



## Legislation Text

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### Report to Mayor and City Council

Tuesday, April 21, 2020

Discussion

#### SUBJECT:

**CONSIDER RESOLUTION NO. 20-073, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON AMENDING THE 2019-2020 BUDGET IN THE AMOUNT OF \$500,000 FOR THE PURPOSE OF ESTABLISHING THE CARSON COVID-19 DISASTER SMALL BUSINESS LOAN/GRANT PROGRAM (CITY COUNCIL)**

#### I. SUMMARY

On April 13, 2020, the Disaster Council approved a contract 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 commercial and retail businesses and non-profit organizations, with a special emphasis on the COVID-19 response and accessing funding through state and federal programs such as those offered through the Small Business Administration.

At the same meeting, Mayor Robles request staff to bring an item to the City Council to consider the establishment of a \$500,000 Small Business Loan/Grant program. Such an action, as the appropriation of new funds from the City's Fund Balance, requires the approval of a budget resolution by the City Council. This action would also authorize the City Manager to take all actions necessary including, but not limited to, facilitating the transfer of funds to establish the Carson COVID-19 Disaster Small Business Loan/Grant Program (Program); within the umbrella of the Program, authorize the City Manager to seek additional Federal and State funding to develop and implement the Program to assist small businesses and non-profits in the City of Carson; to develop appropriate guidelines and underwriting standards designed to address the needs of impacted entities; and to take any related actions to establish or implement the Program, including entering into agreements or necessary amendments with CCEDA and other community-based non-profits, banks, foundations, community development financial institutions and philanthropic organizations that have demonstrated expertise and capacity to assist the City with the implementation of the Program.

#### II. RECOMMENDATION

1. APPROVE Resolution No. 20-073, A RESOLUTION OF THE CITY COUNCIL OF THE

CITY OF CARSON AMENDING THE 2019-2020 BUDGET IN THE AMOUNT OF \$500,000 FOR THE PURPOSE OF ESTABLISHING THE CARSON COVID-19 DISASTER SMALL BUSINESS AND NON-PROFIT LENDING PROGRAM.

2. DIRECT the City Manager, to develop a multi-tiered programmatic model for the Program including how to structure it as a revolving loan program and other program criteria.
3. AUTHORIZE the City Manager to work with external partners, including but not limited to financial institutions, foundations, and philanthropic organizations, to establish partnerships that will increase the effectiveness of the Program and grow the amount of capital contributions into the fund.
4. AUTHORIZE the City Manager to enter into any agreements with CCEDA and other third-parties, including but not limited to consultants, financial institutions, and nonprofits, necessary to design, establish, implement and administer the Program.

### **III. ALTERNATIVES**

TAKE another action the Council deems appropriate.

### **IV. BACKGROUND**

The COVID-19 pandemic has created a dual assault on the wellbeing of the City of Carson and its citizens and businesses. While COVID-19 is fundamentally a health crisis that the State and County's entire public health and healthcare infrastructure is engaged in combatting, the economic crisis due to business closures and stay-at-home orders follows closely behind.

Businesses across all industries are struggling as their customers practice social distancing and self-isolation. Many businesses are shuttered, dutifully 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 face ever-increasing uncertainty. Over the past several weeks, waves of layoffs and furloughs have occurred, largely in the service industries, and applications for Unemployment Insurance have skyrocketed to historic levels. The hospitality and food service, retail and trade, and arts and entertainment sectors have been identified as the most vulnerable during this crisis. Combined, these businesses provide close to one million jobs in Los Angeles County.

Experience shows that the small business owner will likely sustain the highest level of

economic injury during this health crisis and will be the least likely to recover from sustained economic loss. This represents 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 are facing severe and immediate liquidity issues, especially in the service sectors that have been 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 looks bleak as businesses struggle to make rent and utility payments just to keep their doors open. The longer the business disruption, the worse the economic situation will become. Decisive action is necessary to protect the City's small businesses and to preserve the small business corridors that are the economic engines of the community.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law. The CARES Act will inject badly needed capital into the economy in the form of loans to small businesses. It is believed that it would take some time for the U.S. Small Business Administration to deploy this capital, and the unprecedented need for these programs has overwhelmed the banking system and the SBA. While funds are beginning to be released, as of April 16 the Administration announced that the entire \$349 billion appropriation to the SBA for the emergency lending programs has been depleted. Businesses not currently in the application pipeline now must wait for the next round of COVID-19 Stimulus funding.

City businesses are already suffering and require immediate assistance. It is critical that the City work with private capital to support loan products that will bridge small businesses until federal disaster relief becomes available. By separate action, the Disaster Council approved a contract with the CCEDA, a Los Angeles-based statewide non-profit that specializes in assistance to community-oriented non-profits as well as small businesses, especially in communities of color, which face additional challenges.

The City is aware through past experiences that federal disaster assistance will not help everyone. Immigrant-owned businesses and businesses that exist outside of the formal economy, which collectively contribute so much to the City's culture and economic prosperity, are perhaps even more at risk. The City must come to the aid of these businesses and entrepreneurs, or risk economic collapse in the communities they live in and serve.

Many in the region have begun to marshal funds to support critical activities and small businesses. But the City can and should lead the efforts to support the local economy by establishing a Carson COVID-19 Disaster Small Business Loan/Grant Program (Program). The Program should reflect the values of the City, including its deep and committed support for small businesses and the nonprofit organizations and institutions that extend the City's infrastructure in the service of the City's shared clients. The Program must be inclusive in those it helps, and access to resources must be equitably distributed throughout the City's many diverse and disparate communities. The City must also call on the support of the financial institutions which work closely with small businesses, and the philanthropic organizations that are committed to the wellbeing of the region. The Program should be designed as a public-private partnership, with City funds available to leverage

additional private support to preserve the economic wellbeing of our communities.

### Programmatic Model

The Program should, among other things, include:

- Bridge funding for small businesses likely to receive federal disaster assistance;
- Low-cost working capital loans to maintain small businesses who may not qualify for federal disaster assistance;
- Working capital loans to nonprofit organizations and small businesses who are providing essential services, or transitioning from an existing model to provide essential services, that directly address the health or economic impacts of COVID-19; and
- Cash grants to micro entrepreneurs and other highly vulnerable populations who will not qualify for federal disaster relief.

As with other Bridge Loan/Grant programs, this Program will have a limit of \$10,000 per business. Businesses will need to demonstrate proof of economic hardship; proof that they had a physical location in the City of Carson prior to December 1, 2019, and have between 2 and 50 employees. A business may use the funds for utilities, rent, mortgage payments, operational costs (including salaries and benefits), or accounts payable incurred prior to the closure.

The programmatic model should incorporate community development financial institutions as intermediaries, other non-bank lenders, and other nonprofit partners to market available relief and engage communities in an inclusive, equitable, and culturally and linguistically competent manner.

Applications will open once the program guidelines are in place and will be processed on a first-come, first-served basis until the first 50 are received. Priority in scoring, however, will be 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.

### City Council Action

This action would appropriate \$500,000 from the City's Fund Balance to establish the program, but the City would also seek to supplement the program's funding with CDBG COVID-19 Stimulus Funds, and even private funds if they become available. At the County level, the Los Angeles County Development Authority (LACDA) is exploring various opportunities to provide programs and services to support the resiliency of businesses across Los Angeles County. One idea they are considering among the cities for whom it administers Community Development Block Grant (CDBG) is to utilize CDBG funds to provide loans and grants to low- and moderate-income owners of microenterprise businesses. A microenterprise business is a small business that has five (5) or fewer employees. These funds could be used for short-term working capital for operating

expenses to retain jobs and support service delivery.

The City is a HUD Entitlement Community and receives approximately \$850,000 in CDBG funds on an annual basis. These funds are currently programmed to fund some community services and capital project improvements, mostly the Neighborhood Pride Program ("NPP"), which provides necessary major home repairs for low-income seniors in Carson and is still considered an essential activity under the Governor's Executive Order. The City could look at unspent funds that would be available to repurpose to fund these loans. Loans would be subject to the interest rates and repayment terms established by CDBG, and interest earned is required to be allocated to future CDBG-eligible programs. Grants are obviously not repaid to the City. CDBG loans are often issued bearing no interest. As the loan portion would eventually be repaid, the City would have some risk of having to replace funds if borrowers default.

## **V. FISCAL IMPACT**

This program would appropriate \$500,000 from the City's General Fund for a small business loan/grant program. A portion of this amount will be repaid over the next three years, depending on the criteria developed that would make any of the loans "forgivable," converting them to grants.

## **VI. EXHIBITS**

1. Resolution No. 20-073 (pgs. 6-7)

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