

CITY OF LOS ANGELES

CALIFORNIA

CAROLYN M. HULL
GENERAL MANAGER



ERIC GARCETTI
MAYOR

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

August 14, 2020

Council File No.: 20-0683
Council District Nos.: All
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The Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

City Council
c/o City Clerk
Room 395, City Hall

Attention: Heleen Ramirez, Legislative Coordinator

TRANSMITTAL: REPORT BACK ON THE STATUS OF COVID-19 RELIEF AND RECOVERY FUNDS, EXPANSION OF THE LA REGIONAL COVID-19 RELIEF AND RECOVERY FUND, AND ESTABLISHMENT OF THE COVID-19 CHILDCARE RELIEF AND RECOVERY FUND

RECOMMENDATIONS

The General Manager of the Economic and Workforce Development Department (EWDD) respectfully request that the City Council, subject to approval of the Mayor, as required:

1. AUTHORIZE the use of a total of \$30 million of CARES Act Funds as follows:

LA Regional COVID 19 Relief and Recovery Fund	\$19,000,000
COVID-19 Childcare Relief and Recovery Fund	10,000,000
Program Costs	1,000,000
Total	\$30,000,000

2. AUTHORIZE the use of up to ten percent of the \$20 million for the LA Regional COVID-19 Relief and Recovery Fund allocated to LISC LA for program management fees;

3. AUTHORIZE the use of \$1 million to support program costs and third-party consultants for the LA Regional COVID-19 Relief and Recovery Fund and the COVID-19 Childcare Relief and Recovery Fund;
4. AUTHORIZE the General Manager, EWDD, or designee to negotiate and execute agreements with Avivar Capital, LLC and The Los Angeles Development Fund to provide development and support services for up to \$100,000 each, for the period August 19, 2020 through December 31, 2020.
5. AUTHORIZE EWDD, or designee, to execute sub-recipient agreements and/or amendments with Local Initiative Support Corporation (LISC), who is the Administrative Agent for the Los Angeles Regional COVID-19 Relief and Recovery Fund, subject to the approval of the City Attorney as to form;
6. AUTHORIZE the Controller to establish a new interest-generating fund titled CARES Act Projects Fund No. XXX to be administered by EWDD;
7. AUTHORIZE the Controller to:
 - a. Increase appropriations totaling \$30,000,000 within CAO Department No. 10, COVID-19 Federal Relief Fund No. 63M, in a new account, Account Number to be Determined, entitled "EWDD CRF Projects."
 - b. Transfer \$30,000,000 from the "EWDD CRF Projects" Account, Account Number to be Determined, within CAO Department No. 10, COVID-19 Federal Relief Fund No. 63M, to the newly established CARES Act Projects Fund No. XXX.
 - c. Establish new accounts within the newly established CARES Act Projects Fund No. XXX and appropriate as follows:

Acct No.	Account Name	Amount
22T595	LA COVID-19 Regional Relief and Recovery Fund	20,000,000
22T596	COVID-19 Childcare Relief and Recovery Fund	10,000,000
	Total	30,000,000

- d. Transfer up to \$20,000,000 from the newly established CARES Act Projects Fund No. XXX, Account No. 22T595, LA COVID-19 Regional Relief and Recovery Fund, to LISC LA, upon presentation of proper documentation by EWDD.
8. INSTRUCT EWDD to report on program status of the COVID-19 Childcare Relief and Recovery Fund to Council and Mayor every 45 days, or more often as necessary; and

9. AUTHORIZE the General Manager, or designee, of the Economic and Workforce Development Department to make technical corrections to transactions included in this report, subject to the approval of the City Administrative Officer, to implement Mayor and Council intentions, as necessary, and authorize the Controller to implement those instructions.

FISCAL IMPACT STATEMENT

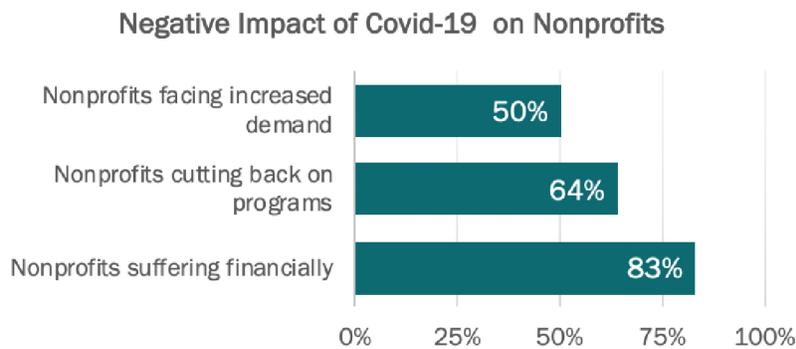
All recommendations in this transmittal will have no negative financial impact on the City General Fund.

BACKGROUND

The Coronavirus Aid, Relief, and Economic Security (CARES) Act is an economic stimulus bill passed by Congress in response to the economic fallout of the COVID-19 pandemic in the United States. The City of Los Angeles received slightly less than \$700 million in CARES Act funding to address a myriad of economic challenges caused by the COVID-19 crisis.

Small businesses in Los Angeles are reeling from the impact of the COVID-19 pandemic and the lack of business activity associated with compliance with the “Safer at Home” order. In stable conditions, most small businesses operate under thin profit margins: grocery stores, automobile dealerships, and myriad of community-serving “mom and pop” businesses have average profit margins hovering around 2 percent. As a result, most small businesses don’t have cash reserves needed to weather unforeseen economic catastrophes like a global pandemic. An analysis conducted by Boston Consulting Group (BCG) shows that 70% of small businesses with 50 or fewer employees are expected to deplete their cash reserves by the end of August 2020. To compound the effects of the pandemic, recent public demonstrations have resulted in property damage to small businesses throughout the City.

The Los Angeles nonprofit community has also been negatively impacted with most enduring increased demand, and declining revenues. Los Angeles’ nonprofit community consists mostly of small businesses employing less than 26 employees. As indicated in the chart below, with increased unemployment adding strains on communities, 50% of nonprofits have reported an increase in demand for their services. Despite this increase in demand, 83% of nonprofits have suffered financially due to Covid-19. These nonprofits are experiencing unprecedented losses in revenues as fundraising events are cancelled, earned revenues are cut off, and donations are redirected to larger organizations on the front-line against COVID-19.



Source: Charity Navigator national survey of nonprofits, April 2020. CalNonprofits, April 2020.

Limitations of Federal Loan Relief for Minorities

Based on U.S. Treasury data, of the 23,405 PPP loans approved in CA between June 21-30, only 415 loans (approximately 2%) were disbursed to minority business owners identified as American Indian/Alaska Native, Black or African American, and Hispanic. The Small Business Majority survey (conducted June 24 – 30) revealed that minority-owned businesses are less likely to have received a PPP loan: 55% received a PPP loan compared to their white counterparts, 76% of whom received a PPP loan. The survey also reported that minority-owned businesses are more likely to report that they are struggling with their rent and mortgage payments: 68% reported vs. the 48% reported by their white counterparts.

Technical and cultural barriers inhibited Small Business Owners

National and regional research has indicated that technical and cultural barriers inhibited small businesses from fully engaging in the PPP program. These include, but are not limited to the following:

- PPP loan platforms lacked a standard application and were marred by technical difficulties, inhibiting applicants with less financial and technical literacy from applying for loans through multiple banks.
- PPP underwriting required the rapid collection of supporting documentation, which was often more difficult for small businesses to identify and assemble for processing (especially those without a history of taking on debt).
- Limited visibility into PPP among underserved communities delayed applications to the program.

SUMMARY

LA REGIONAL COVID-19 RELIEF AND RECOVERY FUND

LISC LA will administer up to \$20 million in CARES Act funding by deploying grants to microenterprises, small businesses and nonprofits by December 31, 2020 in amounts of \$5,000, \$15,000, \$25,000 and \$100,000. The CARES Act requires that the payments from the Coronavirus Relief Fund only be used to cover expenses that comply with the following: (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) and (2) were incurred during the period that

begins on March 1, 2020, and ends on December 31, 2020.

Process: Grants will be chosen through an online lottery system, administered by LISC LA. Grants will be administered over approximately two or three rounds under Phase 1. The larger grants of \$100K will not be selected via lottery but instead will undergo a review to assess program alignment and organizational capacity to handle a large federal grant and the required reporting.

Target grant recipients: Grant recipients will be chosen through an online weighted lottery system (except for those larger grants of \$100,000 as outlined above) in order to support the most vulnerable communities. Therefore, applicants and/or geographic locations that meet the following criteria will be weighted more heavily in the lottery system:

- Entities that are located in low- and moderate-income communities (80% and 50% of AMI)
- Entities that are led or owned by veterans
- Small businesses and nonprofits with annual gross revenue below \$500K
- CalEnviroScreen Map communities with health hazard ranges at 90%+
- Socioeconomic Data Composite Score by Supervisorial and City Council Districts (i.e. poverty rates, educational attainment, median income, etc.), with the districts with disadvantaging factors receiving higher lottery weightings.

Table 1

Recipient Type	Description	Grant Size	% Allocation
Microentrepreneurs	Those individuals participating in the gig economy, particularly street vendors, sole proprietors, 1099 workers, and/or single-member LLCs with less than \$100 thousand in annual gross revenue.	\$5,000	10%
Small Businesses	Businesses with less than \$1 million in annual gross revenue.	\$15,000	57%
Nonprofits	Non-profit providers that serve low-to-moderate income communities with less than \$1 million in annual gross revenue.	\$15,000	8%
Medium/Small Businesses	Businesses with greater than \$1 million but less than \$5 million in annual gross revenue.	\$25,000	13%
Medium Nonprofits	Non-profit social service providers and that serve low-to-moderate income communities with greater than \$1 million but less than \$15 million in annual gross revenue. These entities will need to specify the detailed use of funds to support small businesses and other objectives of the City.	\$100,000	10%
Technical Assistance Providers		\$100,000	2%
TOTAL			100%

As indicated in Table 2 below the allocation of \$19 million to the LA Regional COVID-19 Relief and Recovery Fund would result in a minimum of 1,215 establishments receiving

financial assistance by the close of the 2020 calendar year.

TABLE 2	(A)	(B)	(C)
	% Allocation	Grant Size	Establishments Assisted
Microentrepreneurs	10%	\$5,000	342
Small Businesses (<\$1M)	57%	\$15,000	650
Medium Small Businesses (\$1-\$5M)	8%	\$25,000	55
Small Nonprofits (<\$1M)	13%	\$15,000	148
Medium Nonprofits (\$1 M - \$15M)	10%	\$100,000	17
TA Partners	2%	\$100,000	3
TOTAL	100%		1,215

Review process: LISC will lead the process for verifying the selected winners. Additionally, finalists will be required to submit the appropriate paperwork in order to proceed with funding. The following is an exhaustive list of documents that will need to be verified, but not all entities will be required to upload and/or sign each document:

- IRS – Form W-9
- ACH Form
- Voided check
- 2018 and/or 2019 filed federal tax return(s)
- DD214 Form
- DUNS number
- California Certificate of Good Standing
- IRS Letter – 501(c)(3) Determination Letter (if applicable)
- 2018 and/or 2019 filed Form 990
- BTRC (Business Tax Registration Certificate) – City of Los Angeles only
- COVID-19 Small Business Substantiation Statement/Grant Agreement

COVID-19 CHILDCARE RELIEF AND RECOVERY FUND

During the current crisis licensed childcare facilities within Los Angeles have faced a unique set of challenges. Childcare enterprises (for-profit and non-profit) were among the hardest hit by the COVID-19-related shutdown, with a third of childcare workers nationwide laid off or furloughed. Only the hotel and restaurant industries fared worse. The precipitous decline in revenue has exacerbated the structural challenges in the childcare industry because childcare providers operate on such thin margins. As a result, many have shuttered their doors forever; furthermore, The Center for American Progress estimates that 51% of all childcare providers in California are currently at risk of closing permanently.

As of July 1, 2020, there are 4,541 licensed child care providers open in Los Angeles County including 3,792 family child care homes and 748 centers. Unfortunately, during COVID-19, child care programs are experiencing a dramatic increase in costs. Prior to COVID-19, child care facilities, on average, served over 20 children in a classroom. To reduce virus transmission, the Department of Public Health has limited child care providers to serve only 10 children in a room. This guideline, along with increased cleaning expenses, has often doubled the cost of care per child. In addition, parents seeking child

care are facing financial hardships as the economy struggles to recover.

Program Design

The goal of the program is to provide financial support to the child care sector within the City of Los Angeles. EWDD in partnership with First 5 LA, the Los Angeles Development Fund (LADF), and other third parties will design and administer a grant program of up to \$10 million.

The preliminary research conducted by First 5 LA and EWDD suggest that the grant amounts should be structured based on licensed capacity of a particular facility (the total number of children allowed in a facility pre-COVID).

Process: Grants will be chosen through an online lottery system. The grants will be administered over approximately two rounds.

Target grant recipients: Grant winners will be chosen through an online weighted lottery system in order to support the most vulnerable communities.

Review process: EWDD and program partners will lead the process for verifying the selected winners. All entities will be required to upload and/or sign background and award documents to be determined at a later date.

EWDD and First 5 LA will develop and implement a program to allocate grant funds based on the pre-COVID licensed limit for childcare facilities.

Staffing Requirements

The significant expansion of the LA Regional COVID-19 Relief and Recovery Fund, and the establishment of the COVID-19 Childcare Relief and Recovery Fund will require the allocation of additional staffing resources in order to successfully implement these vital programs. EWDD will request authority to “unfreeze” critical positions through the requirements and guidelines of the Managed Hiring Committee and the Mayor’s Office, to ensure that the Department successfully meets the program goals and objectives.



CAROLYN M. HULL
General Manager