

R-39

April 14, 2020

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute all necessary documents to amend the U.S. Economic Development Administration (EDA) Revolving Loan Fund, to create the Long Beach Emergency Microenterprise Loan Program to assist local micro businesses impacted by the COVID-19 pandemic during the emergency declaration period. (Citywide)

DISCUSSION

Consistent with goals of the 10-Year Blueprint for Economic Development, the City of Long Beach (City) operates several small business loan programs to help local small businesses at different stages of development to access the capital needed to start and grow their business in Long Beach. These City-run microloan programs are needed because many very small businesses are unable to meet the credit standards required to receive loans or lines of credit from commercial banks—particularly during economic downturns—and are considered high-risk by for-profit lenders.

Since 2001, the City has used funds from the U.S. Economic Development Administration (EDA) plus local matching funds to grow its Revolving Loan Fund (RLF) to assist local businesses in expanding and creating or retaining jobs. To date, the City has provided local small businesses with more than \$5 million in loans resulting in the creation or retention of over 300 new jobs. To provide oversight of the program, the Loan Committee of the Economic Development Commission is responsible for reviewing and approving every application that receives funding. City Council last approved modifications to the EDA local RLF Administrative Plan (RLF Plan) in April 2015, which governs the administration of the RLF.

Given City Council direction to explore ways to provide more emergency loan assistance to local small businesses impacted by the COVID-19 emergency, staff have been working with the EDA and other partners to make its current loan programs more accessible, flexible, and responsive during this emergency period. The purpose of this recommendation is to request City Council approval to modify the current RLF Plan, to reach more small businesses with emergency assistance during the COVID-19 emergency.

As a result, EDA has agreed to modify the City's RLF Plan during this emergency period to create a Long Beach Emergency Microenterprise Loan Program (Program) using the remaining RLF fund balance of approximately \$800,000. The Program will provide emergency loans up to \$10,000 to local businesses including nonprofits. The purpose of the Program is to provide accessible, timely, and sufficient financial relief to small business that are most impacted by a sudden downturn caused by an unforeseen emergency outside their control. This modified Program may help businesses to stay afloat during times of economic hardship.

It is important for the City Council to note that the total RLF balance may be exhausted during this emergency period and may not have sufficient funds to revert back to its original RLF Plan when the emergency concludes. Although the underwriting criteria will remain the same and still require financial documentation from each borrower to assess the viability of repayment, the EDA anticipates a higher rate of default for the Program due to the unknown long-term economic impacts of the COVID-19 emergency. To mitigate defaults, borrowers will be required to receive assistance with the application and repayment process from expert business advisors provided for free through the local Small Business Development Center (SBDC).

The modified Program includes the following general terms:

- Eligible businesses: Microbusinesses (5 or fewer employees)
- Loan Amount: \$2,500 to \$10,000
- Interest Rate: 2.44 percent
- Term: 5 to-7 years, with 9 months payment deferment
- Loan Fees: \$0
- Uses of funds: Working capital (i.e., payroll, equipment, inventory, rent)

This matter was reviewed by Deputy City Attorney Richard F. Anthony on April 2, 2020 and by Budget Management Officer Rhutu Amin Gharib on April 3, 2020.

TIMING CONSIDERATIONS

The EDA approved the modification request on March 19, 2020. City Council approval is requested on April 14, 2020, to allow for staff to make the Program immediately available to local small businesses impacted by COVID-19.

FISCAL IMPACT

The remaining balance of approximately \$800,000 in the RLF Plan will be used to underwrite the emergency loans up to \$10,000 to local businesses including nonprofits through this emergency period. Although the underwriting criteria will remain the same and still require financial documentation from each borrower to assess the viability of repayment, the EDA anticipates a higher rate of default for the Program due to the unknown long-term economic impacts of the COVID-19 emergency, which may result in higher loan losses to the Business Assistance Fund and may not have sufficient funds to revert back to its original RLF Plan. Sufficient appropriations are budgeted in the Business Assistance Fund Group in the Economic Development Department. This recommendation will increase the volume of loans issued, which may redirect staff from other responsibilities. This work is consistent with existing City Council priorities. This recommendation may help affected microbusinesses retain local jobs during the COVID-19 pandemic, but the number is not known.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN KEISLER
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:



THOMAS B. MODICA
ACTING CITY MANAGER