



CITY OF LONG BEACH

DEPARTMENT OF DEVELOPMENT SERVICES

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October 1, 2013

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach

California

RECOMMENDATION:

Authorize the City Manager to execute any and all documents necessary to enter into a new two-year agreement with Grow America Fund, Inc., with the option to extend the agreement for one additional two-year term at the discretion of the City Manager, for the purpose of continuing various business loan programs administered by Grow America Fund, Inc., and to promote the City's business assistance loan programs. (Citywide)

DISCUSSION

On May 20, 1997, the City Council authorized the City Manager to execute an agreement with Grow America Fund, Inc., for the purpose of establishing a business loan program known as the Grow Long Beach Fund. The program became operational on June 1, 1997. The National Development Council is a nationwide, private non-profit corporation designated as a Small Business Lender and is qualified to serve as a Small Business Administration (SBA) 7(a) lender. Grow America Fund is operated as a subsidiary of National Development Council.

Continued City participation in the Grow America Fund offers Long Beach businesses access to the SBA 7(a) loan program. City funds are leveraged four to one by Grow America Fund dollars, through secondary market sale of the SBA-guaranteed portion of each loan. The SBA guarantees a portion of each loan, usually 75 percent. Grow America Fund sells the guaranteed portion to investors. The sale proceeds are then used to make more loans. The remaining 25 percent of the loan is retained by Grow America Fund and serviced on behalf of the City. This arrangement leverages the City's Community Development Block Grant (CDBG) funds and reduces risk in each loan. Since 1997, the City has deposited a total of \$1,150,000 in the Grow America Fund which has produced 23 loans totaling \$7,199,800 to Long Beach businesses. Currently, funds available for lending under the program total \$3,646,661.

Since inception, the City has utilized CDBG funds as leverage for the Grow America Fund. As such, businesses receiving a CDBG-funded loan must provide a benefit to a low- to moderate-income area or create low- to moderate-income jobs. The current benefit ratio is that one (1) net new job must be created for every \$35,000 in loan proceeds. Staff in the Neighborhood Services Bureau monitors compliance.

During the term of the agreement, Grow America Fund personnel will work with City staff to increase marketing efforts to promote business assistance loan programs to new or expanding Long Beach businesses. The goal of the program is to increase the Long Beach loan portfolio from the current \$1.7 million to over \$5 million within two years.

Under the existing agreement, National Development Council receives a fee of \$46,000 per year. In addition, if the Grow Long Beach Fund portfolio is terminated, National Development Council is entitled to a two and one-half percent Close-out Portfolio Management Fee and payment of all past due Portfolio Fee income receivable from January 1, 2006 to the date of final portfolio liquidation (currently \$453,066), plus Performance Compensation of \$162,500, for a total of \$615,566.

The proposed new agreement will modify fee provisions in favor of the City. National Development Council will receive a fee of \$46,000 per year for two years. During the two-year time frame, National Development Council/Grow America Fund will work to increase the portfolio size from \$1.7 million to \$5 million. Upon reaching the \$5 million target, and for each year that the target is maintained, National Development Council will waive one-fifth of the performance compensation due under the existing agreement. With a \$5 million portfolio size, past due Portfolio Fee income receivable can be partly repaid from portfolio income each year thereby maximizing the amount of City capital, which would be returned in the event of program termination. If the program is subsequently terminated, National Development Council will be paid a two and one-half percent Close-out Portfolio Management Fee, payment of any remaining Portfolio Fee Income Receivable, and Performance Compensation net of any amounts waived as described above.

This matter was reviewed by Deputy City Attorney Richard Anthony on September 4, 2013, and by Budget Management Officer Victoria Bell on August 23, 2013.

TIMING CONSIDERATIONS

City Council action on this matter is requested on October 1, 2013, in order that a new agreement may be executed with the National Development Council.

FISCAL IMPACT

The NDC annual fee of \$46,000 is budgeted in the General Fund (GP 100) in the Department of Development Services (DV). The number of jobs created will depend on the amount of funded loans. Based on CDBG requirements (one job for every \$35,000 loaned) and assuming all of the existing funds available for lending are exhausted, 104 jobs would be created.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


AMY J. BODEK, AICP
DIRECTOR OF DEVELOPMENT SERVICES

APPROVED:


PATRICK H. WEST
CITY MANAGER