund No. XXX from the US Department of Commerce for \$2,591,856.
- b) Establish new accounts within the newly established EDA CARES Revolving Loan Fund No. XXX and appropriate as follows:

Acct #	Title	Amount
22VXXX	EDA CARES Revolving Loan Fund	2,360,000
22V122	Economic and Workforce Development	161,892
22V299	Reimbursement of General Fund Costs	69,964
Total		2,591,856

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

Acct #	Title	Amount
001010	Salaries General	152,792
006010	Office and Administrative	9,100
Total		161,892

- d) AUTHORIZE the Controller to transfer funds from the newly established EDA CARES Revolving Loan Fund No. XXX, Account No. 22VXXX, EDA CARES Revolving Loan Fund, to the new US Bank account for the disbursement of loans, upon presentation of proper documentation by EWDD.
8. INSTRUCT the General Manager of EWDD, or designee, to report back on program status within ninety (90) days from EDA approval of the CARES RLF Administrative Plan Addendum.
 9. AUTHORIZE the General Manager of EWDD, or designee, to prepare Controller instructions and/or make technical adjustments that may be required and are consistent with this action, subject to the approval of the CAO, and authorize the Controller to implement these instructions.

FISCAL IMPACT STATEMENT

Recommendations in this report will not have a negative impact on the City General Funds, as the proposed CARES RLF Program will be funded with Federal EDA CARES Funds.

DISCUSSION

The reconstituted EDA City of Los Angeles Industrial-Commercial Revolving Loan Fund (EDA RLF) was approved by City Council and the Mayor on June 5, 2018 (Council File No. 18-0204). The program's administrative plan was adopted by City Council in July 2019 and approved by the EDA in August 2019.

In response to COVID-19, on July 23, 2020, the EDA approved a Revolving Loan Fund Supplemental Disaster Recovery and Resiliency Award for the City of Los Angeles, in the amount of \$2,591,856 in CARES Act funding, of which \$2,360,000 is allocated for the RLF and \$231,856 has been set aside for administrative costs.

This EDA-CARES Funds are separate from the City's existing RLF, which currently has a balance of approximately \$4.6 million. The new CARES RLF will add another \$2.36 million to provide loans to small business, specifically those impacted by the COVID-19 pandemic.

The existing EDA RLF generally offers financing alternatives for businesses that may not qualify for a traditional small business loan, as it offers more favorable loan terms in comparison to conventional lending. However, businesses impacted by the ongoing pandemic need loans that offer even greater flexibility in terms, since they are experiencing declining revenues and adverse economic impacts due to COVID business restrictions and closures. In order to help businesses more effectively and to be able to deploy loan capital promptly, EWDD is recommending the following flexible terms for the CARES RLF to make the EDA-CARES Funds more accessible and affordable:

1. Reducing the application fee to \$150 - The current application fee is \$250, which covers the cost of the credit report and UCC filings. The reduced application fee will make the loan more affordable and competitive. The difference in costs would be absorbed by EWDD.
2. Lowering the loan origination fee to 1% of the loan amount - The current loan origination fee is of 2%. Cutting this cost will make the loans more affordable and accessible and will help business owners retain more of the loan proceeds for the operation of their business.
3. Making the loan interest free for a period of twelve (12) months - The current interest rate is Wall Street Prime plus 2%. Waiving interest charges for 12 months will result in cost savings to the business owners to help them during a period of business re-stabilization. Interest would convert to a fixed Wall Street Prime rate after the 12-month deferment period.
4. Deferring monthly payments for the first twelve (12) months - Currently, repayment of the loans start 30 days after the disbursement of loan proceeds. Deferring payments for 12 months will help struggling businesses improve their cash flow while their business gets back on track. Repayment of the loan would start at the end of the payment deferment period, on the 13th month from funding date.

5. Waiving the leverage requirement - The existing EDA RLF requires the leverage of \$2 of private investment for every \$1 EDA RLF invested. Waiving this requirement for the EDA CARES Program would allow funding to be deployed faster and make the funds more accessible to support businesses in need.
6. Revising the job creation/retention standard to require a minimum of one full-time equivalent (FTE) job to be created or retained per \$75,000 of loan assistance - The current standard requires an FTE job to be created or retained for every \$35,000 of funds borrowed. Revising the job creation/retention requirement will still meet public benefit standards while providing more flexibility to business owners.

In efforts to streamline and expedite the loan approval process, EWDD also recommends amending the EDA RLF Administrative Plan to allow CARES RLF loan requests of up to \$75,000 to be internally reviewed and recommended for approval by EWDD staff underwriters. Loan requests exceeding \$75,000 must be approved by the EDA RLF Loan Committee.

All other terms, conditions and provisions of the CARES RLF will mirror the existing EDA RLF Administrative Plan, as approved by the Mayor and City Council, and the EDA in 2019.

EDA approved the following EWDD Staffing Plan for a 2-year administration and implementation period of the CARES RLF Program:

Position	% of Annual Hours	Annual Allocation	2-year Total Cost
Industrial Commercial Finance Officer (ICFO) for loan origination and underwriting	18%	\$24,774	\$49,548
ICFO for loan servicing activities	15%	\$20,645	\$41,290
Management Assistant to assist in the implementation of the Program	15%	\$9,312	\$18,624
Chief Grants Administrator for Management of the Fund	15%	\$21,665	\$43,330

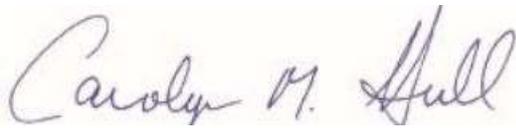
As part of the administrative budget, EDA also approved \$69,964 for fringe benefits and \$9,100 for supplies and other costs. The total administrative set-aside is \$231,856 including salaries.

CONCLUSION

Acceptance of the EDA-CARES Funds will augment EWDD’s ability to provide financing options to the business community. Under the proposed terms, the CARES RLF will be equipped to better meet the needs of impacted business owners. The Program will provide much needed access to capital to help create and retain jobs for City residents, which is critical to the City’s economic recovery efforts during and post-pandemic.

EWDD recommends keeping the new CARES RLF Program separate from the existing EDA RLF since activity for each program must be tracked and reported separately per EDA requirements. In addition, The CARES RLF has a set aside amount to cover administrative costs while the existing EDA RLF's admin costs are covered by the General Fund.

Upon approval of the recommendations in this report, EWDD will submit the CARES RLF Addendum to the existing EDA RLF Administrative Plan for EDA final approval. EWDD will report back with a program update within 90 days of EDA's approval of the Administrative Plan Addendum.

A handwritten signature in blue ink that reads "Carolyn M. Hull". The signature is written in a cursive style with a large initial 'C'.

CAROLYN M. HULL

General Manager

CH:FJ:dh