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Title: CONSIDER AN UPDATE ON THE CITY'S CORONAVIRUS SMALL BUSINESS LENDING PROGRAM AND CONSIDER AMENDMENT NO. 2 TO A CONTRACT WITH THE CALIFORNIA COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION, A NON-PROFIT ORGANIZATION, TO PROVIDE ASSISTANCE TO CARSON BUSINESSES IN APPLYING FOR LOANS MADE AVAILABLE THROUGH THE CARES ACT, ESPECIALLY THE PAYCHECK PROTECTION PROGRAM ("PPP") LOANS AND ECONOMIC INJURY DISASTER LOANS ("EIDL"), AND TO ADMINISTER THE CITY'S CORONAVIRUS SMALL BUSINESS LENDING/GRANT PROGRAMS (CITY COUNCIL)

Sponsors:

Indexes:

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Attachments: 1. Exhibit No.1: CCEDA Amendment No. 2, 2. Exhibit No.2: CCEDA contract eff 5-7-20, 3. Exhibit No.3: Amendment No. 1

| Date | Ver. | Action By | Action | Result |
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Report to Mayor and City Council

Tuesday, October 06, 2020

Consent

SUBJECT:

CONSIDER AN UPDATE ON THE CITY'S CORONAVIRUS SMALL BUSINESS LENDING PROGRAM AND CONSIDER AMENDMENT NO. 2 TO A CONTRACT WITH THE CALIFORNIA COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION, A NON-PROFIT ORGANIZATION, TO PROVIDE ASSISTANCE TO CARSON BUSINESSES IN APPLYING FOR LOANS MADE AVAILABLE THROUGH THE CARES ACT, ESPECIALLY THE PAYCHECK PROTECTION PROGRAM ("PPP") LOANS AND ECONOMIC INJURY DISASTER LOANS ("EIDL"), AND TO ADMINISTER THE CITY'S CORONAVIRUS SMALL BUSINESS LENDING/GRANT PROGRAMS (CITY COUNCIL)

I. SUMMARY

This item is to provide an update on the activities involving a number of the City's Small Business lending program efforts and to consider Amendment No. 2 to the agreement with CCEDA for another \$75,000, and adding some additional scope in the contract such as assistance in an application to the U.S. Economic Development Administration (EDA) for funding to create a larger, more robust loan program with higher limits for larger

businesses in Carson, and to assist with the CDBG-funded grant programs.

On April 13, 2020, the Disaster Council approved a contract in a form acceptable to the City Attorney with the California Community Economic Development Association (“CCEDA”), a California non-profit organization, to quickly create and implement a focused business assistance program for Carson businesses, with a special emphasis on the COVID-19 response and accessing funding through federal programs offered through the Small Business Administration. The City Council approved the transfer of \$75,000 from Community Development to the Coronavirus Emergency Account and the contractor proceeded.

In terms of reaching out to businesses, the initial push was to call and email businesses on the City’s Business License list and make the services available. These services included a program of business technical assistance, assistance with applying for the two SBA lending programs, and the marketing and administration of the City’s Coronavirus Small Business Lending Program, which provides loans up to \$10,000 to Carson-based businesses during this period.

It was anticipated that the \$75,000 toward the contract would last just a few months given the pace and the scale CCEDA was asked to operate. Amendment No. 1, approved on July 7, increased the amount of the contract by an additional \$75,000.

II. RECOMMENDATION

TAKE the following actions:

1. RECEIVE AND FILE update on City’s Loan and Grant Program efforts.
2. APPROVE Amendment No. 2 to a contract with the California Community Economic Development Association (“CCEDA”), a California non-profit organization for the purpose of operating a Small Business Assistance Program Carson for retail and commercial businesses and non-profits.
3. AUTHORIZE the Mayor to execute the amendment, following approval as to form by the City Attorney.

III. ALTERNATIVES

TAKE any other action the Council deems appropriate.

IV. BACKGROUND

CCEDA Performance

Since April, CCEDA has maintained a website and a call center for Carson small business use; both generate daily traffic. The City provided CCEDA with a detailed list of business licenses for a variety of industries and prioritized them for outreach. CCEDA initially reached out to nonprofits, small retail, non-franchise restaurants, personal care, professional service, auto related businesses, larger food and restaurants (lower priority chain businesses: local franchisees), building supplies, oil and chemicals, logistics and manufacturing businesses.

It is important to note that the administration of the City's Loan Program was the secondary task in the original CCEDA contract, with the initial primary task being to provide assistance to Carson businesses in applying for the SBA loans that were available under the CARES Act, both the PPP and EIDL loan programs. CCEDA has assisted nearly 100 businesses through the SBA's PPP and EIDL loan processes and the total amount of loans facilitated by CCEDA, if all applicants are successful in receiving money through the SBA, is about \$6,310,000 (or 40 times the combined amount of the CCEDA contract so far).

Outreach

Starting May 2020, CCEDA began emailing businesses with an inquiry form informing them of the Carson Small Business Program, and then followed up with a confirmation email to each business that applied. For businesses that did not have an email, they called over 150 businesses to inform them about the program and directed them to the program's website.

On CCEDA's Facebook page, they have run paid ads weekly regarding the Carson Small Business Assistance Program. The ads were targeted to areas in Carson, reaching over 1,500 people weekly and over 50 post engagements (likes, shares, link clicks). Their website has had over 200 users and over 400 page views since the launch of the website with engagement coming from direct referrals to Carson.cceda.com.

Marketing emails began in May 2020 with business emails. Weekly emails are being sent to date to all Carson businesses that include grants, COVID-19 news updates, business resources, and COVID-19 related webinars to help Carson businesses. They also included any updates on SBA EIDL and PPP loans. They had an open email rate of 30%. CCEDA has also coordinated webinars for Carson businesses titled "Post Pandemic: Reinventing Your Business" and "PPP Loan Forgiveness" with over 100 Carson registrants.

CCEDA continued outreach during the summer with the initial push of more than 1,000 emails to small businesses. Use of social media and other outreach tools increased and will continue as the City and CCEDA make another push into the business community this fall. CCEDA posted a Carson Facebook ad that continues to reach out to businesses/people and produces a weekly small business e-newsletter that provides the latest in SBA news, grant opportunities from various corporations and information on other small business resources.

Lending

CCEDA has assisted at least 112 SBA loan applications since the beginning of the project, distributed 145 loan applications and assigned technical assistance to at least 125 businesses. Of the loans they have assisted with, \$2,300,000 was for EIDL and \$4,010,000 in PPP loans. As far as the total number of SBA loans made in Carson since the beginning of the pandemic, assisted by CCEDA or not, at least 1,079 businesses have received loans with nearly 900 receiving loans of \$150,000 or less. The total amount of SBA lending in the City likely has exceeded \$100,000,000 with \$33,259,000 of that being loans in the smaller category.

As far as the City's loan program, the City Council has a desire to provide as much assistance as possible, and the City and CCEDA try to assist every Carson business qualify for a City loan after a completed application has been submitted.

Per the contract and the City Loan Program guidelines, CCEDA is collecting residency data and employee information from applications. About half of the City's \$500,000 has been disbursed so far. The general descriptions of these businesses include:

1. Amusement company
2. Hair Salon (several)
3. Window cleaning company
4. Formal shop
5. Business selling university-branded merchandise
6. Graphics and printing companies (several)
7. Cargo company
8. Several auto body shops
9. Architecture/design firms (several)
10. Dance studio

11. Nail salon (several)
12. Steel importer
13. Dry cleaner
14. Cidery
15. Tire store
16. Other automotive repair
17. Building contractor
18. Insurance agencies (several)
19. Awards/trophy company
20. Quick serve restaurant

Processing time: Now that the application and underwriting processes are set up, CCEDA can now package/underwrite/close loans in less than 10 days. Then the City funds the loan, with that turnaround now only a few days once the City receives the approved loan package.

Implementation of Additional City Lending Programs

Since the adoption of the City’s Small Business Loan Program, the City has adopted other loan and grant programs to be available for businesses in Carson, too. These include two rounds of funding through CDBG and CDBG-CV (Cares Act), as well as considering application to the EDA for a separate loan program, and the use of a portion of the direct COVID assistance made through Cal OES for a loan program. Each funding source has slightly different requirements. A matrix showing the guidelines of the various programs is shown below.

| Matrix of City Loan/Grant Programs | | | | | |
|------------------------------------|-----------------|-----------|------------|-------------------|---------------|
| | Criteria | City | CDBG/Grant | EDA | CDBG-CV/Grant |
| 1 | Size of Loan/Gr | \$500,000 | \$193,236 | Up to \$2,000,000 | \$113,493 |

| | | | | | |
|----|--|-----------------------------|---|--------------------------|---|
| 2 | Maximum Amount of Assistance | \$10,000 | 0-1 Employees: \$5,000 2-50 Employees: \$10,000 | Tbd | 0-1 Employees: \$5,000 2-50 Employees: \$10,000 |
| 3 | Can funds be used for business use, i.e. rent, mortgage payments, operational costs, salaries and benefits, accounts payable, prior to the closure, physical improvements resulting from COVID-19? | Yes | Yes | Yes | Yes |
| 4 | Is job creation or retention required of the program? | Optional | No | Yes | No |
| 5 | Form of Assistance | Loan (possibly forgivable) | Grant | Loan | Grant |
| 6 | Trigger event for forgiveness | Retain employees for 1 year | N/A | N/A | N/A |
| 7 | Is the Program targeted to Low Income Areas? | No | No | Yes | No |
| 8 | Is there an alternative way of qualifying by Low Income Area? | N/A | N/A | Income certify employees | N/A |
| 9 | Is the "ability to repay" underwriting standard? | Yes | No | Yes | No |
| 10 | Is there a payment deferral? | 6 months | N/A | tbd | N/A |
| 11 | Is there a requirement that the business has not been adversely impacted by COVID-19? | Yes | Yes | Yes | Yes |
| 12 | Is there a prohibition on duplication of benefits? i.e. cannot also apply for other loans, other assistance? | No | Yes | Yes | Yes |

In the presentation by CCEDA to City Council on July 7, the Council expressed concerns about the loan criteria established for the primary City loan program, namely, the source of collateral for some of the loans. This arose from the request by CCEDA to applicants to use their automobile titles as collateral for loans where there were few, if any, business assets. The guidelines have now been modified so that no collateral is required for loans less than \$10,000. However, CCEDA may need to perform some additional due diligence to ensure borrower repayment/compliance.

Forgiveness: In response to the City Council's requests, staff and CCEDA have discussed a forgiveness element which can be introduced into the Carson Small Business Loan Program. The recommendation would be forgiveness after one year in business. If anybody wants to sell their business or incur further debt, thus requiring a UCC release, then the loan would need to be paid back. Otherwise, under same ownership, the loan would be forgiven. This change can all be implemented for borrowers who have already received loans with a loan amendment, and can be a feature of all new loans going forward. If we implement forgiveness, we need to determine under what conditions that would be and change the loan documents accordingly.

As the matrix above shows, there are now growing options for Carson businesses. Under Amendment No. 2, CCEDA will implement the CDBG program as well as be the single channel for all the loan programs. This is especially important for programs such as CDBG that have provisions against "duplication of benefits." In addition, based on City Council direction in July, we have adapted the programs to make loans and grants to businesses not yet served: to micro-entrepreneurs (like Uber or Lyft drivers, or Postmates or Grubhub delivery workers), those needing loans greater than \$10,000, and maybe even a more focused restaurant program with both technical assistance and capital. The City Council originally adopted the \$10,000 maximum amount because it was the same as the County's program, and it seemed fair to spread the assistance to a greater number of applicants rather than funding just a handful of larger loans. However, one or more of the other loan programs shown above - such as funded by an EDA grant or through CARES funding, could have higher loan limits in exchange for more rigorous underwriting criteria.

Non-City Lending Programs and Partnerships

Part of the attraction of hiring CCEDA to administer the City's Small Business Loan Program and to assist businesses through the SBA processes was their relationships with other community development lenders in LA County. One of the technical assistance consultants in the CCEDA contract is the Pacific Asian Consortium for Employment ("PACE"). PACE is interested in partnering with the City of Carson to commit a specific dollar amount of small business lending in Carson. They have a total loan pool of \$10 million.

PACE has a number of programs that reach a wide variety of business types:

- Mini-micro loans as small as \$500
- Micro loans from \$5,000 to \$50,000

- SBA Community Advantage loans from \$50,000 to \$150,000
- EDA loans of \$50,000 to \$500,000
- CDFI loans up to \$500,000

Community development financial institutions (“CDFIs”) are private financial institutions that are 100% dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream.

PACE specializes in lending within LA County, with a focus on the San Gabriel Valley, Downtown LA, and the Carson-Gardena-Lawndale area. While they have a variety of programs available for businesses, as shown above, they would prefer to tailor a program for Carson, in which the City could participate in the approval of loans (e.g. with a Loan Committee comprised of two City representatives, two Chamber representatives, and one or two lenders from local banks). Or, the City could take a more passive role and refer businesses to PACE. These loans would have a higher limit (say, \$50,000) than the City’s program,

Staff has also asked PACE to provide a proposal on another partnership where they would be the entity to provide the loan servicing for the City’s Small Business Loan Program, including making the loan disbursements to approved borrowers, sending the monthly loan payment requests, collecting payments from borrowers, and handling defaults and lien releases. This would be instead of the City’s Finance Department needing to do it. A Loan Servicing Agreement between the City and PACE would need to be developed and approved. We expect to receive the proposal from PACE in the next several weeks and will place it on a future Council agenda.

Next Steps -EDA Application

For the past several months, staff has worked with Townsend Public Affairs and CCEDA on developing an application for an EDA grant to fund a larger Small Business Loan Program. (Such a program is included in the matrix of City programs above.) A number of issues needed to be resolved to be able to submit a successful application, such as the requirement the program conform to the City’s (or County’s) Comprehensive Economic Development Strategy (CEDS), which had to be no more than a few years old. We have decided to use the County CEDS, which is in the final stages of formal adoption, and which contains initiatives around small business lending.

CCEDA helped facilitate a call with EDA representatives in late August; EDA recommended that City of Carson work with the three other existing EDA Revolving Loan Funds (RLFs) in LA County: PACE, Pacific Coast Regional (PCR) and LA County. As mentioned in the section above, PACE has already indicated they would like to partner with Carson but it cannot commit more than \$1 million to Carson businesses. PCR is similar and while the County just received \$10 million from the EDA, they have unincorporated areas and 87 other cities to support.

However, staff discussed on the call Carson's business lending needs with the EDA and we believe they are between \$5 and \$10 million and maybe even more. In preparation for an application by the City to the EDA, CCEDA will implement a survey of Carson businesses (1,000 to 2,000 mid- and small- sized businesses), asking about their access to capital needs. CCEDA will draft a set of questions and implement a "Survey Monkey" seeking to establish a specific list of businesses that have loan capital needs to address post COVID-19.

CCEDA Amendment No. 2

1. Add the administration of the City's CDBG-funded loan and grant programs to Task 4 of Exhibit B.
2. Increase the contract amount by another \$75,000.
3. Clarify that the term of the contract expires on June 30, 2021.

The original Agreement was entered into on May 7, 2020. The City Clerk's office books the expiration date as the original one year, which would be May 7, 2021, but to be consistent with most of the professional services agreements in the City, this would term out on June 30, 2021.

V. FISCAL IMPACT

There is sufficient funding in the Department budget to absorb this additional \$75,000 cost (Account No. 101-70-780-290-6004).

VI. EXHIBITS

1. Amendment No. 2 to a Contractual Services Agreement with CCEDA. (pgs. 11-23)
2. Original Contractual Services Agreement (pgs. 24-61)

3. Amendment No. 1 to a Contractual Services Agreement (pgs. 62-68)

1.

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