



Board Report

File #: 20-681, **Version:** 1

- a. Authorize the Auditor-Controller to increase revenue and appropriations in the Economic Development Fund (Fund 011 - Department 1050 - Unit 8516 - Appropriations Code CAO040) to recognize the investment of \$1,760,000 by the U.S. Department of Commerce, Economic Development Administration (EDA) in the County's Small Business Revolving Loan Fund (SBRLF) (4/5th vote required).
- b. Authorize the Housing Program Manager or their Designee to sign the Financial Assistance Award grant from the U.S. Department of Commerce, EDA and any other documents and certifications that may be required to comply with the grant terms and conditions;
- c. Approve changes to the SBRLF Administrative Manual to make the program more responsive to the current needs of the business community; and,
- d. Certify that the SBRLF is being operated consistent with the EDA approved Administrative Plan.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Authorize the Auditor-Controller to increase revenue and appropriations in the Economic Development Fund (Fund 011 - Department 1050 - Unit 8516 - Appropriations Code CAO040) to recognize the investment of \$1,760,000 by the U.S. Department of Commerce, Economic Development Administration (EDA) in the County's Small Business Revolving Loan Fund (SBRLF);
- b. Authorize the Housing Program Manager or their Designee to sign the Financial Assistance Award grant from the U.S. Department of Commerce, EDA, and any other documents and certifications that may be required to comply with the grant terms and conditions;
- c. Approve changes to the SBRLF Administrative Manual to make the program more responsive to the current needs of the business community; and
- d. Certify that the SBRLF is being operated consistent with the EDA approved Administrative Plan.

SUMMARY:

The County of Monterey has managed an SBRLF since 1989. The SBRLF is available to assist businesses throughout the County. On May 8, 2020, EDA invited the County to apply for additional federal funding to recapitalize the SBRLF and make additional amendments to its Administrative Plan that will enable the program to be more responsive to local small business financing requirements during the current public health crisis.

DISCUSSION:

Since the County funded the first SBRLF loan in October 1990. The loan pool was capitalized with an investment by the County of \$383,301 and EDA grants totaling \$1,533,205. The original capital pool has revolved 5.5 times since 1990 and resulted in loans totaling nearly \$10.6 million. The County's investment has leveraged public (Small Business Administration) and private investment of more than \$19 million in these businesses and to the creation or retention of almost 1,200 full-time equivalent jobs in Monterey County.

On April 8, 2020, the Board of Supervisors, recognizing the need for additional financial assistance for small businesses, approved amendments to the existing SBRLF Administrative Plan to make it more responsive to the anticipated needs of the business community. Since the Board's action, the County has approved 18 new loans totaling \$403,000, supporting the retention of 77.5 full time equivalent jobs. The SBLF has approximately

\$258,000 available to lend.

On July 23, 2020, the EDA notified the County that it had been awarded a non-competitive CARES Act grant to recapitalize the County's SBRLF. The County received \$1,600,000 to recapitalize the SBRLF and an additional \$160,000 to administer the SBRLF. The grant does not require a local match, unless the cost to manage the grant exceeds the \$160,000. All grant funds must be expended by July 23, 2022.

To maximize these funds, EDA has formally waived some regulatory requirements that normally apply to RLF grants. These actions temporarily eliminated the need for private investment (private lending activity or owner equity) to match the SBRLF investment; eliminated the minimum interest rate charged; and waived the requirement for the County to invest in the RLF lending pool. The County began taking advantage of these opportunities when it amended the SFRLF Administrative Plan on April 8, 2020. The County is continuing to work with California Coastal Rural Development Corporation and EDA to ensure that the SBRLF is realigned to be most beneficial to the small business community during the current public health crisis. To further maximize the impact of the new capital, County staff and its Program Administrator are also recommending several additional changes to the Administrative Plan. These changes are shown in Attachment 1.

In 2016, EDA approved the County's SBRLF Administrative Plan. The Board of Supervisors must annually certify that the SBRLF is being operated consistent with the Administrative Plan. The County continues to operate the SBRLF consistent with the Administrative Plan to the extent possible. There are two areas that have challenged the County's ability to meet the Administrative Plan's objectives and EDA requirements. The first challenge has been the SBRLF's relatively high idle cash percentage. This is partially a function of EDA requirements, which stipulate that the SBRLF cannot compete with conventional sources of lending. Historically, this has meant that SBRLF applicants needed to be turned down for a loan by one or more conventional lenders and that the lender would refer the applicant to the SBRLF. Without a steady stream of bank referrals and motivated applicants, the SBRLF has experienced difficulty identifying credit worthy borrowers and led to the SBRLF having excess capital available to lend.

For better or worse, the increased lending brought on by the COVID-19 public health crisis has meant that the County is now below the allowable idle cash percentage for the first time in many years. The second challenge has been the amount of private sector funding that has been leveraged when the SBRLF funds a loan. The Administrative Plan goal is for the SBRLF to leverage 2 private dollars for every 1 dollar it lends. The current ratio is 1.82 for the entire portfolio and only 0.69:1 for active loans. EDA has waived this requirement due to the COVID-19 public health emergency and because most businesses are unable to attract additional, non-SBRLF investment or owner-equity has been fully expended. The June 30, 2020 Semiannual Report, without the Portfolio Loan List, is included as Attachment 2.

OTHER AGENCY INVOLVEMENT:

The County continues to work with all cities in the County to raise awareness of the SBRLF. City Managers and community development officials have played an important role helping the County identify businesses in their cities that need financial assistance.

FINANCING:

This action increases revenue and appropriations in FY 2020-2021 in Fund 011 (Economic Development). This action will increase funds available to lend through the SBRLF, however due to reduced interest rates and deferred repayments, repayments revenues will be reduced. In addition to the recapitalization grant, the County will receive \$160,000 to offset this lost revenue. It is anticipated that the County will use \$40,000 for its costs during the term of the grant. The balance of the funds, \$120,000, will be used by CCRDC to manage the

program on a day-to-day basis.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The proposed recapitalization of the SBRLF Plan will support the Board of Supervisors Economic Development Initiative by providing additional capital to fund low cost, low barrier to funding loans to help businesses survive the current public health emergency.

Mark a check to the related Board of Supervisors Strategic Initiatives

X Economic Development

X Administration

☐ Health & Human Services

☐ Infrastructure

☐ Public Safety

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Attachments:

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SBRLF COVID-19 Recap Grant Increase Approp - Attach 1 - Prop Amend to Admin Manual

SBRLF COVID-19 Recap Grant Increase Approp - Attach 2 - 2020_06_30_CA_47023CA_ED-209