

ECONOMIC DEVELOPMENT POLICY COMMITTEE
Thursday, June 10, 2021
9:00 a.m. – 10:00 a.m.

Virtual/Microsoft Teams Meeting

Call-in number: 1-323-776-6996 Access Code: 831 836 193#

AGENDA

1. Introductions
2. Legislative update (CEO) 10 minutes
3. Manufacturing Revolving Loan Fund update (LACDA) 30 minutes
4. Economic and Workforce Development Department update (CEO) 15 minutes
5. Public Comment

NOTE:

Please send comments to EconomicDevelopment@ceo.lacounty.gov by Wednesday June 9th at noon. They will be shared with the Committee prior to the meeting.



HOUSING
COMMUNITY
ECONOMIC

LACDA

Los Angeles County Development Authority

MANUFACTURING REVOLVING LOAN FUND (MRLF) GUIDELINES UPDATE

PROGRAM OVERVIEW

Access to capital to augment manufacturing business expansion and retention

- Flexible and accessible funding available for working capital, inventory, equipment, real estate acquisition, debt refinancing, and construction for manufacturers in unincorporated areas with a focus on small- and medium-sized manufacturers
- Create or retain high quality jobs



CURRENT MRLF GUIDELINES

- Target Manufacturers in Employment Protection Districts, Industrial Flex Districts, or Industrial Opportunity Areas established by County General Plan or Community Revitalization Investment Area or Enhanced Infrastructure District
- Loan amounts from \$250,000 to \$500,000
- Job Creation/Retention: A minimum of one job (FTE) must be created or retained for every \$100,000

SMALL BUSINESS STABILIZATION LOAN PROGRAM GUIDELINES

- Business must be located in Los Angeles County
- **Loan Amounts:** \$50,000 to \$3M
- **Interest Rate:** Fixed Wall Street Journal Prime (currently 3.25%)
- **Loan Term:**
 - Working Capital: Five to seven years
 - Equipment: Up to 10 years (depends on useful life)
 - Real Estate Acquisition and Construction: Up to 20 years
- **Payment Deferral:** Loan payments deferred for first 12 months
- Loans of \$250,000 or greater are subject to review and approval by LACDA loan committee
- **Job Creation/Retention:** A minimum of one job (FTE) must be created or retained for every \$75,000

PROPOSED MRLF GUIDELINE UPDATES

- Adopt program guidelines for Small Business Stabilization Loan Program
- For Fiscal Year 2020-2021, allow remaining \$4.6M to be used by all businesses
- Starting in Fiscal Year 2021-2022, MRLF funds will be set aside exclusively for manufacturers
- Description of Administrative Costs
- Monitoring of Internal Controls

QUESTIONS?

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**LACDA
SMALL BUSINESS STABILIZATION LOAN PROGRAM
UNDERWRITING GUIDELINES
As of March 18, 2021**

Business Location	Only businesses with a physical location in Los Angeles County are eligible.
Minimum time in operation	<ul style="list-style-type: none"> • Businesses must have been in operation for a minimum of 2 years at time of application which shall be documented by applicant providing copies of the prior two years of filed business tax returns (2018 and 2019 or 2019 and 2020)
Ineligible Applicants	<ul style="list-style-type: none"> • Financial businesses primarily engaged in the business of lending, such as banks, finance companies, pawn shops and factors; • Passive businesses owned by developers and landlords that do not actively use or occupy the assets acquired or improved with the loan proceeds (except Eligible Passive Companies under § 120.111); • Life insurance companies; • Businesses located in a foreign country (businesses in the U.S. owned by aliens may qualify) or with foreign entities with a business interest greater than 20%; • Pyramid sale distribution plans; • Businesses deriving more than one-third of gross annual revenue from legal gambling activities; • Businesses engaged in any illegal activity; • Private clubs and businesses which limit the number of memberships for reasons other than capacity; • Government-owned entities (except for businesses owned or controlled by a Native American tribe); • Businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting;

	<ul style="list-style-type: none"> • Loan packagers earning more than one third of their gross annual revenue from packaging SBA loans; • Businesses with an Associate who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude; • Businesses in which the Lender, or any of its Associates owns an equity interest; • Businesses which: <ul style="list-style-type: none"> (1) Present live performances of a prurient sexual nature; or (2) Derive directly or indirectly more than de minimis gross revenue through the sale of products or services, or the presentation of any depictions or displays, of a prurient sexual nature; • Nightclubs; • Corporate-owned fast food restaurants (franchisees are eligible); • Check cashing, liquor stores, smoke/cannabis shops and firearms retailers; • Any business where it or its principals or management have been debarred from doing business with the County, State or Federal government business or on any Office of Foreign Assets Control or similar list.
Maximum Applications Submitted	Only one application per legal entity will be entertained. The LACDA reserves the right to limit the number of applications submitted per principal.
Loan Amounts	Minimum \$50,000. Maximum \$3,000,000.
Interest Rate	Fixed Wall Street Journal Prime rate.
Loan Term	Contingent on use of loan funds. <ul style="list-style-type: none"> • Working Capital - 5-7 years • Equipment- Up to 10 years (dependent on useful life of equipment) • Real Estate Acquisition and Construction – Up to 20 years
Payment Deferral	Loan payments deferred for first 12 months for non-guaranteed loans. Interest will accrue. Payments will be due and payable starting on the 13th month from funding date.

	Loans guaranteed by the Disaster Relief Loan Guarantee Program are subject to interest-only payments for first 12 months; principal and interest payments will begin on the 13 th month.
Eligible use of funds	<ul style="list-style-type: none"> • Working Capital • Equipment • Inventory • Real Estate Acquisition- may trigger Davis-Bacon and related acts; property acquisition within 500 feet of a freeway is strictly prohibited. • Refinancing of existing loans (loans to be refinanced must be current) in conjunction with working capital, equipment, inventory, real estate, and subject to review on a case by case basis
Ineligible uses of loan funds	<ul style="list-style-type: none"> • Businesses based outside the designated eligible area; • Acquisition of an equity position in a private business; • Subsidize interest payments on an existing loan; • Borrower's required equity contributions under other Federal Agencies' loan programs; • Borrower's acquisition interest in a business either through the purchase of stock or through the acquisition of assets; • Borrower's purpose of investing in interest-bearing accounts, certificates of deposits, or any investments unrelated to the objectives of the Loan Program; • Assist in the relocation of jobs from or to another labor area; • Assist in real estate investment related activities for personal gain and not related to business expansion or business need; • Serve as collateral to obtain credit or any other type of financing; • Support operations or administration of the County; • Undertake any activity that would violate EDA Property regulations found at 13 CFR part 314; • Finance gambling activity, performances or products of a prurient sexual nature, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law; • Lines of credit; • Household or consumer purposes.
Loan funds disbursement	Loan funds will be disbursed directly to vendors for purchase of equipment and inventory.

Uniform Commercial Code Filing	Required for all loans.																										
Collateral	<p>Required for purchase of equipment under \$100,000:</p> <ul style="list-style-type: none"> • Lien placed on equipment purchased <p>Required for all loans guaranteed under the Disaster Relief Loan Guarantee Program as outlined below.</p> <p>Required for all loans above \$100,000:</p> <ul style="list-style-type: none"> • Minimum collateral coverage must be 70% subject to review on a case by case basis. • Collateral coverage will be determined by dividing available collateral by the Loan Amount. • Available collateral will be determined by taking a liquidation value of each asset pledged as collateral, based on the liquidation % in the matrix below, then subtracting any preceding liens. <table border="1" data-bbox="495 727 1795 1318"> <thead> <tr> <th data-bbox="495 727 1010 764">Type of Collateral</th> <th data-bbox="1010 727 1362 764">Liquidation %</th> <th data-bbox="1362 727 1795 764">How value is determined.</th> </tr> </thead> <tbody> <tr> <td data-bbox="495 764 1010 842">Cash Surrender Value of Life Insurance</td> <td data-bbox="1010 764 1362 842">90%</td> <td data-bbox="1362 764 1795 842"></td> </tr> <tr> <td data-bbox="495 842 1010 920">Commercial Real Estate</td> <td data-bbox="1010 842 1362 920">75%</td> <td data-bbox="1362 842 1795 920">based on appraisal minus preceding liens</td> </tr> <tr> <td data-bbox="495 920 1010 1040">Single Family Residence</td> <td data-bbox="1010 920 1362 1040">80%</td> <td data-bbox="1362 920 1795 1040">based on appraisal or Assessed Valuation Model (AVM) minus preceding liens.</td> </tr> <tr> <td data-bbox="495 1040 1010 1081">Equipment – New</td> <td data-bbox="1010 1040 1362 1081">75%</td> <td data-bbox="1362 1040 1795 1081">based on purchase price</td> </tr> <tr> <td data-bbox="495 1081 1010 1159">Equipment – Used</td> <td data-bbox="1010 1081 1362 1159">50%</td> <td data-bbox="1362 1081 1795 1159">based on book value minus preceding liens</td> </tr> <tr> <td data-bbox="495 1159 1010 1237">Trading assets (A/R and Inventory)</td> <td data-bbox="1010 1159 1362 1237">20%</td> <td data-bbox="1362 1159 1795 1237">based on book value minus preceding liens</td> </tr> <tr> <td data-bbox="495 1237 1010 1318">Cash Surrender Value of Life Insurance</td> <td data-bbox="1010 1237 1362 1318">90%</td> <td data-bbox="1362 1237 1795 1318"></td> </tr> </tbody> </table>			Type of Collateral	Liquidation %	How value is determined.	Cash Surrender Value of Life Insurance	90%		Commercial Real Estate	75%	based on appraisal minus preceding liens	Single Family Residence	80%	based on appraisal or Assessed Valuation Model (AVM) minus preceding liens.	Equipment – New	75%	based on purchase price	Equipment – Used	50%	based on book value minus preceding liens	Trading assets (A/R and Inventory)	20%	based on book value minus preceding liens	Cash Surrender Value of Life Insurance	90%	
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Guarantees	Required for all owners with 20% or greater ownership interest. For entities with multiple owners with less than 20% ownership, the managing member or key employee/manager (i.e. President, CFO, board member) must provide the guarantee. LACDA reserves the																										

	right to require additional owners to guarantee the loan regardless of ownership interest. Spouses of married borrowers will be required to also sign guarantee.
Origination Fees	None for loans under \$100,000. 1.5% for loans above \$100,000. Loans guaranteed under the Disaster Relief Loan Guarantee Program will be subject to 2.5% of loan amount plus \$250 for document processing fee.
Good Faith Deposit	All loans above \$100,000 will require a good faith deposit to cover all third-party costs. The amount for the good faith deposit will be disclosed in the Letter of Intent issued to the applicant.
Loan Committee	All loans above \$250,000 shall be subject to review and approval by the LACDA Loan Committee.
Credit Reports	Yes, hard pull credit report required. Applicant shall provide underwriter direct written release to obtain personal and business credit report for borrower(s).
Credit Score	Must show good management of credit. Minimum FICO score of 620 but may use lower score for those with extenuating circumstances. Reasons to disqualify on credit if within the past 3 years credit report shows: Bankruptcy, Foreclosures, Repossession, pattern of late payments on other debt, owed payments to utility companies, liens, owed child support, etc... Medical or student accounts should not be taken into consideration.
COVID-19 Impact Statement	Applicant must: <ul style="list-style-type: none"> • show that business was impacted by COVID-19 through a hardship statement. • provide explanation of what has been done to address the impacts of COVID-19 on the business (i.e. pivot, online sales, etc.). • how will loan funds address the COVID-19 impact
Financial Stability	Applicant must provide tax returns for prior two years showing stable income in the past two years. Applicants must also provide financial statements for 2020 along with financial projections for the remainder of 2021 and 2022
Ability to Repay	Ability to repay loan shall be calculated using Earnings before Taxes, Interest, Depreciation and Amortization from the last full fiscal year financial documentation provided by applicant.

	<ul style="list-style-type: none"> • Global Cash Flow will be reviewed to ensure the business owner has sufficient cash flow to pay, not only business debt, but also personal obligations too; • Personal obligations will include all personal debt payments, income taxes and living expenses); • Living expenses will be calculated at \$500/month for each adult in the household and \$250/month for each child.
Good Standing	Business must have an “active” status with the Secretary of State. Please check for active status at: https://businesssearch.sos.ca.gov/
Appraisals or Automated Valuation Models	At the discretion of the LACDA, an appraisal and/or automated valuation model providing value of real estate will be required for all transactions involving real estate to be financed or used as collateral. Applicant shall bear the cost of the appraisal or automated valuation model.
Environmental Review	All loans will be reviewed for compliance with the National Environmental Policy Act. All real estate transaction will require a Phase I and if needed, a Phase II report. Financing of real estate acquisition or construction of businesses located within 500 feet of a freeway is strictly prohibited. Borrower shall bear the costs for Phase I and Phase II reports including environmental compliance.
Davis-Bacon and related Acts	<ul style="list-style-type: none"> • The Davis-Bacon and Related Acts, apply to contractors and subcontractors performing on federally funded or assisted contracts in excess of \$2,000 for the construction, alteration, or repair (including painting and decorating) of any physical structure. Davis-Bacon Act and Related Act contractors and subcontractors must pay their laborers and mechanics employed under the contract no less than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area. The Davis-Bacon Act directs the Department of Labor to determine such locally prevailing wage rates. The Davis-Bacon Act applies to contractors and subcontractors performing work on federal or District of Columbia contracts. The Davis-Bacon Act prevailing wage provisions apply to the “Related Acts,” under which federal agencies assist construction projects through grants, loans, loan guarantees, and insurance.

	<ul style="list-style-type: none"> • Borrower shall be responsible for payment of all labor compliance and construction inspection costs borne by the LACDA. • LACDA requires all contractors to be used must have prior experience working on projects subject to Davis Bacon and Related Acts.
Job Creation	A minimum of one job (Full-time equivalent (FTE) must be retained or created per \$75,000 of loan assistance.
Prepayment Penalty	None

The LACDA's Community and Economic Development Division (C&EDD) Director or his/her designee may revise these guidelines as needed to ensure Program goals and requirements are met successfully.

Processing Loan Applications	
Processing/Documents	Timeframe/Action
Missing Documents	5 <u>calendar</u> days to provide; otherwise application deemed incomplete & deny application
2021-2021 Financial Projections	2 weeks to provide; otherwise application deemed incomplete & deny application
Outstanding debts to IRS or Franchise Tax Board (FTB) Payment Plan	2 weeks to provide; otherwise application deemed incomplete & deny application