ECONOMIC DEVELOPMENT POLICY COMMITTEE
Thursday, July 9, 2020
9:00 a.m. – 10:00 a.m.

Virtual/SKYPE Meeting

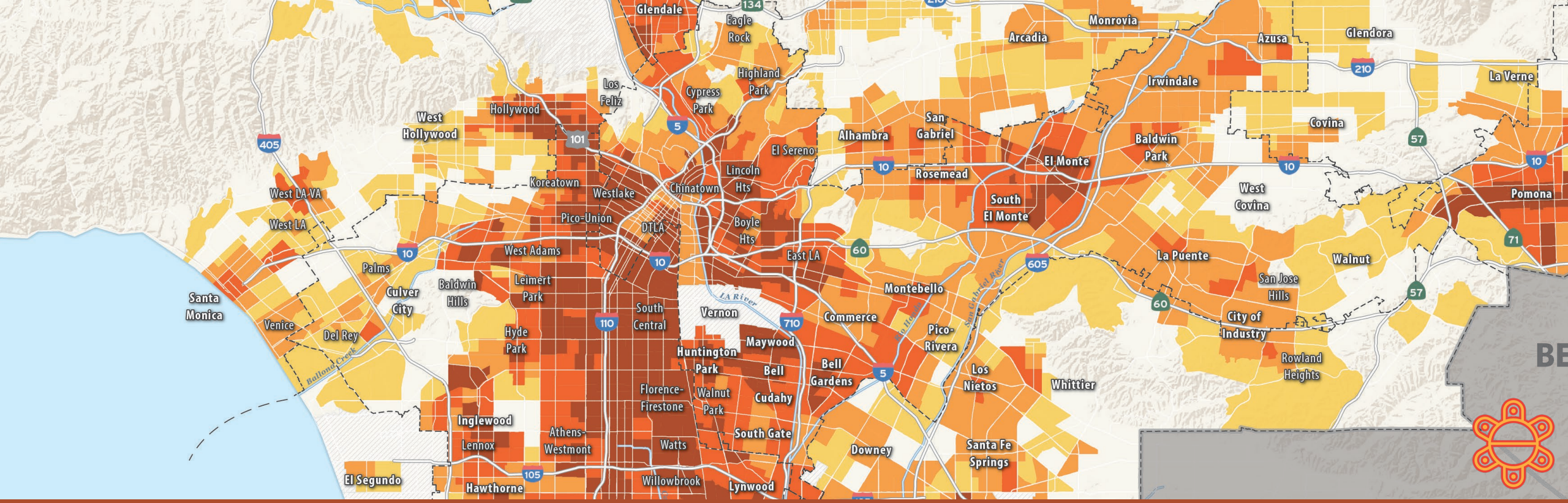
Call-in number: 1-323-776-6996 Access Code: 498935018#

AGENDA

1.	Introductions	
2.	Legislative update (CEO)	10 minutes
3.	Great Plates Delivered update (WDACS)	10 minutes
4.	Countywide Microloan Needs Assessment Report (CEO and Angel City Advisors)	20 minutes
5.	Business Relief Funds update (LACDA, DCBA)	15 minutes
6.	COVID-19 Portal and Website update (DCBA)	5 minutes
7.	Public comment	

NOTE:

Please send comments to EconomicDevelopment@ceo.lacounty.gov by Wednesday July 8th at noon. They will be shared with the Committee prior to the meeting.



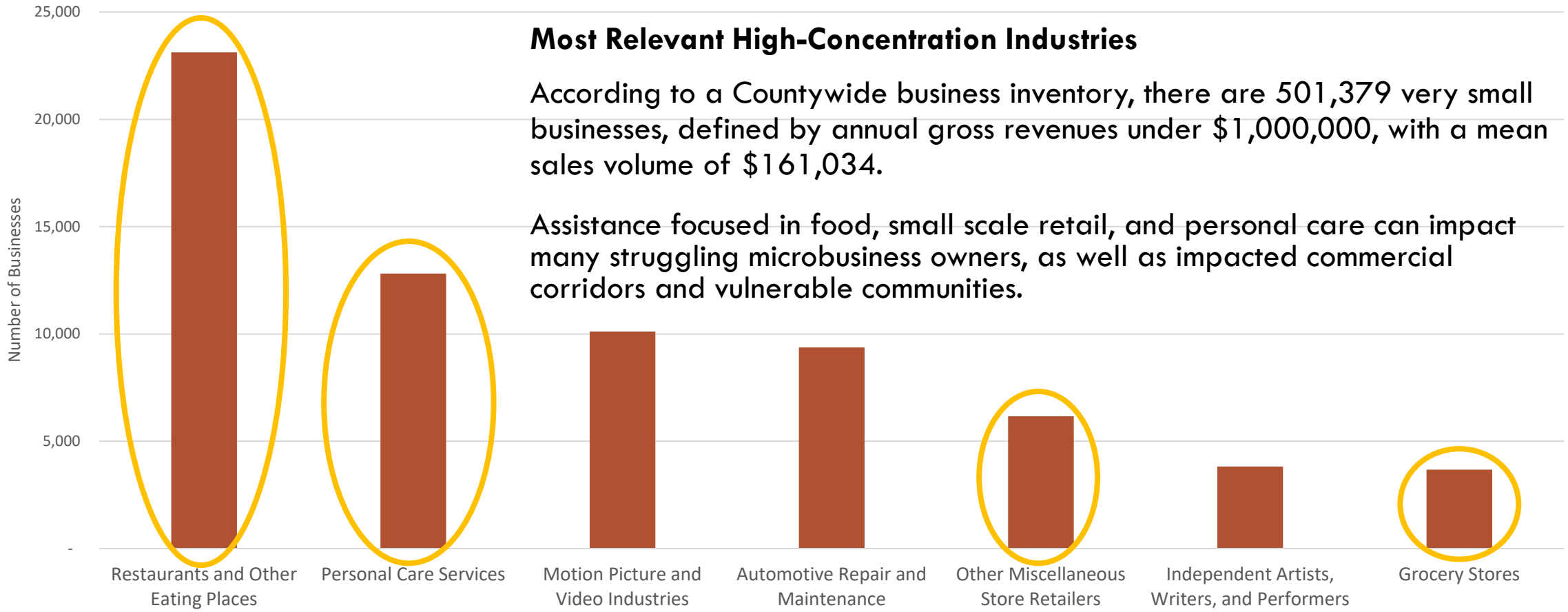
Regional Microloan Program: **Community Needs Assessment**

Summary Presentation | Angel City Advisors | July 2020

Project Background

- The County is pursuing the creation of a regional microloan program that serves entrepreneurs seeking to start or expand their businesses yet have limited access to needed capital from traditional lending sources.
- While a longstanding policy interest, the Board initiated more formal consideration of a regional microlending program via March and November 2019 Motions titled *Creation of a Countywide Microloan Program*, advanced by Supervisors Solis and Ridley-Thomas.
- Simultaneously, the social and economic stress created by the COVID-19 pandemic has made the deployment of increased public resources in support of workers and small businesses imperative.

Small Businesses in LA Economy



Most Relevant High-Concentration Industries

According to a Countywide business inventory, there are 501,379 very small businesses, defined by annual gross revenues under $1,000,000, with a mean sales volume of $161,034.

Assistance focused in food, small scale retail, and personal care can impact many struggling microbusiness owners, as well as impacted commercial corridors and vulnerable communities.

Goals of Regional Microloan Program

- A regional microloan program would strengthen locally owned and operated small businesses within disadvantaged communities to stabilize and improve economic opportunities for residents and businesses.
- Microlending is the provision of small loans of less than $50,000 to borrowers who typically lack a strong (or any) credit history. Companion technical assistance brings greater value.
- Microloans are a working capital tool within a broader sustainable economic development strategy, to provide safe lending opportunities for low to moderate income entrepreneurs that lack banking relationships. They create jobs and stabilize our communities.

Small Borrower: Profile 1

Financial Profile

Borrowers looking for microcredit typically:

- Run microbusinesses with annual sales between $100,000 to $300,000,
- Employ one to three employees,
- Have thin credit files, or bad credit,
- Have been in business for less than three years,
- Possess limited or no formal business training, and
- Have annual household incomes of around $35,000.

Rosa Ibares and Fernando Guadarrama own and operate OC Tacos food cart. In 2019, the couple refinanced their high cost debt via Inclusive Action for the City and were provided working capital to grow their business.

Small Borrower: Profile 2

Sectoral profile

Maria joined Grameen America with a rented single chair in a hair salon. After successfully repaying multiple microloans, her most recent loan was used to refurbish a salon and purchase equipment. She is now a salon owner.

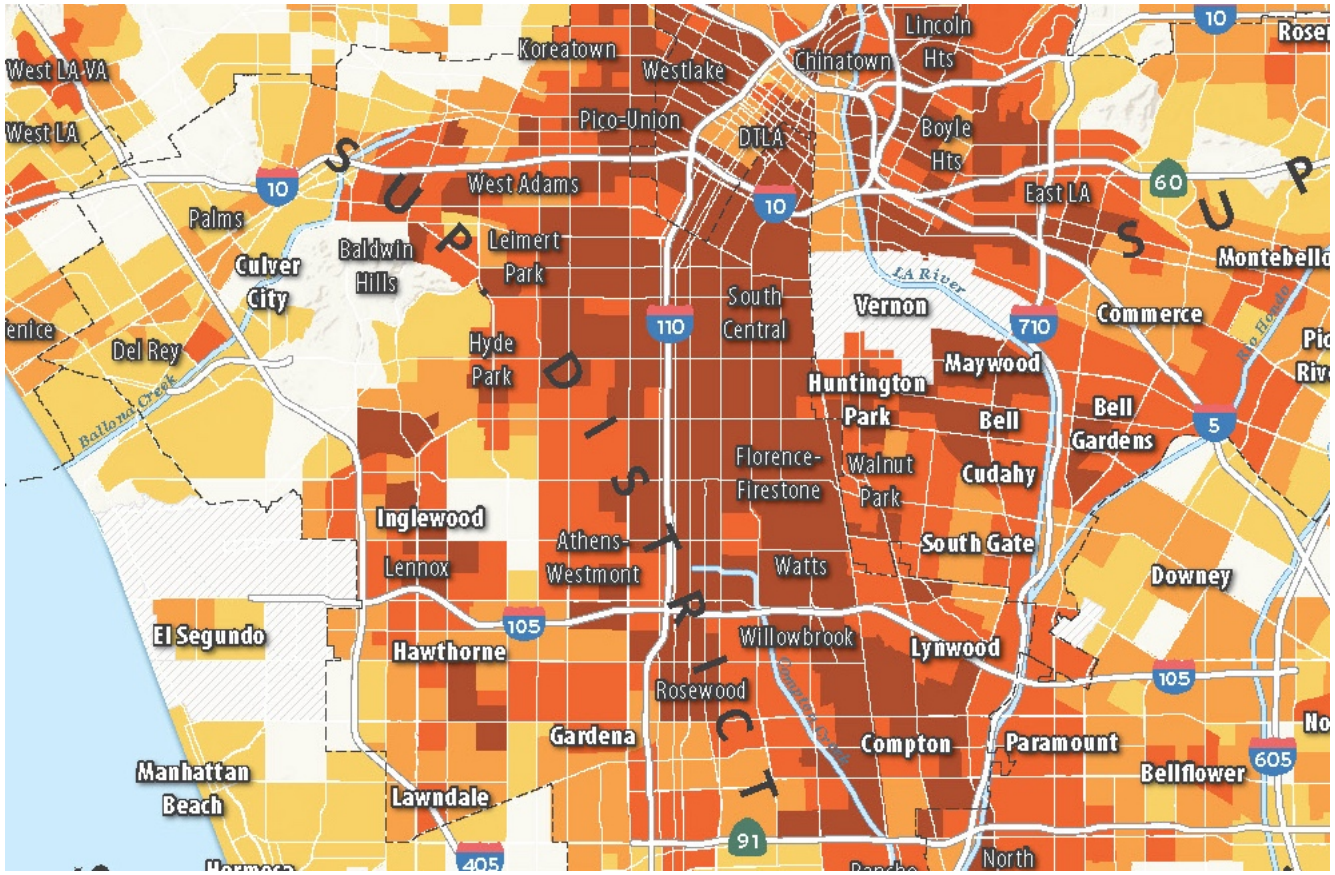
Credit-challenged businesses exist across a number of Los Angeles industries including:

- Wellness/beauty/spa/salon
- Swap meet vendors
- Restaurant/food related
- Trucking/auto mechanic
- Retail/wholesale
- Janitorial
- Contractors/building trades
- Landscaping

Small Borrower: Profile 3

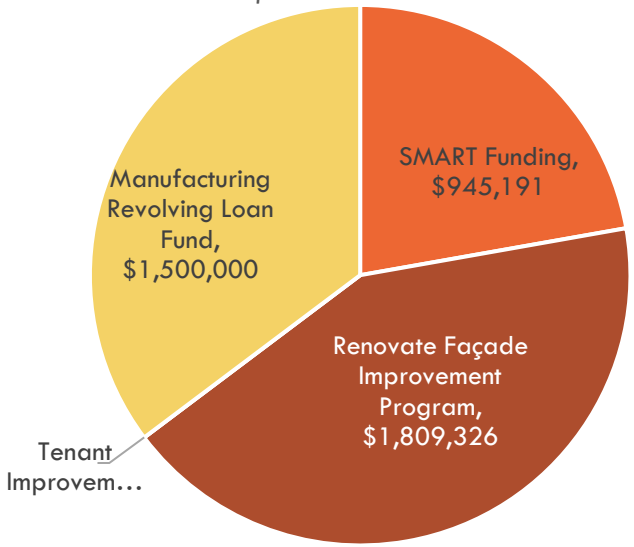
Geographic profile

Southern Girls Desserts is a local bakery founded in 2008. In Fall 2019, co-founders Catarah Coleman and Shoneji Robison received a business loan and technical assistance from Pacific Coast Regional SBDC. They refinanced high cost debt and continue to operate in the Baldwin Hills Crenshaw mall.

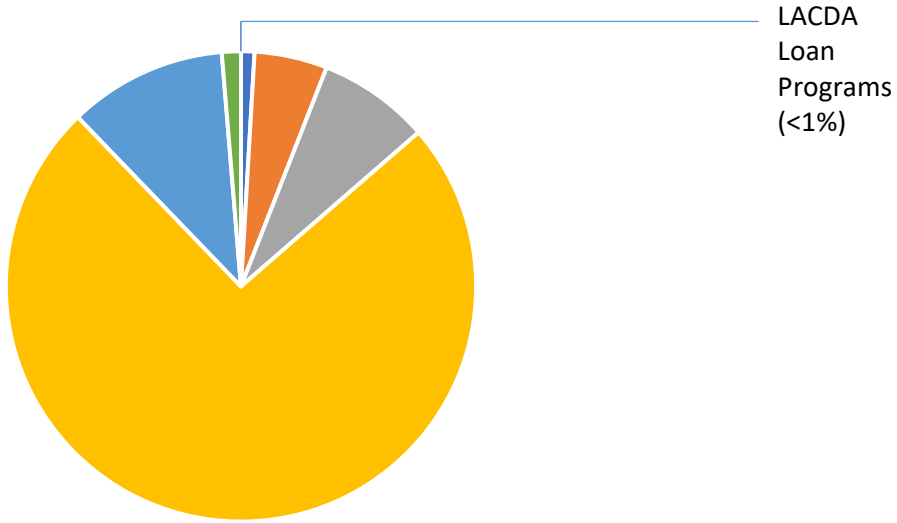


Public vs. Community Lending Infrastructure

LACDA Loan Programs made a total of 37 loans or grants across four programs in two years, totaling $4.25 million



CDFI Loan Programs made over $450 million in LA business loans in 2019 alone, a fraction of what banks and internet lenders lend.



Community Lending Infrastructure

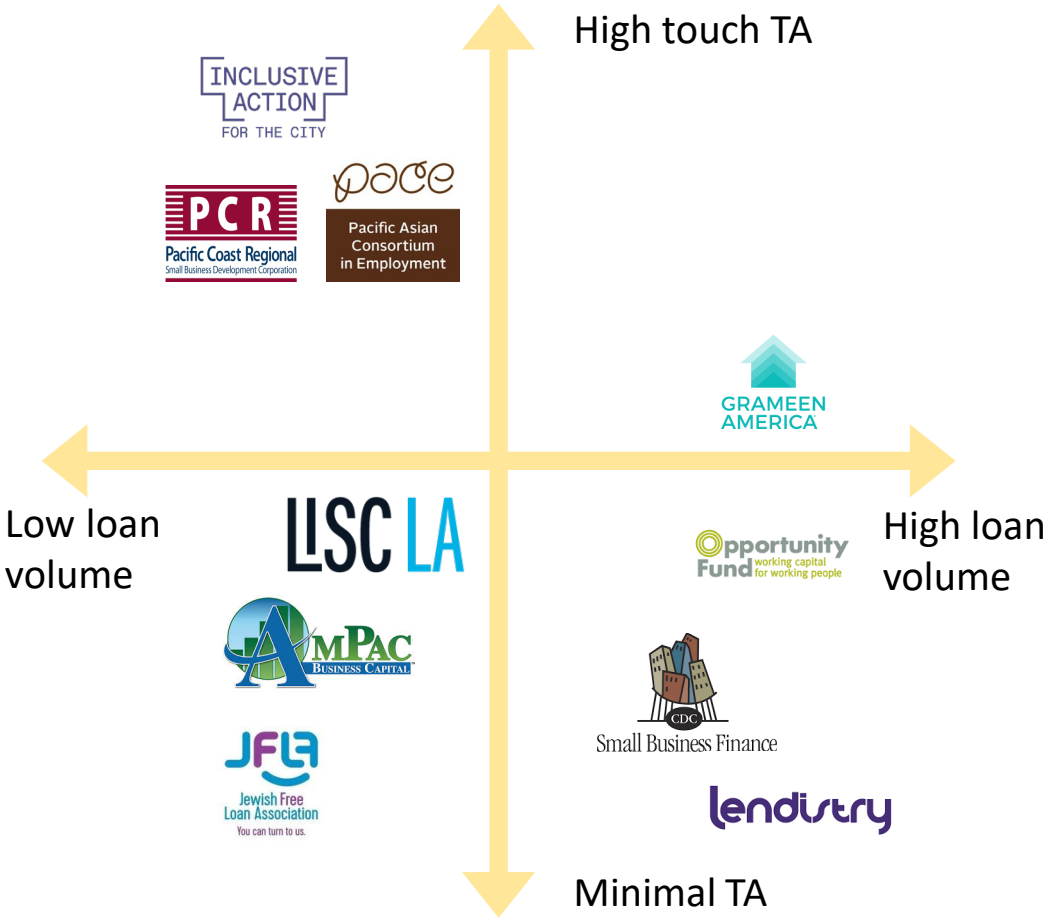
Lender	Inclusive Action for the City	Pace – Pacific Asian Consortium in Employment	PCR – Pacific Coast Regional Small Business Development Corporation	Opportunity Fund – working capital for working people	Grameen America	CDC Small Business Finance	Lendistry	LISC LA	JFLA – Jewish Free Loan Association	AMPAC Business Capital
Program(s) /Type	The Semi'a Fund *Microloan*	*Microloan & SBA Business Loans*	EDA Revolving Loan Fund *Microloan*	*Microloan and Business Loans*	Women's lending circle *Microloan*	*Microloan; SBA Community Advantage*	Express Business LOC *SBA Small Business*	Kiva Loans *Microloan (intermediary & RE secured)*	Free Loan Program *Microloan*	SBA MicroLoan Program *Microloan*
Target Clients / TA	US Citizens, informal borrowers, with business coaching	US Citizen; low but good credit history; clean car title	Small business owners in LA County	Small business owners; esp the historically disadvantaged	Women below the federal poverty line	Micro / Small business; advising available	Small business owners with 2 years experience	Small business owners; esp the historically disadvantaged	LA + Ventura Counties; US Citizen only; proof of need	Startups, micro and small businesses
Loan Amount	$1,000 - $35,000	Mini: Up to $2,000 SBA: Up to $50,000	Up to $650,000	$2,600 - $30,000; $30,001 - $250,000	$2,000 - $15,000	$10,000 - $50,000; $20,000 - $500,000	$10,000 - $250,000	$500 - $10,000; $25,000 - $5,000,000	$100 - $18,000	Loans up to $10,000
Interest Rate	8% with 1-2% loan rebate with on-time repayment	8.5% 6.5% (green business)	7% – 13%	10.9% - 18%	15%-18%	8% - 10% Prime + 2.75% - 6%	WSJ Prime + 2.5%-6% variable	Kiva 0% SBL 6% - 10%	0% (with good guarantors)	8% - 13%
Term	12 – 36 months	18 – 36 months	Up to 20 years	12 – 36 months; 3 – 5 years	6 month cycles	3 – 5 years; 7 – 10 years	12 month revolving	Up to 36 months; up to 10 years	Up to 36 months	Up to 6 years
LA Lending Volume	$157,00 to 26 small businesses in 2019 **Modest volume**	Lending ~$2M/yr Making 20 – 30 microloans per year. **Modest volume**	Makes 10 – 12 microloans per year. **Modest volume**	Made 925 loan totaling $23M in 2019 ($25k avg) **High volume**	Disbursed $35.3M in 2019. 13,298 members. **High volume**	Lent $341.4M in 2019. Makes 40 - 50/yr microloans. **High volume**	$50M in lending in 2019 **High volume**	Lent $1.6M to small businesses; 15 Kiva loans ($160k) **Modest volume**	~$900,000 in small business loans outstanding in 2018. **Modest volume**	Had $2M in loans receivable at the end of 2018. **Modest volume**

Stakeholder Input:

Capital Provider Landscape

In assessing the landscape of microloan providers across Los Angeles County, there are several operating models that exist.

- Some microlenders are lower volume and provide higher touch consulting support.
- Other lenders deploy loan capital at higher volumes but have rigid program models to maintain financial sustainability.
- Additional nonprofits are providing limited microloans as a small part of their larger mission and programming.

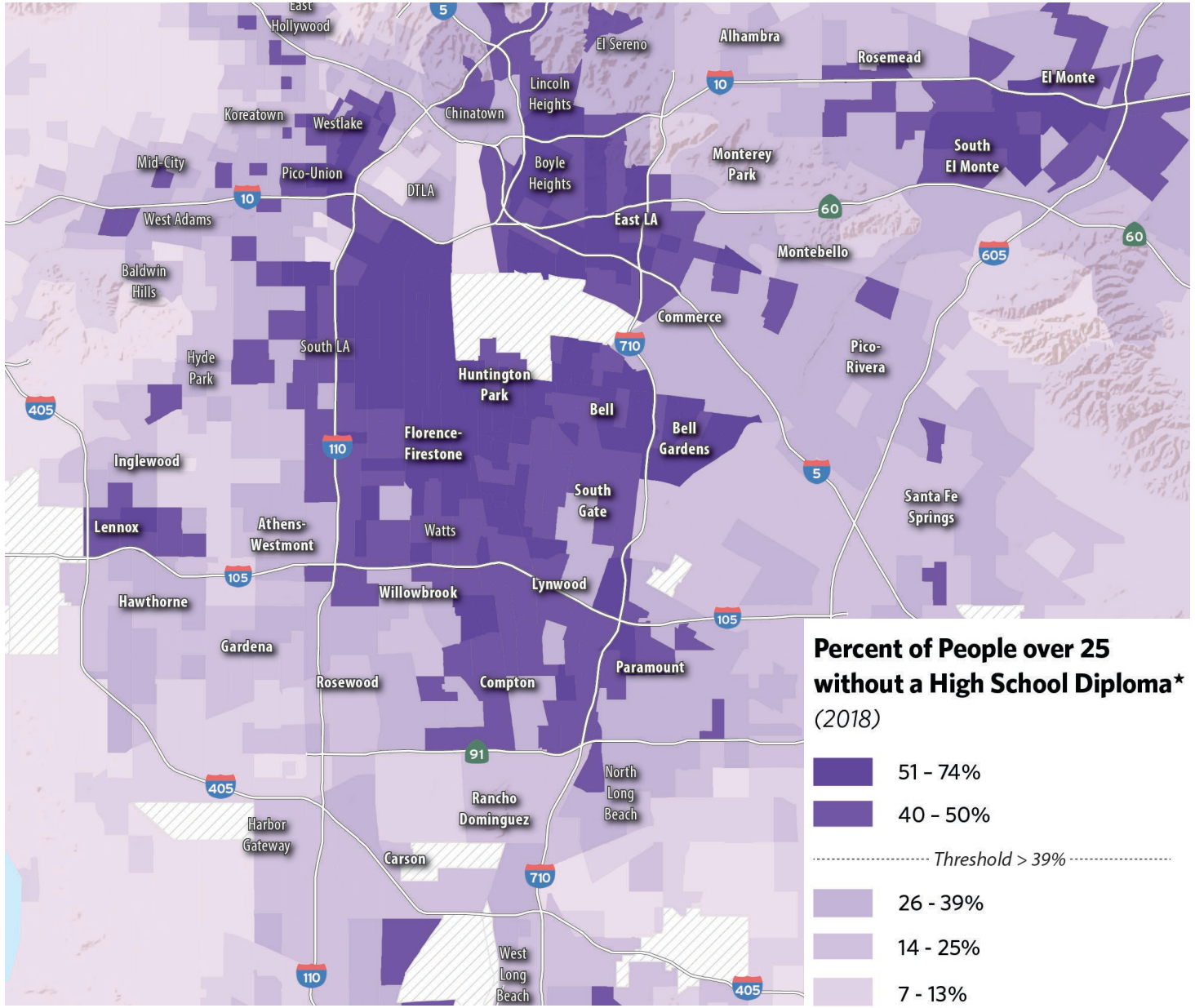


Equity Analysis:
Education Attainment

LA has large portions of the adult population who lack a high-school diploma, especially in its Latinx community.

Without education, high-income jobs and wealth-building are typically out of reach.

But income through small business is not, and microenterprise should be supported and supported in these communities.



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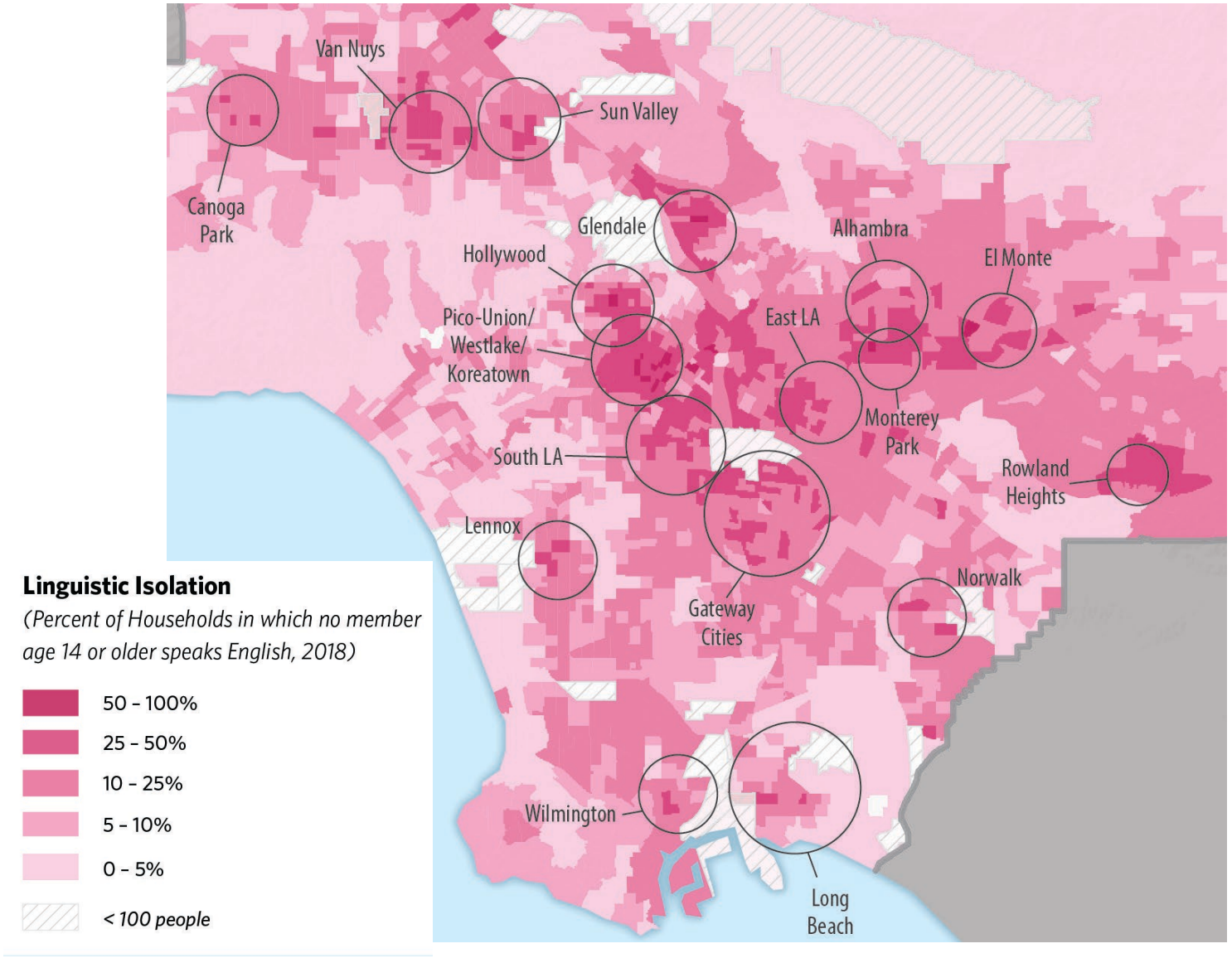
Equity Analysis:
Linguistic Isolation

Families who do not speak English rarely secure stable, high-wage employment.

They are less familiar with American laws and systems, but eagerly seek its economic opportunity.

Microenterprise is often their chosen path to earned income, which requires microcapital and culturally-competent TA.



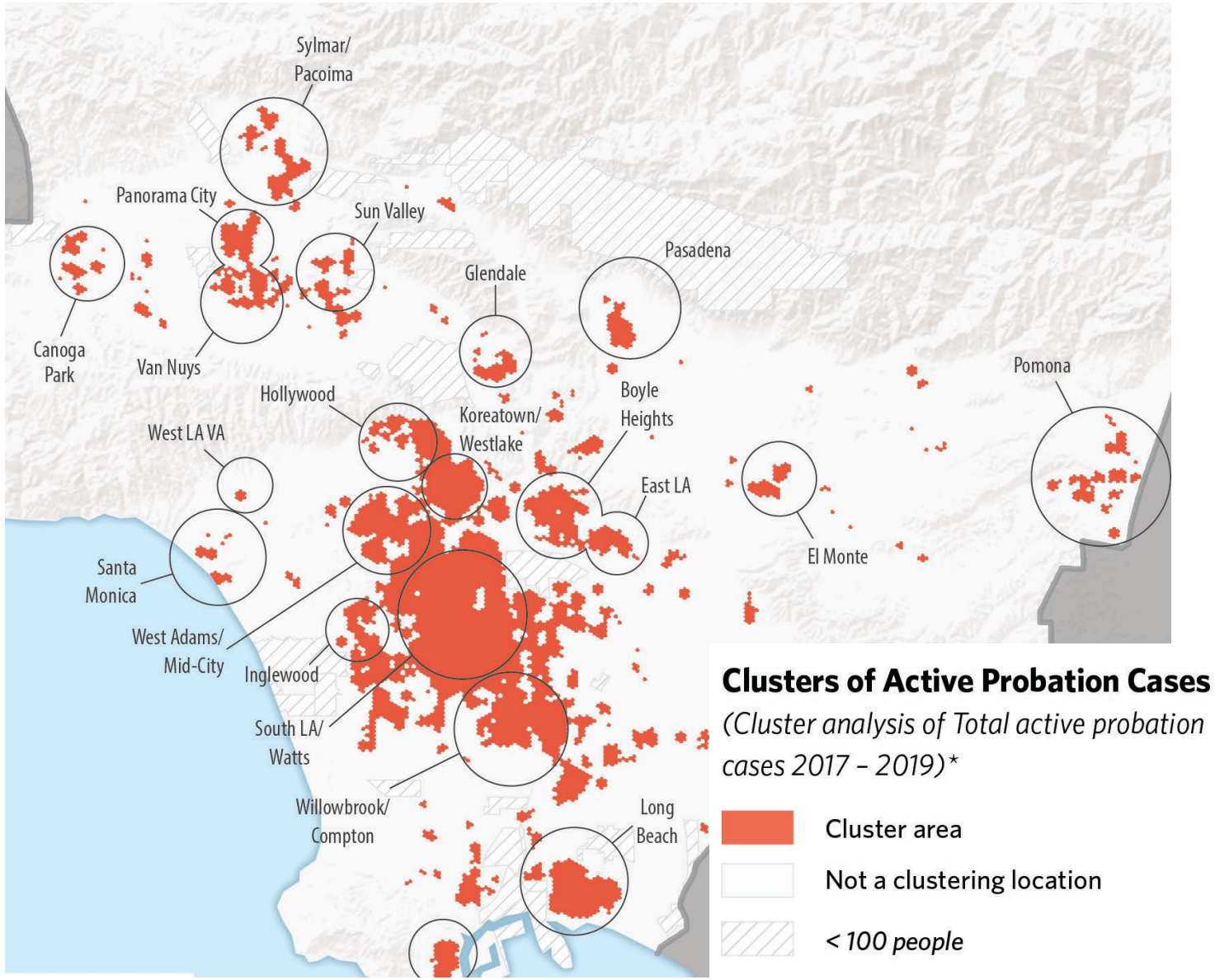
Equity Analysis:
Criminal Justice

Persons with criminal records have very difficult times finding permanent, living wage jobs.

This barrier to employment creates poverty and encourages recidivism.

Microenterprise and self-employment is a viable alternative that appeals to re-entry populations.

Entrepreneurial training and high-risk microcapital are required.

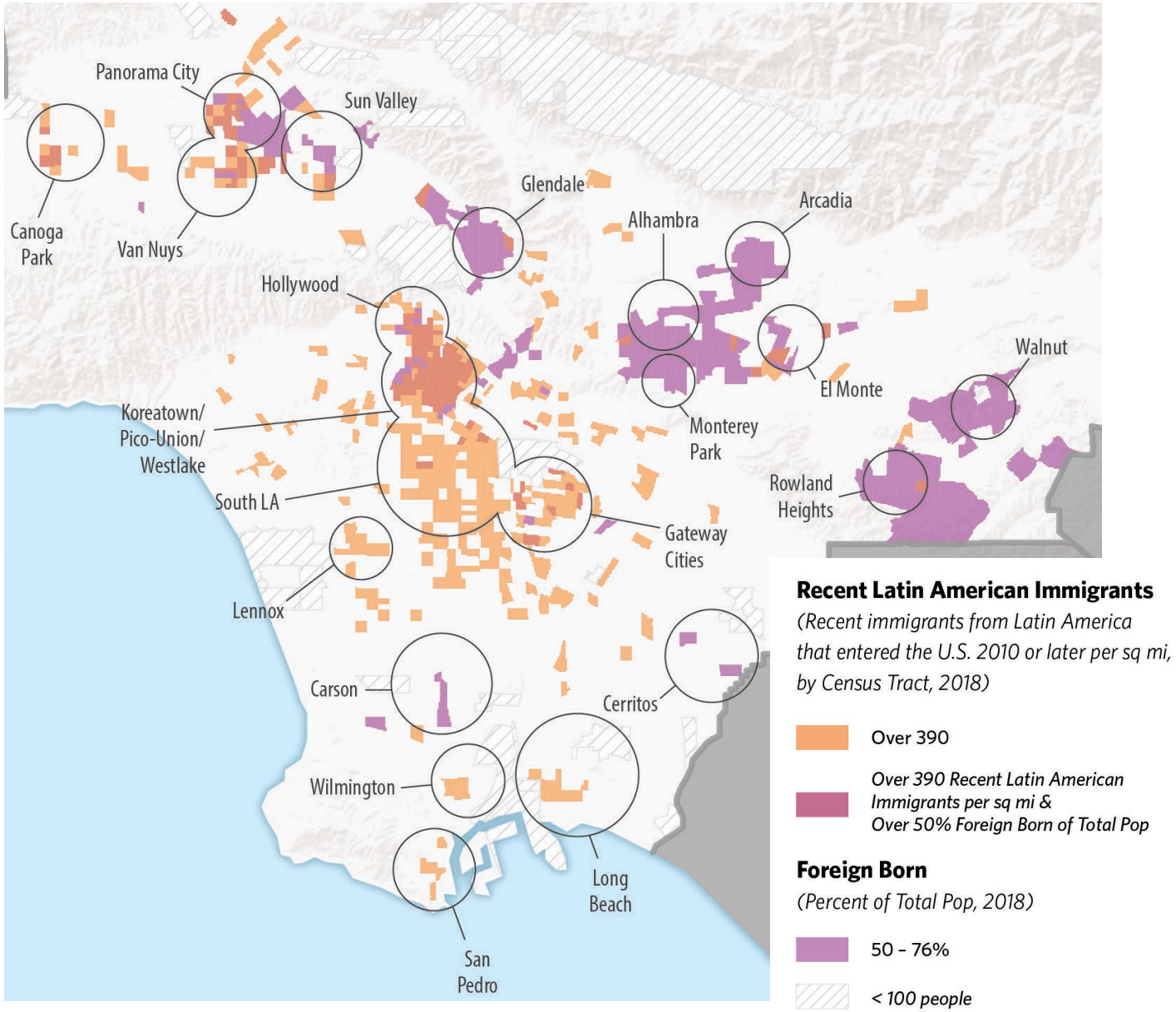


Equity Analysis:

Foreign Born & Recent Latin American Immigrant

While LA is a multicultural region with international ancestry, our recent immigrants experience the greatest prejudice and receive the least government support.

Recent immigrants, often lacking in legal status and employment pathways, also gravitate to microenterprise as a means to climb the economic ladder.

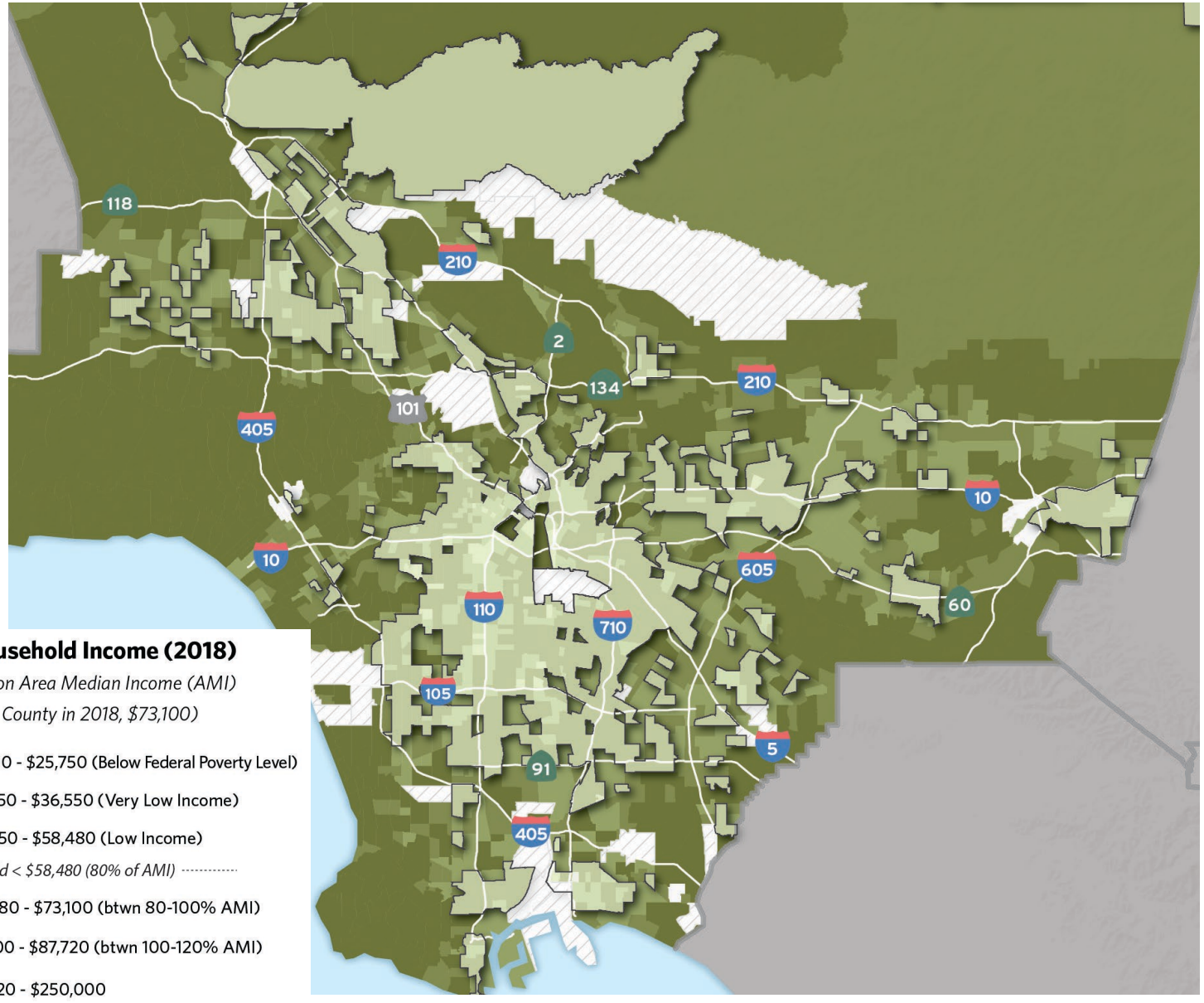


Equity Analysis:
Median Household Income

LA is a tale of two cities, most easily visualized by mapping household income. The coasts and hills of the region hold above-average incomes and most of the urban core falls below it.

Income is often supplemented with a 'side gig' or microenterprise.

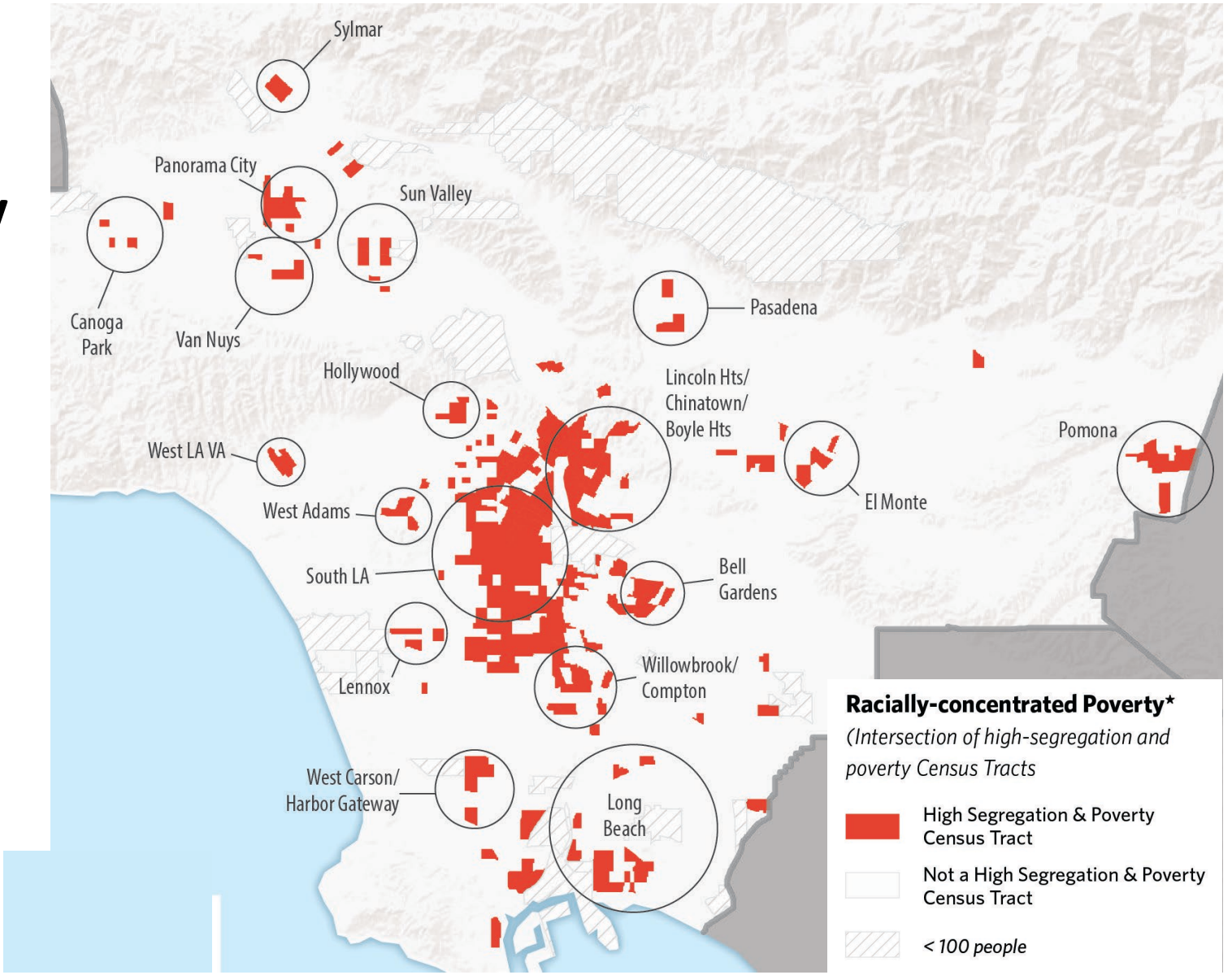
Equity suggests these low-income communities are where economic development (without displacement) should occur.



Equity Analysis:
Racially-concentrated poverty

Concentrations of racial segregation and persistent poverty are the greatest barriers to economic opportunity.

Without opportunity, residents turn to microenterprise – formal, informal, or otherwise – to find a way out. Small-dollar capital and technical assistance can create new economic ladders.

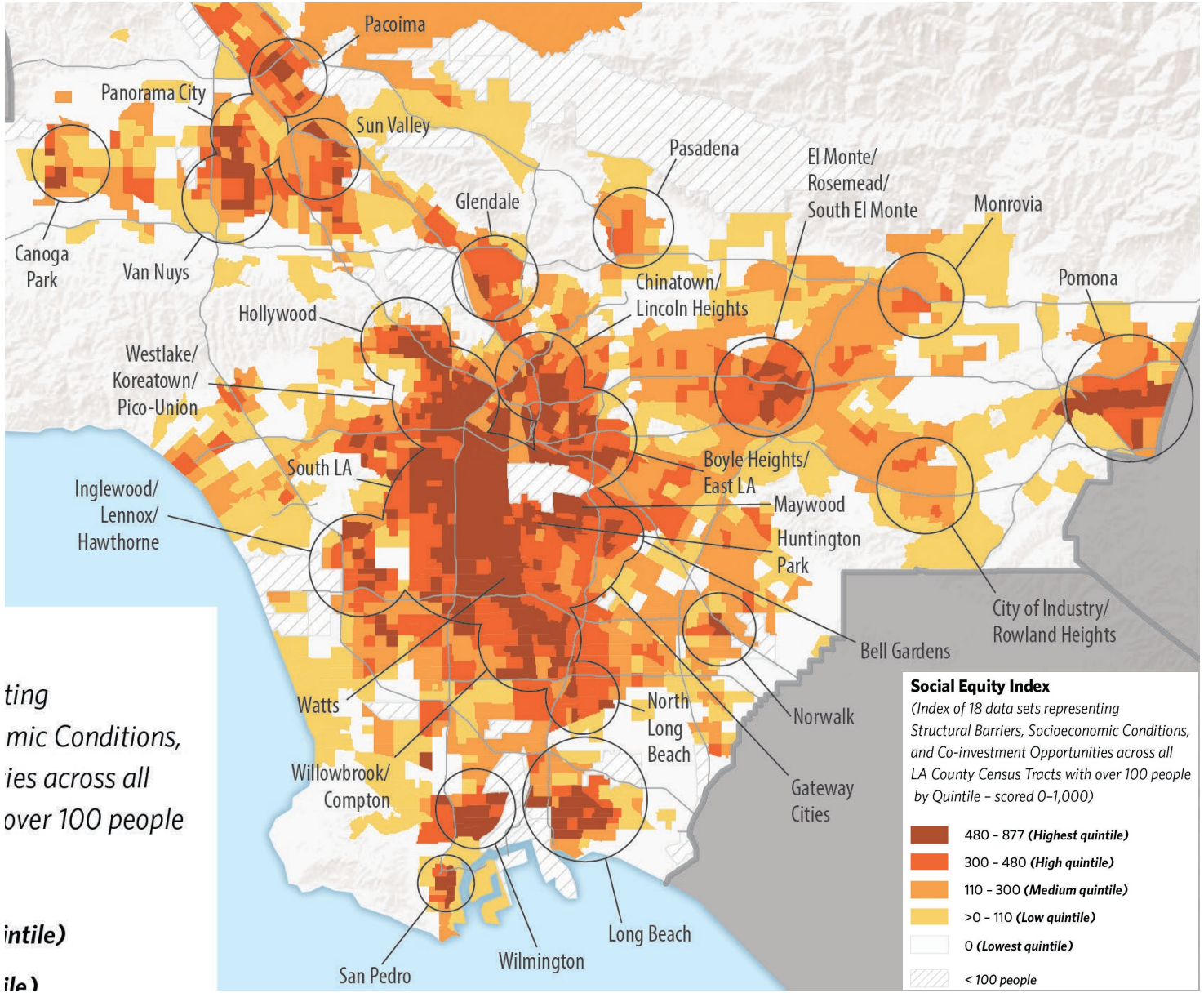


Equity Analysis:

Equity Index

Certain communities consistently experience disadvantage. The condition is a combination of historic structural barriers (like racism, xenophobia, pollution, redlining, and incarceration) and a concentration of our neediest populations in certain neighborhoods (easily measured by current socioeconomic conditions).

Using a Social Equity Index, policy-makers can direct resources where they are most needed and can be leveraged with other programs.



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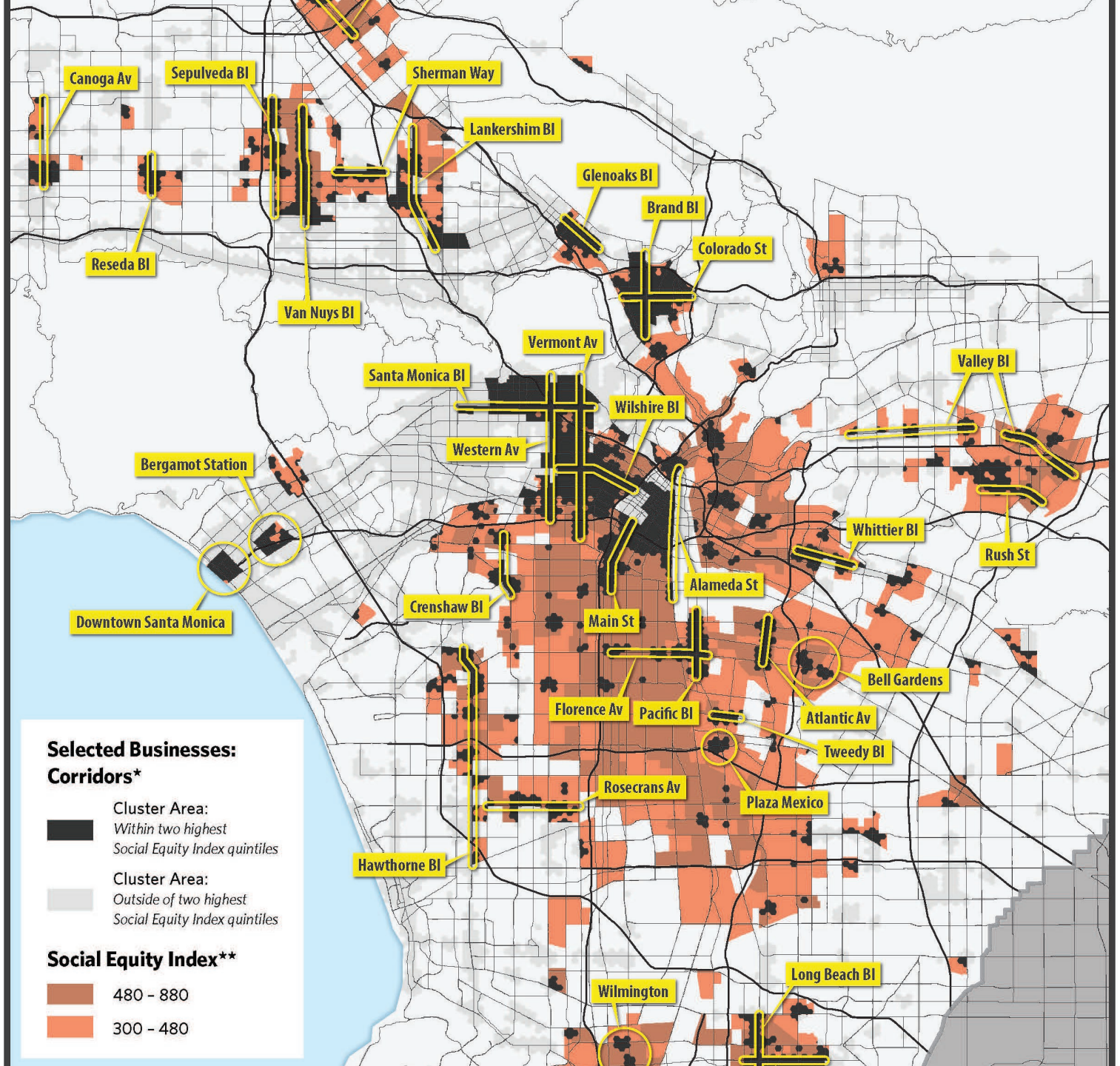
Gap Analysis and Findings

- Overall microloan volume provided in Los Angeles County does not meet demand
- A variety of product offerings should be maintained in the region, including some products that are not currently offered.
- Engagement and technical assistance is a critical and valuable, but expensive, element to the successful deployment of microloans.
- Some stakeholders are often left without the services they need, few microlenders offer loans to startups or the undocumented, service gaps that must be considered alongside mentoring.
- Microlenders do not have the staffing capacity to conduct regional business development at scale and there is a role for the County to support this work
- Our research indicates service gaps, in communities of need, in the following regions: East LA and the San Gabriel Valley, the San Fernando Valley, Eastern LA County, parts of South LA, the Antelope Valley, and the Wilmington/Long Beach communities.
- There is a lack of appropriate coordination amongst the cluster of microenterprise assets existing within Los Angeles County

Targeting Specific Corridors

- Clusters of sector-specific small businesses aggregate in certain commercial corridors.
- Those corridors can be overlaid with the high-need communities called out by the Equity Index.
- Programs and incentives can be targeted to support and capitalize small businesses in equitable fashion.



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Next Project Stage: Design and Structuring

- Solicit Policy Input on Goals and Priorities
- Delivery of a Business Plan that Recommends a Plan of Action
  1. LA County holds and administers microloan fund
  2. LA County funds CDFIs and community lenders who make microloans with one of several types of catalytic, leveragable capital
  3. LA County funds Guarantee Pool, used to mitigate risk of microloans made by CDFIs and community lenders, increasing their risk tolerance and loan volume.

Questions?

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