

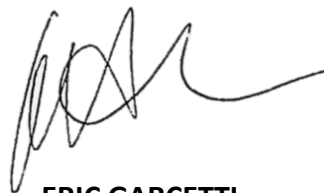
TRANSMITTAL

To: **THE COUNCIL**

Date: **11/02/22**

From: **THE MAYOR**

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

A handwritten signature in black ink, appearing to read 'Eric Garcetti', with a stylized, flowing script.

(Andre Herndon) for

ERIC GARCETTI
Mayor

#

CAROLYN M. HULL
GENERAL MANAGER

CITY OF LOS ANGELES

CALIFORNIA



ERIC GARCETTI
MAYOR

**ECONOMIC & WORKFORCE
DEVELOPMENT
DEPARTMENT**

1200 W. 7TH STREET
LOS ANGELES, CA 90017

November 1, 2022

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

Attention: Heleen Ramirez - Legislative Coordinator

TRANSMITTAL: ECONOMIC AND WORKFORCE DEVELOPMENT DEPARTMENT REPORT ON THE LOS ANGELES GAP FINANCING PROGRAM (CDBG)

The General Manager of the Economic and Workforce Development Department (EWDD), or designee, wishes to report and inform your office and the City Council of the launch of a pilot CDBG-funded economic development program, the **Los Angeles Gap Financing Program**, and requests that you transmit this report to City Council for receipt and file.

SUMMARY

This report provides an update on the City's CDBG-funded Gap Financing Program, which was approved by the Mayor and City Council through the Housing and Community Development Consolidated Plan for Program Year 47 (Council File 20-1433).

RECOMMENDATIONS

1. That the City Council RECEIVE and FILE this report, as no further action is required at this time.

BACKGROUND

On June 9, 2021, the City Council adopted the 47th Program Year Housing and

Community Development Consolidated Plan (Council File 20-1433). The Plan included CDBG funds in the amount of \$2,750,000 to implement the Los Angeles Recovery Gap Financing Program (Gap Financing Program).

The purpose of this pilot financing program is to provide gap funding to economic development (ED) projects involving the acquisition, new construction, and/or substantial rehabilitation of commercial, industrial, and mixed-use developments (commercial component only) that align with the City's Economic Development Strategy by 1) creating and retaining jobs, 2) promoting economic growth of new businesses and industries and 3) diversifying the City's economy.

EWDD will administer the Gap Financing Program. The objective is to leverage committed investments from other local, state, and Federal programs to expedite the completion of commercial projects that have a "funding gap". A "funding gap" is the difference between the cost of a project and the committed funding sources. The program will prioritize projects that are currently in the pipeline for other City or County Departments, such as the Los Angeles Housing Department (LAHD), Housing Authority for the City of Los Angeles (HACLA) and the Los Angeles Metropolitan Transportation Authority (Metro), or in conjunction with other similar mission-driven entities such as the Los Angeles Development Fund (LADF), the City's Business Source Centers, and community development financial institutions (CDFIs).

DISCUSSION

The City of Los Angeles has implemented a gap financing program before, most notably the Block Grant Investment Fund (BGIF), which was established in the 1990s and amended in 2001. The BGIF policy has also served as the City's framework to evaluate projects that request assistance through an Incentive Agreement (CF # 15-0850-S2, page 6).

The goal of the Gap Financing Program is to support the equitable economic recovery and revitalization of Los Angeles by assisting real estate projects that provide economic development opportunities via support to businesses and job creation/retention. The Gap Financing Program will not offer tax incentives, and therefore will not require any tax incentive agreements or allocation of City tax revenues to repay federal Section 108 Loans, like most of the BGIF projects. However, key components of the current BGIF framework have been incorporated into the Gap Financing Program's requirements.

The BGIF Policy Guidelines that the Gap Financing Program will incorporate and utilize include the following:

A. Eligible Projects. The following projects are eligible for funding:

- Commercial Projects
- Industrial Projects
- Mixed Use Projects (for commercial or industrial portion only)

B. Eligible Recipients of CDBG Gap Funding

Recipients of Gap Funding may be Partnerships, Corporations, Sole Proprietorship, public agencies or non-profits with a demonstrable record of

operations.

C. Eligible Activities

Eligible activities for the Program may include, but are not limited to, the following:

- Land Acquisition
- Off-site improvements directly supporting commercial or industrial development
- On site improvements
- Building construction/renovation/expansion
- Clearance and demolition
- Parking facilities
- Purchase or long-term lease of equipment
- Relocation
- Interior and/or exterior rehabilitation, restoration or alteration of commercial properties - leasehold, seismic, or other improvements.
- Purchase of commercial property for expansion of an on-going business
- Indirect or soft costs associated with the above.

D. CDBG Public Benefit Test

All projects financed through this Program must meet at least one of the following CDBG public benefit tests:

- Creates or retains at least one full-time equivalent job per \$35,000 of CDBG funding.
- Increases goods and services to low-income communities such that the number of low- and moderate-income persons residing in the areas served by the project amounts to at least one low- and moderate-income person per \$350 of CDBG funding.

E. Substantial City Public Benefit

All projects funded through this Program must demonstrate substantial City public benefits through one or more of the following:

- Reinforces City economic development investments
- Provides potential significant economic spin-off in disinvested areas
- Provides quality jobs with access to benefits and opportunities for advancement.
- Provides goods and services to currently under-served areas.
- Provides long term revenue growth in City's General Fund.
- Enhances City's long term economic position.

Since the program's funding source is Community Development Block Grant (CDBG), all Economic Development projects funded must be able to meet one or more of the National Objectives;

- Benefit to low- and moderate- income (LMI) persons;
- Aid in the prevention or elimination of slums or blight; and
- Meet a need having a particular urgency (referred to as urgent need)

Program and Pipeline Development

This Pilot Program aims to develop an ongoing pipeline of Economic Development projects with the collaboration of the afore-mentioned City, County, and State agencies

as well as mission-driven organizations. With the initial program budget of \$2,750,000, EWDD aims to fund 2-3 economic development projects with forgivable loans/grants ranging from \$500,000 to \$1,500,000+.

As a means of introducing this pilot program, EWDD will forward a Program Information Sheet to all of our funding partners, including but not limited to: LAHD, HACLA, LADF, Metro, local CDFIs, LISC LA, and others providing the program criteria and specifics. Once this requisition has been completed, EWDD is anticipating that within 4-6 weeks, EWDD will begin to start the administrative process of reviewing and evaluating potential ED projects.

The feedback provided by the program partners, a completed feasibility analysis, estimated tax revenue generated by the project, a review of how the project meets the City's policy goals, and the number of qualified projects will determine the adequate program funding level.

Administrative Process

Upon the receipt of various potential projects, EWDD will conduct an initial threshold review whereby the following criteria must be met, but is not limited to:

1. Potential projects must have received funding commitments from the Los Angeles Development Fund (LADF), the Los Angeles Housing Department (LAHD), California Debt Limit Allocation Committee (CDLAC), and/or other funding institutions, agencies or City Departments. Working with potential projects that have received funding commitments from entities such as LADF and LAHD that have pre-established guidelines will ensure compliance with crosscutting requirements (wage compliance, environmental, accessibility, etc.) and will streamline the process of identifying those projects with a funding gap.
2. Potential projects must be "shovel ready" and start construction within 18 months of the loan agreement /grant agreement execution to ensure gap financing investment dollars are deployed in a timely manner for maximum community benefit.
3. Potential projects must meet the CDBG Program Underwriting requirements, which includes; reasonable costs; all project sources must be committed; Federal dollars are to be used when other sources are not available; project is financially feasible; Federal dollars are not to enrich owners; and disbursement of funds is be done on a prorata basis.
4. The proposed project's funding gap must be filled by this Pilot Program.
5. Although non-profit entities are eligible to apply for this program, the benefit of the CDBG dollars must be for-profit entities.
6. The funds must be utilized on a project within the City of Los Angeles.
7. Project should have equity of no less than 20 percent.

8. Financing proceeds may be used for the aforementioned eligible activities.

Evaluation Criteria

After a threshold review has been completed, EWDD will evaluate each potential project based on the scoring system described in Table 1, below:

Table 1. Evaluation Criteria

	Evaluation CRITERIA	MAXIMUM POINTS
1. Permanent Jobs Created or Retained.	EWDD seeks to support developments that foster economic growth via the creation or retention of permanent jobs. Proposed projects that commit to either creating new jobs or retaining jobs that would otherwise be lost had it not been for this funding.	40
2. Number of For-profit Businesses / Entities Assisted	EWDD's mission to support small business as they represent the backbone of the City's economic prowess will also weigh into the evaluation of the proposed project. Small businesses need to feel supported and appreciated by the community and its leaders as those businesses are likely to stay and contribute to the economy.	40
3. Miscellaneous Community Benefits	EWDD acknowledges that proposed projects may offer a wide array of community benefits. They may include, but not limited to: supporting below market rent for small businesses; affordable housing (mixed-use projects); supportive services; Workforce Programs/Re-entry to workforce Programs; location within an Opportunity Zone; Jobs Economic Development Incentive (JEDI) Zone or a former CRA Redevelopment Project Area.	20
	MAXIMUM POINTS	100

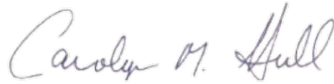
EWDD seeks to fund the most qualified and shovel-ready projects that will provide economic development and community benefits while ensuring that the project is eligible at the program and underwriting levels. The program proceeds will result in conditional loans / grant funding to these economics development projects.

Program Implementation

EWDD aims to start implementation of the Gap Financing Program within the next 60 days and provide funding commitments by May/June 2023.

FISCAL IMPACT

The Gap Funding Program has received a CDBG allocation for \$2.75M through the annual Consolidated Plan. This Gap Funding Program aims to assist in providing long term growth to the City's General Fund.

A handwritten signature in blue ink that reads "Carolyn M. Hull". The signature is fluid and cursive, with the first name "Carolyn" being more prominent than the last name "Hull".

CAROLYN M. HULL
General Manager