



# Monterey County

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## Board Report

Legistar File Number: 16-296

March 08, 2016

Introduced: 2/29/2016

Current Status: Consent Agenda

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Matter Type: General Agenda Item

- a. Approve and authorize an increase in appropriations of \$291,817.90 for the FY 2015-16 Economic Development Department's Revolving Loan Fund, Fund 011 Appropriations Unit DEO020, Unit 8044, financed by an operating transfer of \$291,817.90 from the Unassigned Fund Balance, for the purpose of enhancing small business lending (requires 4/5ths vote);
- b. Authorize the Auditor-Controller to amend the FY 2015-16 Adopted Budget for Fund 011, Appropriations Unit DEO020, Unit 8044 by increasing appropriations in the amount of \$291,817.90, using Unassigned Fund Balance as the financing source, for the purpose of enhancing small business lending (requires 4/5ths vote);
- c. Authorize the Director of Economic Development to immediately transfer \$150,620.37 of this amount from the amended budget to the County Small Business Revolving Loan Fund (SBRLF) lending accounts, thereby accounting for SBRLF capital funds previously used for administrative expenses and increasing funds available for small business lending;
- d. Authorize the Director of Economic Development to transfer \$141,197.53 of this amount from the amended budget to the County's SBRLF lending accounts, upon receipt of the U.S. Department of Commerce, Economic Development Administration's approval to replace State Community Development Block Grant (CDBG) funds in the SBRLF, thereby making loans more available and attractive to county businesses; and
- e. Authorize the Director of the Economic Development Department to send a letter to the U.S. Department of Commerce, Economic Development Administration regarding these transfers and the administration of small business lending funds.

### **RECOMMENDATION:**

It is recommended that the Board of Supervisors:

- a. Approve and authorize an increase in appropriations of \$291,817.90 for the FY 2015-16 Economic Development Department's Revolving Loan Fund, Fund 011 Appropriations Unit DEO020, Unit 8044, financed by an operating transfer of \$291,817.90 from the Unassigned Fund Balance, for the purpose of enhancing small business lending (requires 4/5ths vote); and
- b. Authorize the Auditor-Controller to amend the FY 2015-16 Adopted Budget for Fund 011, Appropriations Unit DEO020, Unit 8044 by increasing appropriations in the amount of \$291,817.90, using Unassigned Fund Balance as the financing source, for the purpose of enhancing small business lending (requires 4/5ths vote); and
- c. Authorize the Director of Economic Development to immediately transfer \$150,620.37 of this amount from the amended budget to the County Small Business Revolving Loan Fund (SBRLF) lending accounts, thereby accounting for SBRLF capital funds previously used for administrative expenses and increasing funds available for small business lending; and
- d. Authorize the Director of Economic Development to transfer \$141,197.53 of this amount from the amended budget to the County's SBRLF lending accounts, upon

- receipt of the U.S. Department of Commerce, Economic Development Administration's approval to replace State Community Development Block Grant (CDBG) funds in the SBRLF, thereby making loans more available and attractive to county businesses; and
- e. Authorize the Director of the Economic Development Department to send a letter to the U.S. Department of Commerce, Economic Development Administration regarding these transfers and the administration of small business lending funds.

**SUMMARY:**

The County of Monterey has operated a Small Business Revolving Loan Fund (SBRLF) since 1989. The SBRLF was capitalized using a variety of Federal, State and local funds. Through review of SBRLF operations and financial records, staff identified issues with SBRLF administration, most of which have been addressed. In order to complete resolution of all outstanding issues, staff is recommending that \$291,817.90 be transferred from unassigned fund balance to Fund 011 (Economic Development). This will be used to increase the amount of funds available for business lending as needed to comply with SBRLF requirements, and will eliminate conflicts in different program requirements so that SBRLF funds are more readily available for loans to small businesses.

**DISCUSSION:**

Since 1989, the County has operated a Small Business Revolving Loan Fund (SBRLF) to stimulate business creation and expansion. Between 1989 and 1997, the County used federal, state and local funds to capitalize the SBRLF with \$2,244,805.

In 2012, a new County staff member was assigned responsibility for managing the SBRLF. As part of the transition, staff conducted an internal review of the SBRLF portfolios; this research found that between approximately 2005 and 2012 the County had used \$150,620.37 in RLF Capital (which consists of repaid principal on loans) to pay for management costs of the SBRLF, although RLF capital is not eligible for this expense. Rather, management costs, such as those paid to a vendor for program administration, are to be paid from payments of loan fees and loan interest. These RLF capital expenditures were incurred pursuant to the terms of the County's contract with California Coastal Rural Development Corporation (CCRDC) for program administration. This situation corrected in January 2013 when the contract with CCRDC was amended to limit the County's liability for payment of program administrator services to interest and fee income collected from SBRLF loans and accounts, which is allowable to fund administrative expenses.

In order to resolve this issue, EDA has requested an explanatory letter from the County and either a deposit slip or bank statement documenting that the amount in question has been deposited to the capital portion of the SBRLF. It is recommended that the Board authorize the Director of the Economic Department to send the attached letter and to authorize the requested budget and appropriations changes and transfers in order to make this deposit.

The requested budget and appropriations changes would also be used to address issues created by use of State Community Development Block Grants (CDBG) funds as matching local funds. When the County approached EDA to capitalize the SBRLF in 1989, the County was required to provide approximately 38% of the original capital as matching funds. The largest source used by the County for matching local funds was state CDBG grants.

At the time the SBRLF was capitalized this approach made sense as it minimized the County's out-of-pocket costs. However, experience has shown that even though CDBG and EDA funds can both be used for small business lending, the program requirements attendant to each are incompatible. For example, CDBG requirements preclude the County from lending in Salinas, Monterey, and Seaside, which are the County's largest markets for businesses that could benefit from these loans. Similarly, a CDBG requirement that borrowers fill jobs created by loan funds with individuals with specified income levels discourages businesses from submitting loan applications.

Because of CDBG restrictions, the County currently has approximately \$470,476.25 in CDBG funds in the SBRLF that cannot effectively be used for small business lending. Staff recommends that the Board authorize the requested transfer to "buy out" CDBG funds from the SBRLF as a source of matching local funds. This would enhance the County's ability to make small business loans by removing CDBG program restrictions, as explained above. It would also enable the County to use these CDBG funds for any eligible CDBG activity, to the County's benefit. For example, the CDBG funds in question can be transferred to Urban County and thereby utilized for eligible CDBG activities such as ADA improvements to County facilities.

It is anticipated that only approximately \$141,197.53 is required to "buy out" the sum of \$470,476.25 in CDBG funds in the SBRLF. This occurs for two reasons: EDA has indicated that it is supportive of removal of CDBG funds from the SBRLF. To facilitate the County's ability to implement this change, EDA has indicated that it will lower the County's required SBRLF contribution of local match funds from the current rate of approximately 38% to a more favorable rate of 20%. The county also has local funds from other, non-CDBG sources that it can apply to the CDBG funds buy-out. Based on the assumption that EDA, in fact, formally adjusts the County's required local match downward, a deposit of approximately \$141,197.53 will enable the County to remove CDBG funds from the SBRLF. As stated, this will enable use of CDBG funds for other beneficial uses; it will also remove CDBG program restrictions that make SBRLF loans untenable, or completely unavailable, to potential borrowers, and will thus enhance the County's ability to make small business loans and grow the local economy.

Should EDA fail to lower the County's local funds match requirement, or should it lower it less than EDA has indicated, more funds may be required to achieve these beneficial results.

**OTHER AGENCY INVOLVEMENT:**

The Board of Supervisors' Budget Committee has reviewed and endorsed this recommendation. County Counsel has reviewed this report and the letter from the County to EDA.

**FINANCING:**

This report would increase appropriations in the Economic Development Department's Revolving Loan Fund 011, Appropriation Unit DEO020, Unit 8044 by \$291,817.90. Funding this increase will reduce the general fund's Unassigned Fund Balance by \$291,817.90.

Prepared by:



Darby Marshall, RHO Project Analyst II, Ext. 5391

Approved by:



David L. Spaur, CEcD, EDFP, Economic Development Director, Ext. 5387

Sandra Henderson  
on behalf of Dave Spaur.

Attachments:

Letter regarding SBRLF administration to EDA

(Attachments are on file with the Clerk of the Board)