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Report to Mayor and City Council

Tuesday, May 17, 2022

Discussion

SUBJECT:

DISCUSS THE QUALIFICATION CRITERIA OF THE ARPA-FUNDED BUSINESS GRANT PROGRAM

I. SUMMARY

As part of its allocation of ARPA funding, in March 2022 the City Council directed Staff to develop a Small Business Grant Program to assist businesses still affected by the COVID-19 pandemic. This item is on the agenda for Staff to receive feedback from the Mayor and City Council on the eligibility criteria and other factors related to a proposed Small Business Grant Program. The staff report contains some discussion of different types of grant programs, how the City has conducted other grant and loan programs in the past, and other parameters staff needs to prepare the application and other supporting material for distribution to the business community. Staff wishes to receive direction on the goals and objectives of the City in launching the program, the program's competitiveness, the minimum and maximum grant sizes, the specific eligibility criteria for the program, and requirements of the program the City may impose on businesses.

II. RECOMMENDATION

PROVIDE direction to Staff on the parameters of the Small Business Grant Program.

III. ALTERNATIVES

TAKE another action the City Council deems appropriate.

IV. BACKGROUND

In April 2020, the City Council authorized a Small Business Lending Program to assist Carson businesses during the worst of the early lockdowns when many businesses were unable to operate because of State or County stay-at-home orders. While COVID-19 remains fundamentally a health crisis that the State and County's public health and healthcare infrastructure is engaged in combatting, the economic crisis due to business closures and stay-at-home orders followed closely behind during that early period.

Businesses across all industries struggled as their customers practiced social distancing and self-isolation. Many businesses are shuttered, complying with necessary State and local public health orders requiring non-essential businesses to close. With these closures and other economic disruptions caused by COVID-19, thousands of businesses and their employees faced ever-increasing uncertainty. In early 2020, waves of layoffs and furloughs occurred, largely in the service industries, and applications for Unemployment Insurance skyrocketed to historic levels. The hospitality and food service, retail and trade, and arts and entertainment sectors were identified as the most vulnerable during this crisis. Combined, these businesses provided close to one million jobs in Los Angeles County.

Experience shows that small business owners likely sustained the highest level of economic injury during this health crisis and will be the least likely to recover from sustained economic loss. This represented a significant threat to the City's economic wellbeing, as a significant percentage of businesses in Carson employ fewer than 20 workers. Micro-enterprises that employ fewer than nine employees faced severe and immediate liquidity issues, especially in the service sectors that were mandated to close, including restaurants, non-essential retailers, gyms and many entertainment venues. Without revenues coming in, the short-term outlook for employee retention for small businesses looked bleak as businesses struggled to make rent and utility payments just to keep their doors open. Decisive action was necessary to protect the City's small businesses and to preserve the small business corridors that are the economic engines of the community.

The City led the efforts to support the local economy by establishing a Carson COVID-19 Disaster Small Business Loan/Grant Program (Program) with an initial \$500,000 allocation from the General Fund. Access to resources was distributed as equitably as possible. Maximum loan size was originally \$10,000 and the City Council later increased it to \$30,000.

Applications were processed on a first-come, first-served basis. Priority in scoring was given to Carson-based businesses based on: (i) number of years operated in Carson; (ii) if the owner of the business is also a Carson resident; and (iii) the number of Carson residents employed by the business. With no competitive process, priorities were not used to select one business over another. The "ability to pay" was the underwriting standard in the loan program but not a factor in the grant programs.

Loan Forgiveness

At the March 2022 meeting during the discussion of the ARPA allocation, the City Council's discussed the forgiveness of loans made through the Carson Small Business Loan Program. Such forgiveness will require a formal action by the City Council and will create tax implications for the borrowers in the Program. A separate staff report and action will be presented to the City Council at a future meeting to effectuate the loan forgiveness element of the Program. At this point the loans have not yet been forgiven.

Implementation of Additional City Assistance Programs

After adopting of the City's Small Business Loan Program, the City created grant programs for businesses in Carson from two rounds of funding through CDBG and CDBG-CV (CARES Act) of \$193,236 plus \$113,493, respectively. The grants for micro businesses with no more than 1 employee were \$5,000 and for businesses up to 50 employees were \$10,000. In both the loan and grant programs, funds could be used for any use, i.e. utilities, rent, mortgage payments, operational costs (including salaries and benefits), accounts payable incurred prior to the closure, or physical improvements resulting from COVID.

Job creation or job retention were optional as part of the loan program but not required in the grant programs. Neither program required businesses to be located in low-income census tracts but both programs required that the business demonstrated that they had been adversely impacted by COVID-19. (These impacts are part of the scoring process in the sample program described below.)

Finally, because both the grant programs were funded by CDBG, the grants contain a prohibition on duplication of benefits (e.g. the business owner cannot also apply for SBA loans or other assistance for the same activity).

Grant Program Parameters

Below is the outline of a basic small business grant program with certain key policy decisions inserted. This is a sample program intended for the City Council to provide input at this stage into the shape of the program and not necessarily the program proposed by Staff, which is pending City Council input.

Sample Small Business Grant Program

1. The City of Carson has allocated \$1,000,000 to fund a **Small Business** COVID-19 Grant Program (Grant Program) which will be administered by the City of Carson.
 - Define Small Business. Should the program be restricted to micro enterprises (5 or fewer employees), small businesses as defined in the previous loan program (1 to 50 employees), or should the City expand the category to include businesses up to, say, 100 employees? Or should the definition of small business be determined

by revenue and not employees?

2. Proposed Deadline of 06/30/2023. All funds would be disbursed by this date, keeping in line with the ARPA deadline of full disbursement by 2025. If the City did multiple application rounds, it may have time for 2-3 rounds, or it could operate it on a continuous basis during the duration of the program.

- Should the grant program be operated on a “first come, first served” policy (like the previous loan program) or should there be competitive application rounds? The deadline for use of the funds under ARPA is 2025 - should the program remain open until then if all the funds are not expended quickly?

3. Proposed Size of the Grants: \$5,000 to \$25,000. Grants could be larger or smaller based on Council direction; larger grants would serve fewer businesses but could be more impactful and spend the money faster. Smaller grants may feel more like “one size fits all.”

- The size of the grant is driven to some degree by intent of the funds. Will there be requirements on what the monies can be used for?
- Who would monitor the expenditures? (Staff, a paid contractor, etc.)
- Should the businesses have an assessment performed to determine current need? (i.e. grant underwriting)
- Would there be a predetermined grant amount or case by case?

4. The Grant Program is created to provide flexible grant assistance to small Carson businesses who have experienced economic hardship due to the COVID-19 pandemic.

Business must be an Independently owned², for-profit businesses located in Carson that have been mandated by government action or decree to close or significantly alter their business activity due to COVID-19 are eligible to apply for and receive grant funds. Businesses that received a grant through any previous COVID-19 grant program can apply to receive additional funds; however, businesses that have not received previous grant funds will have priority. No business with more than 100 full-time equivalent employees is eligible for this program and those with 20 or fewer employees will have preference. Businesses must be open to the general public of all ages without restrictions.

- Businesses are required to indicate if they previously received a small business loan or grant for losses incurred due to the COVID-19 pandemic, from whom the grant was awarded, the amount of the award, and how much of the business's losses were covered by the grant. Businesses are required to state their number of full-time equivalent employees.
- Would how long the company has been in business in Carson be a consideration? (Note: such preferences are effective in competitive application rounds but don't make much difference in "first come, first served" applications.)
- Is the goal of the program to save jobs? Would there be requirements of the grant to at least maintain current employment? Would it be a default of the grant if a business reduced their workforce after receiving the grant? Would they be required to pay back the City in the event of default?
- Does the City Council want to limit the eligibility of businesses that benefited from previous participation in its grant- or loan programs? (The amount of previous City assistance would offset the previous COVID losses in determining eligibility.) If applications are in competitive rounds, would there be a factor to consider new applications sooner than previous recipients?
- Should bonus points be awarded for businesses belonging to underserved small business groups? "Underserved small business groups" includes women, minorities (people of color), or veteran-owned businesses where the majority (at least 51 percent) of the business is owned and run on a daily basis by said group(s).

²In the City's previous COVID Small Business Loan Program, eligibility was expanded to include locally-owned franchised businesses such as Subway Sandwiches. These would be included in Tier 3 businesses below.

5. Business Qualification Criteria. Applicants must meet one of the qualifications in the three tiers below to be considered for these grant funds.

a. Tier 1

- i. Independently owned businesses located in Carson that opened prior to March 15, 2020
- ii. Have been mandated by government action or decree to **close or significantly alter their business activity due to COVID-19.**
- iii. Business license documentation is required.

b. Tier 2

- i. Independently owned businesses located in Carson that opened after March 15, 2020

- ii. Have been mandated by government action or decree to **close or significantly alter their business activity due to COVID - 19.**
- iii. Business license documentation is required.

OR

c. Tier 1

- i. Independently owned businesses located in Carson
- ii. Demonstrate that their businesses have been significantly affected by government action or decree but have **not been ordered to alter business practices** other than requirements related to reducing occupancy and observing social distancing.
- iii. Business license documentation is required.

d. Tier 2

- i. Independently owned businesses located in Carson
- ii. Demonstrate that their businesses **have been significantly affected by government action or decree** and can demonstrate that the use of the funds will assist them with recovering from the impacts of the COVID-19 Pandemic.
- iii. Business license documentation is required.

e. Tier 3

- i. Businesses that are located in Carson
- ii. Home-based or are part of a **national and/or regional franchise with local ownership and have been mandated by government action or decree to close or significantly alter their business** activity due to COVID-19.
- iii. Business license documentation is required.

6. Award Determination Scoring Matrix. Using the criteria from the previous section, the City could develop a scoring matrix that assigns a score based on the type of business in the City and how affected it was by COVID-19, with bonus points for other key

factors.

- a. Tier 1 - 10 points
- b. Tier 2 - 6 points
- c. Tier 3 - 3 points
- d. 50%+ revenue decline - 15 points
- e. 41-50% revenue decline - 10 points
- f. 31-40% revenue decline - 8 points
- g. 21-30% revenue decline - 5 points
- h. 11-20% revenue decline - 3 points
- i. 1-10% revenue decline - 1 point
- j. Meets diversity criteria - 2 points
- k. Viable recovery plan - 1 Point

7. Grant Amounts Based on Points Awarded. Based on the point system in the previous section, grants ranging from \$5,000 to \$25,000 could be factored using the grant application, applicants' proposed use of grant funds, business tiers, and financial impact reports.

- a. 3-5 Points - \$ 5,000
- b. 6-10 Points - \$10,000
- c. 11-15 Points - \$15,000
- d. 16-20 Points - \$20,000
- e. 21-25 Points - \$25,000
- f. Grant funds will be awarded to for profit businesses who qualify for funding based on select criteria and can demonstrate financial loss through a Profit and Loss Statement or can document how their proposed prospective activities will assist them in recovering from the impacts of the COVID-19 Pandemic.

8. Eligibility and technical assistance. Staffing the Small Business Loan Program in order to make professional assessments of loan quality was one of the biggest challenges of that program, especially since more time was spent by the loan counselors on technical assistance than on underwriting. A grant program is somewhat simpler but the determination of eligibility for the program and scoring applications will still be challenging for staff to do if there is a lot of activity in the program. How will the City establish and confirm eligibility?
- a. Should the City contract with another non-profit loan/grant underwriter like previously, or use City staff?
 - b. In addition to underwriting, should the City use another entity such as the Small Business Development Center, Cal State Dominguez Hills, or the LAEDC to give businesses access to technical training or assistance in running their business in areas such as accounting, marketing, leasing, etc.?
 - c. Should these workshops be mandatory to receive the grant assistance?
 - d. In addition to the eligibility criteria listed above, would restaurants receive extra consideration in the application process? How? Would they be eligible for greater funding? Would the COVID-related loss threshold for qualification be lower? Other?

V. FISCAL IMPACT

The City pledged \$765,000 toward the Small Business Lending Program and expressed a desire to forgive the previous round of small business loans. The combination of the cost of the previous loan program administrator and the loans made equals this amount. City Council also committed \$1,000,000 toward a Small Business Grant Program, which is discussed in this staff report. If the Council forgives the previous small business loans, part of the \$765,000 could be repurposed into the Grant Program to be able to make more small business grants at the Council's direction.

VI. EXHIBITS

None.

Prepared by: John Raymond, Assistant City Manager