

DATE ISSUED: November 28, 2001

REPORT NO. 01-263

ATTENTION: Honorable Mayor and City Council
Docket of December 3, 2001

SUBJECT: SAN DIEGO REGIONAL REVOLVING LOAN FUND

SUMMARY

Issues - 1) Should the City Council authorize the City Manager to: a) Apply for, and accept, funds up to \$1.5 million from the Economic Development Administration to establish the San Diego Regional Revolving Loan Fund? b) accept loan repayments from the Redevelopment Agency and authorize the appropriation and expenditure of up to \$3.0 million in City matching funds and grant funds, as needed for the San Diego Regional Revolving Loan Fund, provided that the Auditor first furnishes a certificate that funds are, or will be, on deposit in the City Treasury? c) Establish and administer a San Diego Regional Revolving Loan Fund Program, appoint a Loan Committee and negotiate and execute agreements with partner cities to accomplish the goals as set forth in the report? and 2) Should the Redevelopment Agency amend the Fiscal Year 2002 Agency Budget to allow for loan repayments to the City from various project areas up to \$1.5 million to provide City matching funds for the San Diego Regional Revolving Loan Fund?

Manager's Recommendation - 1) Authorize the City Manager to: a) apply for, and accept, funds up to \$1.5 million from the Economic Development Administration to establish the San Diego Regional Revolving Loan Fund; b) accept the loan repayments and authorize the appropriation and expenditure of up to \$3.0 million in City matching funds and grant funds, as needed for the San Diego Regional Revolving Loan Fund, provided that the Auditor first furnishes a certificate that funds are, or will be, on deposit in the City Treasury; c) establish and administer a San Diego Regional Revolving Loan Fund Program, appoint a Loan Committee and negotiate and execute agreements with partner cities to accomplish the goals as set forth in the report; and 2) amend the Fiscal Year 2002 Agency Budget to allow for loan repayments to the City from various project

areas up to \$1.5 million to provide City matching funds for the San Diego Regional Revolving Loan Fund.

Fiscal Impact - Funds in the amount of \$1.5 million are being requested from the Economic Development Administration. Matching funds are proposed to come from 1) loan repayments to the City from various project areas of the Redevelopment Agency, to the extent tax increment funds are available; and 2) a prorata match from the partner cities of Chula Vista, National City, or Imperial Beach, depending on where the project is located. Local match is required at the time applications for the RLF are received and funded.

BACKGROUND

A revolving loan fund (“RLF”) is a source of financing from which loans are made for small business or development projects. As funded loans are repaid, funds become available for new loans to other businesses, thus creating “revolvement” of the original funding sources.

RLFs are established to provide a source of financing, which may not otherwise be available within the community, for local, expanding, or start-up businesses. They are used to fill a “financing gap.” A gap occurs when a project lacks sufficient funding to meet equity and other requirements of bank financing or requires a lower interest rate for the project to be financially feasible. An RLF within a community enhances the local economic development “tool chest.” Incentives such as fixed rate, low interest, and/or long-term financing are important to business desiring to locate or expand within an area. Although the RLF is not the primary source of financing for a project, the combination of public and private financing lessens the risk for the primary lender (by decreasing their exposure) and yields an overall lower cost of funds for the borrower.

Businesses are encouraged by programs that support retention and expansion, utilizing flexible, locally controlled funds. This demonstrates a pro-business attitude, which is critical when developing partnerships between the public and private sectors.

Since 1994, the City of San Diego has effectively run the \$2.5 million EmTek Fund. EmTek targets hi-tech businesses located in low and moderate-income census tracts, as well as women- and minority-owned businesses. EmTek operates two phases, with Phase I being supported by a \$750,000 EDA grant, and Phase II being supported by local government and a consortium of area banks.

DISCUSSION

The establishment of a revolving loan fund within a community is one of several tools available to encourage small business development. The proposed San Diego Regional Revolving Loan Fund (SDRRLF) will utilize public funds, and is targeted toward the under-served small business market to provide financing and leverage private investment in targeted areas of San Diego, Chula Vista, National City and Imperial Beach. The goal is to participate in projects that create economic growth, lead to permanent jobs, and cultivate development of small business and mixed-use projects through capacity building and private leverage. The SDRRLF loans will fill a gap, to some extent, that may not be being filled by private lending.

To meet EDA's evaluation criteria for a revolving loan fund, the program plan must be consistent with the Comprehensive Economic Development Strategy (CEDS), demonstrate knowledge of the local market, and address a financing gap of the targeted business segments. In addition, EDA, as do other Federal agencies, requires the RLF to adhere to Federal and Local regulations, laws and statutes, and identify the targeted market via use of qualifying per capita income statistics. Proposed for qualification within the RLF lending area are 71 census tracts located in the City of San Diego; 12 census tracts in Chula Vista, 13 in National City, and 6 in Imperial Beach. Of the 71 tracts located in San Diego, the majority are in the Redevelopment Project Areas of Linda Vista, North Park, North Bay, City Heights, College Grove, Naval Training Center, Barrio Logan, College Community and San Ysidro, as well as those areas within the Centre City and Southeastern Economic Development Corporations sphere of influence.

The City of San Diego is the lead agency in the proposed RLF. As the largest City in the County, the Economic Development Administration (EDA), is looking to San Diego as the leader in regionalism through partnerships, based on our past grant and staff experience. Without the City's willingness to act as lead in the new RLF, the identified small businesses and redevelopment projects will lack a financing tool that might otherwise make their projects financially feasible.

Proposed Loan Program

The request to EDA is for \$1.5 million, which combined with \$1.5 million City match to come from the loan repayments from the Redevelopment Agency, will create a \$3 million revolving loan fund. These funds will provide gap financing for job-creating businesses that require new or rehabilitation construction for mixed use projects, infill projects, reuse projects, and tenant improvements. The proposed partner cities of Chula Vista, National City, and Imperial Beach may also contribute funds, with Chula Vista's contribution estimated at \$300,000, and National City and Imperial Beach each contributing \$100,000. If the aforementioned cities choose to participate in the proposed RLF, they will be asked to provide a pro-rata share of the cities \$1.5 million match. However, in order to ensure that the city is not precluded from leveraging available federal funds, it is proposed that full \$1.5 million be approved. It is anticipated that agreements between the partner cities will be negotiated to address participation issues, and that administrative costs related to the RLF be shared between the partner cities, with costs recovered to the extent of each city's level of participation.

The SDRRLF is proposed to fund from one-third to one-half of an eligible project, with loans ranging from \$150,000 to \$500,000. Given the diversity of small business lending tools in the San Diego Region, there remains a gap in funding projects in the mixed-use neighborhoods, and to unsophisticated borrowers. With the upward spiral of costs in all aspects of the real estate market, the new SDRRLF will leverage private and non-government sources for uses already outlined, as well as to guarantee long-term leases and working capital. While there are many programs and efforts to help small businesses, the targeted census tracts often have a less competitive infrastructure, serve a market population with less buying power per capital, and often carry a higher cost of conducting business.

All loans funded through the SDRRLF are proposed to have job-creation as the public benefit component, and will leverage loan proceeds against private investment at a target rate of \$10,000 per job created. The SDRRLF will prioritize projects that minimize the ratio of SDRRLF loan funds to private equity, and which create the most livable (family-wage) jobs, or that create jobs in clusters that create opportunity for growth of knowledge, and capacity for advancement.

Loan applications will be reviewed by a loan committee, to be comprised of business owners, local lenders, and City staff, to be appointed by the City Manager, with input provided by the Mayor and Council, and member city partners. Recommendations of the loan committee will be brought to the City Manager for execution.

The focus of the SDRRLF will include real estate acquisition, leasehold expansion, and working capital, all three of which create direct benefits to the economy, and will positively impact the local economic tax base through redevelopment of older buildings, improved/increased capacity in mixed-use areas, and through enabling businesses to grow through injections of permanent working capital.

CONCLUSION

Development of the grant application, and subsequent acceptance of \$1.5 million grant to create the new revolving loan fund will enhance the region through job creation, economic expansion, business enhancement, and further promote the goals of regionalism, equality and community development.

ALTERNATIVES

- 1.) Do not authorize the City Manager to apply for, and accept funds in the amount of \$1.5 million from the Economic Development Administration to establish the San Diego Regional Revolving Loan Fund;
- 2.) Do not amend the Fiscal Year 2002 Redevelopment Agency Budget to allow for loan repayments to the City from various project areas up to \$1.5 million to provide City matching funds for the San Diego Regional Revolving Loan Fund;
- 3.) Do not accept the loan repayments and authorize the appropriation and expenditure of \$3.0 million in City matching funds and grant funds, as needed, for the San Diego

Regional Revolving Loan Fund, provided that the Auditor first furnishes a certificate that funds are, or will be, on deposit in the City Treasury.

- 4.) Do not authorize the City Manager to establish and administer a San Diego Regional Revolving Loan Fund Program, appoint a Loan Committee and negotiate and execute agreements with partner cities to accomplish the goals as set forth in this report.

Respectfully submitted,

Hank Cunningham
Community and Economic Development Director

Approved: Bruce Herring
Deputy City Manager