ECONOMIC DEVELOPMENT POLICY COMMITTEE
Thursday, February 27, 2020
Kenneth Hahn Hall of Administration
500 West Temple Street, Conference Room 743
11:00 a.m. – 12:00 p.m.

REVISED AGENDA

1. Introductions

2. Manufacturing Revolving Loan Fund update (Carey Jenkins, LACDA) — 20 minutes

3. Bioscience ENA Extension Board letter (Julia Orozco, CEO) — 15 minutes

4. County's Five Point Plan on Supporting the Film and Digital Media Industry update (CEO and WDACS) — 20 minutes

5. Public comment — 5 minutes

LACDA
Los Angeles County Development Authority

February 27, 2020

TO: Economic Development Policy Committee

FROM: Davon Barbour, Director
Community and Economic Development Division

Carey Jenkins, Manager of Economic Development Unit
Community and Economic Development Division

SUBJECT: REPORT BACK ON MANUFACTURING REVOLVING LOAN FUND

Summary
This report summarizes the Manufacturing Revolving Loan Fund Operations from its inception in Fiscal Year (FY) 2016-17 to the present (Life-to-Date). It discusses current loan status, funds expended, marketing efforts, and provides a case study of a current loan prospect in the pipeline. This report will also highlight some of the challenges encountered with the program and provide recommendations for improved outcomes.

Current Status
Thus far the Manufacturing Revolving Loan Fund (MRLF) has encountered muted success. While there are loans that have been funded, they do not necessarily represent the anticipated outcomes initially anticipated when the program was launched per the authorizing Board action on October 20, 2015. The MRLF was initially implemented as a component of the Economic Development Trust Fund (EDTF) and was designed to address some the following policy goals outlined by the Board of Supervisors:

- Target manufacturers in Employment Protection Districts, Industrial Flex Districts, or Industrial Opportunity Areas established by the County General Plan or any Community Revitalization Investment Area (per Assembly Bill No. 2) or Enhanced Infrastructure Financing District (EIFD) (per Senate Bill No. 628); and
- Provide access to capital for increased manufacturing business creation, expansion and retention, and job creation in unincorporated County areas, with particular focus on growing local, small- and medium-sized manufacturers supporting high quality, family-supporting jobs.

The MRLF is administered by the Los Angeles County Development Authority (LACDA) and resides in the agency's Community and Economic Development Division where it serves alongside other EDTF programs, such as the Renovate Façade Improvement

Program and the Catalytic Development Fund. Both programs have been well received since their introduction and have been instrumental in creating several projects in collaboration with various Board Offices.

Daily administration of the MRLF is implemented through a set of guidelines created during the initial phase of the program's development and were replicated in substantial form from the pre-existing guidelines used to administer the Economic Development Administration (EDA) Revolving Loan Fund. The MRLF and associated operating guidelines were part of a larger report submitted to the Board of Supervisors in a January 25, 2016 EDTF update. Some of the key elements of the Guidelines include:

Loan Amount:	Up to $500,000 for established businesses.
Loan Term:	Vary with the useful life of the asset, from five (5) up to twenty (20) years.
Eligible Uses of Funds:	Inventory, predevelopment costs, site acquisition, hard construction costs, machinery and equipment, infrastructure costs, seismic retrofitting, and debt refinancing.
Job Creation/Retention:	One (1) job for every $50,000 borrowed.

The following summarizes key MRLF statistics Life-to-Date through January 31, 2020:

Funds Received	Funds Loaned	No. of MRLF Loans	% of MRLF Loaned	Current Eligible Business	Businesses Screened FY 2016-17	Businesses Screened FY 2017-18	Businesses Screened FY 2018-19	Businesses Screened FY 2019-20
$7,000,000	$1,600,000	2	23%	1	31	103	169	71
					FY 2016-17	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
				Funds Allocated Per FY	$2,000,000	$0	$2,400,000	$2,600,000

The columns that reflect "Businesses Screened" during the identified time periods include the following categories of prospective borrowers: Approved and Funded; Loans Pending Closing; Applications Submitted and Pending Underwriting; Prospective Leads; Businesses Contacted; and Loan Applications Declined.

Two (2) loans have been funded under the MRLF, to date. The first loan was executed on June 15, 2017 in the amount of $100,000 to RCO, a recycling company specializing in dismantling and repurposing tires and is located at 2934 E. Las Hermanas Street (unincorporated) Compton, CA (Second District). Per the loan agreement, the company

is to create two (2) jobs and retain another fifteen (15) on site. This loan is presently active and remains in good standing. However, the business has ceased operating due to various customer challenges, cash flow limitations, and management capacity issues.

The second loan was provided to A.S. Aerospace on May 24, 2019 in the amount of $1,500,000. The company is located at 21095 Centre Pointe Parkway in Santa Clarita (Fifth District). This loan is active and regular payments are being received. As a direct result of the MRLF loan the company will create eleven (11) additional jobs over the next two to three years and retain another nineteen (19) positions. It should be noted this area of the County is home to numerous aerospace manufacturers and parts suppliers and provides a good opportunity to grow the base MRLF of loans in service.

Recent Audit Activities

In January 2020 the MRLF was the subject of a programmatic audit conducted by the County Office of the Auditor Controller. The results of the audit are forthcoming. It should be noted that in preparing for the review staff noted apparent discrepancies with the use of MRLF loan proceeds as they related to the A.S. Aerospace loan. Specifically, the loan size of $1,500,000 exceeded the prescribed cap stated in the MRLF guidelines, which is $500,000. Additionally, it was determined that the company was based in the City of Santa Clarita, approximately two (2) miles from the unincorporated Los Angeles County boundary. Please see the location map for A.S. Aerospace **(Attachment "A")**.

In retrospect, this loan should have been funded through the federal EDA program. Funds within the EDA pool can be used to assist companies in both incorporated and unincorporated areas of the County. The audit findings have yet to be published. However, to address any potential findings that are made as part of the report, LACDA proposes to allocate up to $1,500,000 in EDA funds to finance loans that are otherwise eligible under the existing MRLF Guidelines. As MRLF loan prospects are identified and subsequent loans closed, EDA funds would be utilized up to the $1,500,000 threshold thus offsetting the initial ineligible use of the MRLF.

Marketing and Outreach

Presently LACDA markets the MRLF in multiple formats in conjunction with its other loan programs. Focus is given to three main forms of marketing and outreach and include the use of a third-party marketing and branding consultant, direct staff outreach and presentations to various Chambers of Commerce throughout the County, Community Development Financial Institutions (CDFI) and through direct leads from organizations

such as the Los Angeles Economic Development Corporation (LAEDC), Small Business Development Corporations, and private institutions.

On April 1, 2017, LACDA entered into a contract with Allegra Consulting to provide rebranding, marketing and outreach services with special emphasis placed on the MRLF and other loan programs being administered. Since entering into the agreement with LACDA, Allegra Consulting has provided the following:

- Developed and implemented the SMART Funding marketing campaign.
- Assisted in the creation of a dedicated section on the LACDA webpage focusing on business loan programs.
- Creation and distribution of specialized marketing mailers issued to businesses throughout the County.
- Targeted email blasts posted to prospective borrowers.
- Identified and reported on various data metrics associated with SMART Funding.

In support of SMART Funding and the MRLF specifically, please see the summary below that highlights key data and marketing metrics Life-to-Date.

Mailers Issued	Email Blasts	Website inquiries (1)	No. of Page Clicks	Average Time on Website	Chamber Meetings and Related Events	Leads from LAEDC and Other Agencies
46,091	32,330	40	740 unique visitors	2 minutes	30	10

(1) Data tracking initiated May 1, 2019

It is expected that another 14,664 mailers will be issued, 7,208 email blasts will be forwarded and two (2) Chamber of Commerce meetings will be attended during the remainder of the fiscal year ending June 30, 2020.

In addition to these efforts LACDA will sponsor the Interface Industrial Conference which will be held on May 7, 2020. LACDA has a full-page cover advertisement in the April edition of Western Real Estate Business, which will focus on the Society of Industrial and Office Realtors (SIOR). These efforts are intended to strengthen relationships with leading professionals who represent manufacturing tenants. Finally, LACDA joined the National Association for Industrial and Office Parks to strengthen relationships with local leasing representatives.

Current Project Pipeline

For the current fiscal year and as of the date of this report, there have been fifty-four (54) business inquiries, one (1) active lead awaiting the return of an official application, five (5) loan applications going through the underwriting process and two (2) loans that have been approved by the loan committee that await closing. As a direct result of these efforts there are two (2) manufacturing loans that are either in the process of being funded or attempting to go before the loan committee for consideration. Within these two (2) loans, one (1) appears to be MRLF eligible (Rice Field Corporation) while the other is outside of the unincorporated County boundary in the City of Gardena (Ramona's Foods). Please see the chart below for a summary of current activities.

FY 2019-20 SMART Funding Loan Program Activities through January 31, 2020						
Business Inquiries	**Pending Applications**	**Financial Review**	**Approved for Closing**	**Closed Loans**	**Manufacturing Business**	**MRLF-Eligible**
54	1	5	2	1	2	1

Program Challenges

Most of the funding inquiries received associated with SMART Funding are often marginally eligible or found to be ineligible for various reasons. Issues with ineligibility tend to focus on businesses in the start-up phase of their development, those with limited or troubled business histories, and those lacking collateral. Other times the principals don't possess adequate business experience or management background. Often, the inquirer will not have a defined business, only a business concept. In other instances, the business is found to be ineligible due to its underlying activity, such as real estate development or house-flipping. Please note the efforts undergone to identify and work with prospective manufacturing companies have been extensive. Within the context of the current fiscal year sixty-three (63) viable businesses have inquired about SMART Funding opportunities. This has yielded two (2) credible manufacturing company leads worth pursuing. Only one appears to be MRLF-eligible. Please see the site maps for both companies and their proximity to eligible unincorporated areas of the County – Ramona's Foods (Attachment "B") and Rice Field Corporation (Attachment "C").

Through meeting with various businesses and identifying their financing needs it has come to the attention of staff that while well-intentioned, the MRLF creates two distinct implementation challenges. The first limiting factor is the locational focus associated with specific industrial zones in unincorporated Los Angeles County. The other factor concerns the relatively small allocation of funds identified for each loan request, which is capped at $500,000. This cap tends to create significant constraints on the ability to place these

funds into productive use given the financing needs of most businesses encountered. The typical manufacturing loan request is tied to production equipment and working capital, which almost always exceeds the limit prescribed by the program.

Between February 20 and 21, 2020, a brief phone survey and online research were conducted of various localities in the County to assess any financial incentives they may provide to businesses with an emphasis on the manufacturing sector. Representatives from Gardena, the City of Los Angeles, Santa Clarita, and the City of Industry were interviewed. Following is a summary of individual responses.

Jurisdiction	Manufacturing Specific	General Commercial	Max Loan Amount	Eligible Uses
City of Gardena (1)				
City of Los Angeles	n/a	EDA	$1 million	manufacturing and non-manufacturing projects
City of Santa Clarita	n/a	n/a	n/a	n/a
City of Industry	n/a	n/a	n/a	n/a

(1) After attempts at contacting the City and researching their website, it was determined that they did not have a business loan program.

The consensus is that the various localities provide little opportunity in offering business loans, let alone for those that are in the manufacturing industry. The only city that appears to actively provide loans is the City of Los Angeles. Their program is more broad-based and doesn't consist of a specific manufacturing program. It should be noted that the City of Los Angeles has an industrial development bond financing program; however, because of the current interest rate environment very little to no activity has occurred relative to this program.

Case Study – Ramona's Foods

Ramona's Foods was founded in 1947 by Romana Acosta Banuelos and her husband, Alejandro Banuelos, in South Los Angeles. The company initially started as a restaurant and later expanded to food processing and related manufacturing in 1954. Ramona's is now headquartered in Gardena, CA under the helm of her grandson, Robert, and his cousin, Edward. Today the company is a provider of authentic Mexican food across the United States and other countries around the world. It has maintained a strong reputation for quality products while still using the founder's original recipes.

The company has gone through a recent management change with the next generation of family members assuming ownership/management responsibilities (Robert Banuelos – grandson [51% ownership] and Edward Medina – [49% ownership] cousin). As a part of their reorganization plan the company is looking for approximately $8.1 million to

acquire their current facility to maintain business operations in Gardena and the adjacent unincorporated County area of the Second District. The company presently employs 133 workers at its facility located at 13633 S. Western Avenue in Gardena, CA 90249. Based on anticipated growth, the company anticipates hiring an additional fifty-four (54) employees over the next two years.

Based on initial LACDA underwriting analysis the company is financially viable, provides an economic benefit to the surrounding community as a relatively large employer, and is attempting to remain in Southern California by purchasing its production facility despite the efforts of other states such as Texas to lure them away. The scenario described is consistent with other companies that have explored MRLF funding. The major hurdle appears to be the limitation on the maximum size of the loan at $500,000 and the geographic constraint of focusing on industrial zones in unincorporated areas of the County. This is complicated even more given the fact that Ramona's is adjacent to the unincorporated County boundary, which is just four (4) blocks away to the north.

As it is currently constituted this project would likely have to be funded exclusively with EDA loan proceeds despite the fact this is a manufacturer with a sizable employee base located in an area of the County that would benefit from additional job growth.

Recommendations

The current methods of sourcing MRLF eligible loans need to be altered. In doing so greater focus should be given to exclusive marketing efforts in the unincorporated areas of the County as opposed to the Countywide approach to marketing that incorporates other non-manufacturing businesses. In response to this, the following recommendations are being provided for consideration:

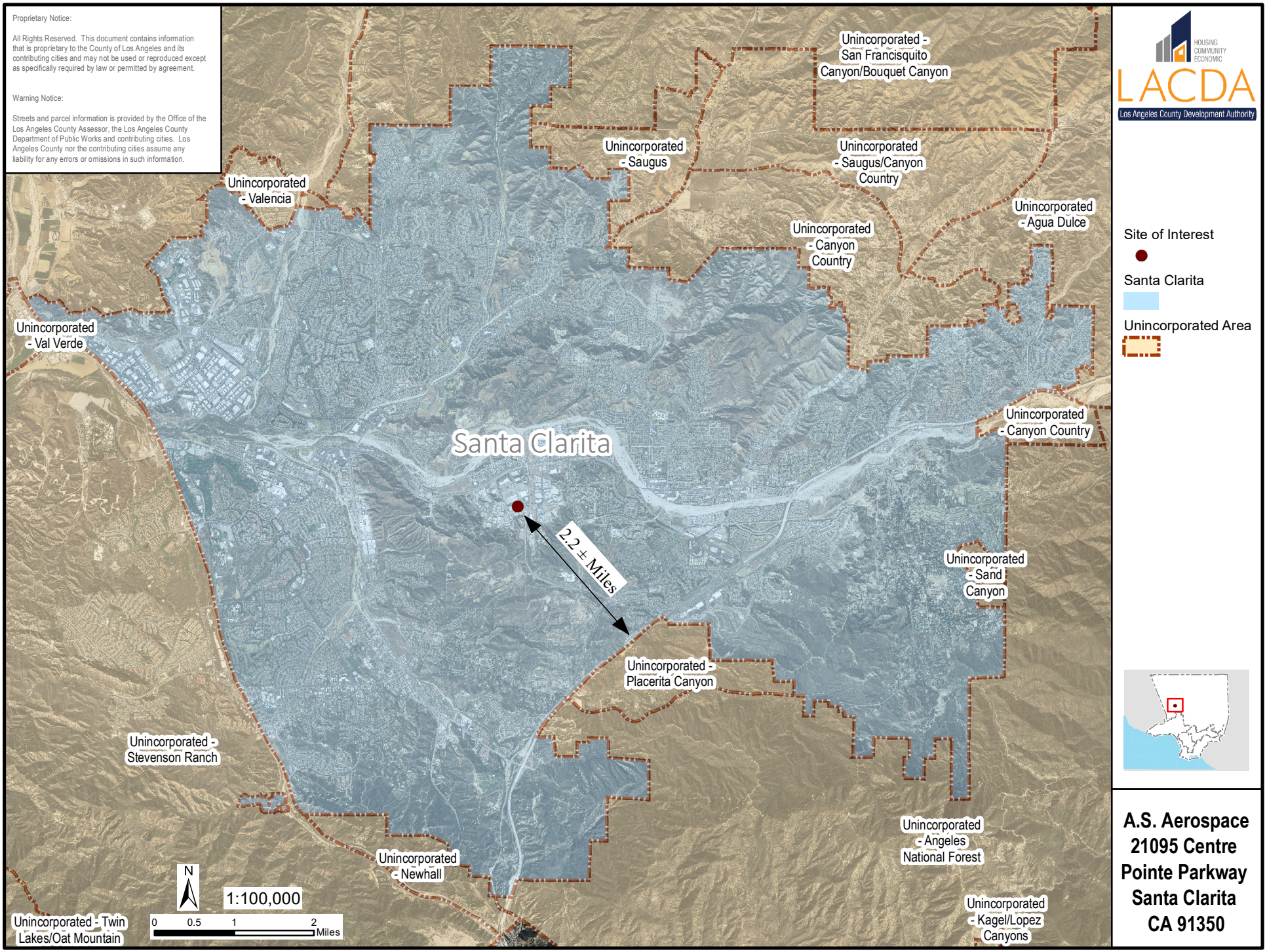
- Issue a request for proposals (RFP) to community-based lenders, CDFI and local community development corporations (all referred to as Contractor Agencies) to solicit these organizations to source, underwrite, package, and deliver loans to LACDA for final review and approval.
- Target areas would remain exclusive to unincorporated areas of Los Angeles County.
- When appropriate and where the MRLF financing request exceeds $500,000, EDA funds also administered by LACDA would be considered within the overall underwriting and approval process based on a review of the overall project and its debt service capacity.

- The loan committee overseeing all revolving loan funds administered by LACDA would be tasked with considering and recommending loans sourced by selected Contractor Agencies.
- Smaller loans, such as those under $100,000 and funded with EDA dollars, would also be identified in the scope of services for those Contractor Agencies to source and present to LACDA for consideration. Based on the EDA Administrative Plan (updated August 30, 2019) loans of this size can be approved administratively without loan committee review provided they have gone through a predetermined underwriting process authorized by LACDA.
- LACDA would retain administration of larger loans funded with EDA and CDBG and oversee the asset management and loan servicing of all funded loans.

The RFP is scheduled to be released in March 2020 with a team of Contractor Agencies available to source and underwrite loans for consideration by June 2020.

DB:CJ:ec

ATTACHMENT A



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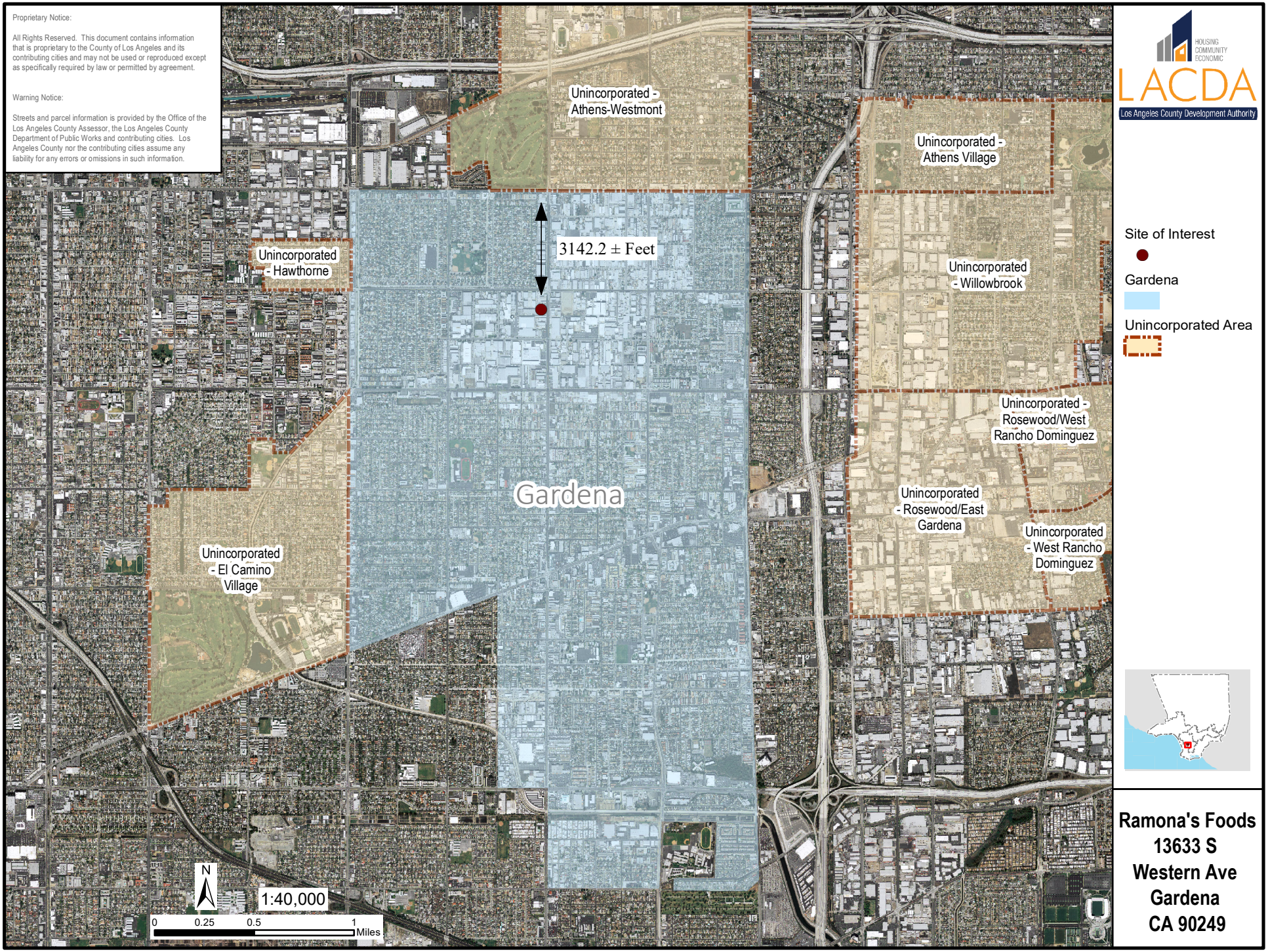
Prepared By: Xingchen Chen

Image courtesy of the LAR-IAC
Natural Color Orthogonal Imagery 2012

ATTACHMENT B



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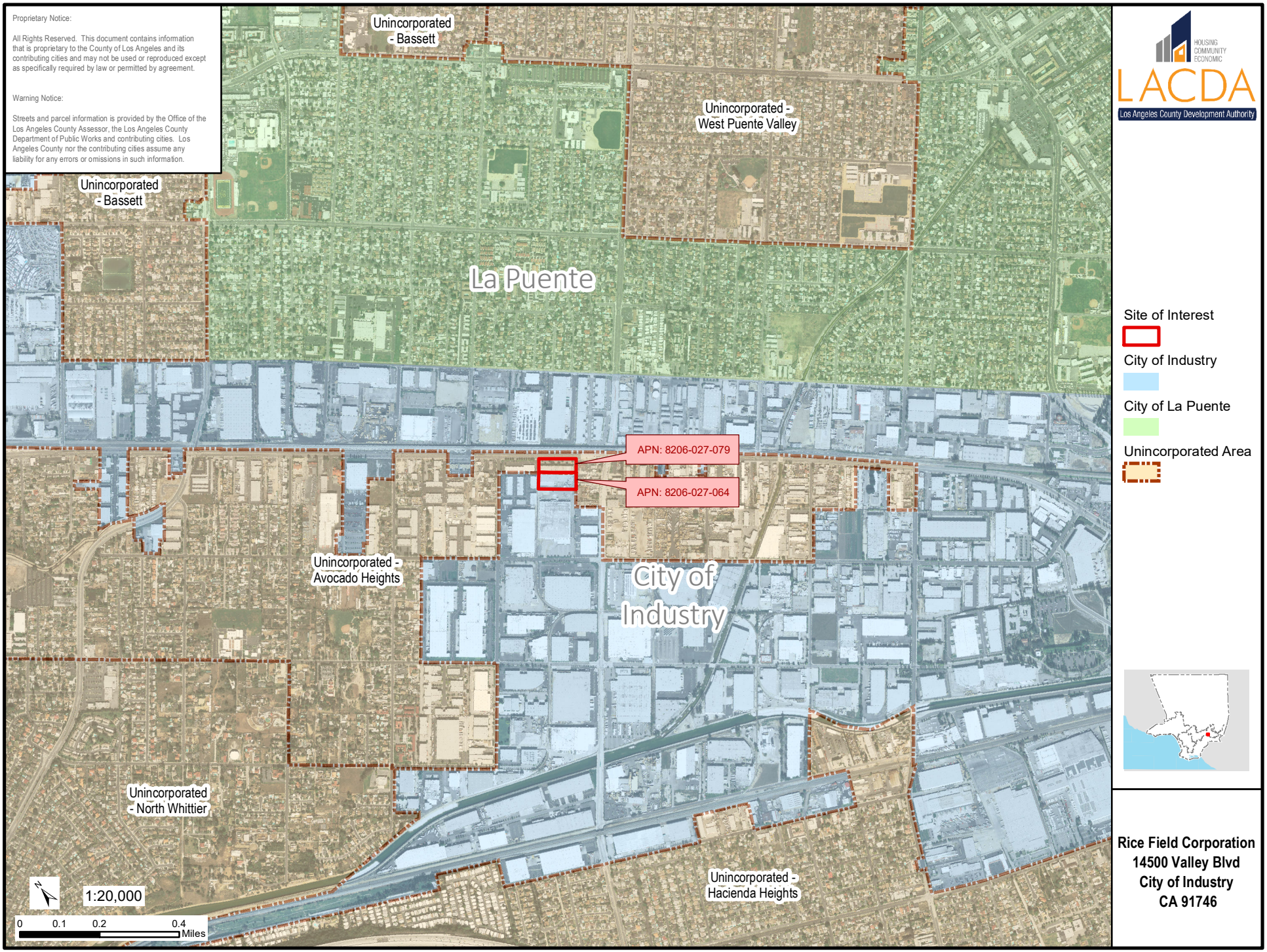
Prepared By: Xingchen Chen

Image courtesy of the LAR-IAC
Natural Color Orthogonal Imagery 2012

ATTACHMENT C



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Prepared By: Xingchen Chen

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