

File No. 120049

Committee Item No. 7  
Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: February 15, 2012

Board of Supervisors Meeting

Date \_\_\_\_\_

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/> | Motion                                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Resolution                                   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget & Legislative Analyst Report          |
| <input type="checkbox"/>            | <input type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>            | <input type="checkbox"/> | Introduction Form (for hearings)             |
| <input type="checkbox"/>            | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/> | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Award Letter                                 |
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#### OTHER

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Completed by: Victor Young

Date: February 10, 2012

Completed by: Victor Young

Date: \_\_\_\_\_

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Appropriating \$1,000,000 for the Small Business Revolving Loan Fund Program - Office of  
2 Economic and Workforce Development]

3 **Ordinance appropriating \$ 1,000,000 of General Fund prior year fund balance for the**  
4 **Small Business Revolving Loan Fund Program in the Office of Economic and**  
5 **Workforce Development for FY2011-2012.**

7 Note: Additions are single-underline italics Times New Roman;  
8 deletions are ~~strikethrough italics Times New Roman~~.  
9 Board amendment additions are double underlined.  
10 Board amendment deletions are ~~strikethrough normal~~.

11 Be it ordained by the People of the City and County of San Francisco:

12 Section 1. The sources of funding outlined below are herein appropriated to reflect the  
13 funding available in Fiscal Year 2011-2012.

14 **SOURCES Appropriation**

Fund	Index/Project Code	Subobject	Description	Amount
1G AGF AAA	*CON1GAGFAAA	99999B	Beginning fund balance	\$1,000,000
<b>Total Sources Appropriation</b>				<u>\$1,000,000</u>

22 Section 2. The uses of funding outlined below are herein appropriated in FY 2011-2012 in  
23 Subobject 03800 (Community Based Organization Services Budget),  
24  
25

1 **USES Appropriation**

2

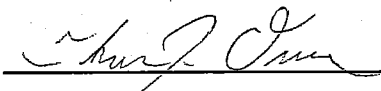
Fund	Index/Project Code	Subobject	Description	Amount
1G AGF ACP	210058/ PBESBR 00	03800	Community Based Organization Services Budget	\$1,000,000
<b>Total USES Appropriation</b>				<u>\$1,000,000</u>

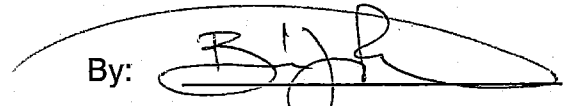
3  
4  
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8  
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10 Section 3. The Controller is authorized to record transfers between funds and adjust the  
11 accounting treatment of sources and uses appropriated in this ordinance as necessary to  
12 conform with Generally Accepted Accounting Principles.  
13

14 APPROVED AS TO FORM:  
15 DENNIS J. HERRERA, City Attorney

FUNDS AVAILABLE  
Ben Rosenfield, Controller

16 By:   
17 Deputy City Attorney

By:   
Date: January 23, 2012

Item 7  
File 12-0049

Department:  
Office of Economic and Workforce Development (OEWD),

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed ordinance would appropriate \$1,000,000 of General Fund prior year fund balance for the Small Business Revolving Loan Fund Program managed by TMC Development Working Solutions (Working Solutions), through the Office of Economic and Workforce Development (OEWD).

### Key Points

- The Small Business Revolving Loan Fund Program is a City funded loan program, to generate additional economic activity by providing greater access to capital for small and micro-businesses in San Francisco that have had difficulty accessing regular credit markets. Loans are up to \$25,000 for startup companies and \$50,000 for existing businesses. To qualify, businesses must be (a) in San Francisco, (b) unable to get a bank loan, and (c) able to create or retain at least one full-time job for a low- to moderate-income person.
- In 2009, the City provided Working Solutions, a non-profit organization, \$800,000 of unused Community Development Block Grant and Title IX Economic Development Administration (EDA) funds, of which \$680,000, or 85 percent, was for loan capital and \$120,000, or 15 percent, was for administrative costs to fund staff to process the loans and provide technical assistance.
- Between July 13, 2009 and January 25, 2012, the Small Business Revolving Loan Fund Program, through Working Solutions, provided loans to 27 businesses totaling \$665,585, which has resulted in the creation of 73 jobs. As of January 25, 2012, a total of \$244,260 has been repaid back to the Small Business Revolving Loan Fund, including \$202,289 in principal and \$41,971 in interest. To date, there have been no loan defaults.

### Fiscal Impacts

- The proposed ordinance would be funded with \$1,000,000 from the General Fund prior year fund balance.
- As of January 25, 2012, the Small Business Revolving Loan Fund has a balance of \$258,675 including \$202,289 in principal repayments, \$41,971 in interest payments, and \$14,415 not yet loaned monies.
- In addition, the City is providing (a) \$77,000 of repayments from previous Economic Development Administration Title IX loans, and (b) \$432,500 of previously approved loan funds from Wells Fargo, such that together with the proposed \$1,000,000 supplemental appropriation, a total of \$1,509,500 would be provided to the Small Business Revolving Fund. Of the total \$1,509,500, \$226,425 would be for Working Solutions administrative expenses and \$1,283,075 would be for available capital for small business loans.

### Policy Issue

- Given that there has not yet been an evaluation of this program, and that there is currently a total of \$768,175 of funds available to continue the Small Business Revolving Loan Program, the Budget and Legislative Analyst considers approval of an additional \$1,000,000 of General Fund revenues at this time, to be a policy decision for the Board of Supervisors.

### Recommendation

- Approval of the proposed ordinance is a policy decision for the Board of Supervisors.

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

Under Section 9.103 of the City's Charter, the Board of Supervisors is responsible for amending and approving the Annual Appropriation Ordinance.

**Background**

The Small Business Revolving Loan Fund Program is a City-funded loan program, which commenced in April of 2009, through the Office of Economic and Workforce Development (OEWD), to generate additional economic activity by providing greater access to capital for small San Francisco businesses. In 2009, based on a Request for Proposals (RFP) process conducted by the OEWD, the City awarded an agreement for a total of \$800,000 (\$550,000 of unused Federal Housing and Urban Development (HUD) Community Development Block Grant funds and \$250,000 of unused Title IX Economic Development Administration funds<sup>1</sup>) to TMC Development Working Solutions (Working Solutions), a non-profit organization, specializing in providing micro-financing and related services to small businesses, to administer the Small Business Revolving Loan Fund Program.

The Program is targeted to small and micro-businesses<sup>2</sup> that have had difficulty accessing regular credit markets. Small Business Revolving Loans are up to \$25,000 for startup companies and \$50,000 for existing businesses and can be used for working capital, inventory purchase, equipment purchase, startup costs, and tenant improvements. The terms of the loans are up to five years with fixed interest rates ranging from four to six percent depending on the level of risk. To qualify, businesses must be (a) located in San Francisco, (b) unable to get a bank loan, and (c) able to create or retain at least one full time job for a low- to moderate-income person<sup>3</sup>.

Of the total \$800,000 awarded to Working Solutions \$680,000, or 85 percent, was for loan capital and \$120,000, or 15 percent, was for Working Solutions' administrative costs to fund approximately 1.0 full-time equivalent (FTE) position for the first two years and ten months to process the loans and provide technical assistance to the small-business owners. Under the existing Small Business Revolving Loan Fund Program, loans are to be repaid to Working Solutions with interest.

According to Ms. Emily Gasner, Executive Director for Working Solutions, OEWD tracks the previously issued loans and any new loans issued through the Small Business Revolving Loan Fund Program through bi-monthly Loan Committee Meetings and through monthly reports submitted by Working Solutions. Working Solutions also (a) meets with each business that has an outstanding loan every three months, (b) reviews each business's annual tax returns and bi-monthly financial statements and (c) provides five years of business coaching, mentoring, and support services to each business.

<sup>1</sup> The Economic Development Administration Title IX funds were from a \$1,100,000 grant given to the City in 1980 that was matched with \$1,136,787 in City funds at that time. Over the last 32 years, those funds have provided 151 loans totaling \$7,046,269. The \$250,000 in EDA Title IX funds used to fund the Small Business Revolving Loan Fund Program in 2009 were from loan repayments from that original \$1,100,000 EDA Title IX grant.

<sup>2</sup> Small businesses are defined as businesses with less than 100 employees while micro-businesses are defined as businesses with five or fewer employees, including the owner.

<sup>3</sup> A low to moderate income person is defined as a single person making \$62,200 or less per year, or a family of four making \$88,800 or less per year.

According to Ms. Jennifer Matz, Director of OEWD, between July 13, 2009 and January 25, 2012, the Small Business Revolving Loan Fund Program, through Working Solutions, has provided loans to 27 businesses totaling \$665,585 which has resulted in the creation of 73 jobs.<sup>4</sup> As of January 25, 2012, a total of \$244,260 has been repaid to the Small Business Revolving Loan Fund, including \$202,289 in principal and \$41,971 in interest. As of the writing of this report, there have been no loan defaults.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$1,000,000 of General Fund prior year fund balance for the Small Business Revolving Loan Fund Program through the Office of Economic and Workforce Development (OEWD), to be allocated to Working Solutions to provide additional loans for San Francisco small and micro businesses.

## FISCAL IMPACTS

### *Source of Funding*

The proposed ordinance would appropriate \$1,000,000 of monies from the unassigned prior year-end General Fund balance to the Small Business Revolving Loan Fund Program, to be managed by Working Solutions. The unassigned prior year-end General Fund balance represents the surplus fund balance from FY 2010-11 that is greater than the amount assumed in the FY 2011-12 Annual Appropriations Ordinance. According to Mr. Leo Levenson, Budget and Analysis Director in the Controller's Office, although the Controller's Office working with the Mayor's Office make updated projections regarding the year-end General Fund balance, how much the year-end General Fund balance actually will be is not known until all revenue accruals and other year-end analysis is complete, which is usually not until November of each year, or four months after the budget is approved by the Board of Supervisors. The City ended FY 2010-11 with \$168,451,129 in unassigned General Fund balance. Of that amount, \$159,390,028 was projected and assumed in the FY 2011-12 Annual Appropriation Ordinance, resulting in an actual surplus unassigned prior year-end General Fund balance of \$9,061,101. Of the original \$9,061,101, \$1,000,000 has been appropriated by the Board of Supervisors in FY 2011-12 for the Mirant Potrero LLC settlement related to the Potrero Power Plan closure, leaving a current remaining balance of \$8,061,101.

If the proposed \$1,000,000 supplemental appropriation ordinance is approved by the Board of Supervisors, the remaining General Fund prior year-end fund balance would be \$7,061,101 (\$8,061,101 less \$1,000,000). At the end of FY 2011-12, all remaining funds in the General Fund prior year-end fund balance would be closed out and used as a source for funding the FY 2012-13 General Fund budget.

<sup>4</sup> All businesses that receive a loan from the Small Business Revolving Loan Fund must have their employees fill out employee family income verification forms. This data is aggregated to sum the total jobs created. Working Solutions did not have the breakdown of how many jobs were low- to moderate-income jobs but were working to get that information to OEWD.

*Balance of the Small Business Revolving Loan Fund*

As shown in Table 1 below, as of January 25, 2012, the Small Business Revolving Loan Fund had an available balance of \$258,675 including \$202,289 in principal repayments, \$41,971 in interest payments, and \$14,415 in funds that have not yet been loaned to businesses that remains from the original \$800,000 of grant funds.

Table 1: Current Balance in the Small Business Revolving Loan Fund

Principal Repayments	\$202,289
Interest Payments	41,971
Remaining Funds Not Yet Loaned from Original \$800,000	14,415
<b>Subtotal Available Funds as of January 25, 2012</b>	<b>\$258,675</b>

In addition, according to Ms. Matz, and shown in Table 2 below, the City is using additional funding to further supplement the Small Business Revolving Loan Fund, including:

- (a) \$77,000 of repayments from previous Economic Development Administration Title IX loans<sup>5</sup>, and
- (b) \$432,500 of previously approved loan funds from Wells Fargo.<sup>6</sup>

Table 2: The Proposed Funding for Small Business Revolving Loan Fund Program

Proposed \$1,000,000 of General Fund Monies ( <i>Proposed Ordinance</i> )	\$1,000,000
Wells Fargo Funds	432,500
Repayments from Previous Small Business Loan Program	77,000
<b>Subtotal</b>	<b>\$1,509,500</b>
Working Solutions Administrative Fees (15%)	226,425
<b>Available Capital</b>	<b>\$1,283,075</b>

As shown in Table 2 above, if the proposed \$1,000,000 supplemental appropriation ordinance is approved, coupled with the additional \$432,500 Wells Fargo loan funds and \$77,000 of previous small business loan repayments, the Small Business Revolving Loan Fund would have a total of

<sup>5</sup> The source of these funds was repayment of the same EDA Title IX loans granted to the City in 1980 as described in footnote 1.

<sup>6</sup> The \$432,500 is part of a \$500,000 loan from Wells Fargo to the City previously approved by the Board of Supervisors (File 04-1685). The terms of the loan established annual interest rates of two percent. The outstanding principal balance of the loan and accrued but unpaid interest is due and payable by the City to Wells Fargo on March 4, 2018. The original loan to the City was intended to be issued to businesses, in the form of loans, for facade and tenant improvements in the Bayview neighborhood. Due to a lack of interest on behalf of the businesses, in 2011, OEWD and Wells Fargo decided to redeploy the funds for microfinance loans through the Small Business Revolving Loan Fund. \$432,500 of the original \$500,000 loan to the City by Wells Fargo will be provided to Working Solutions as a loan to be repaid to the City at two percent annual interest over five years. Based on terms from the original loan agreement between Wells Fargo and the City, the funds are targeted, but not limited to neighborhoods representing distressed or underserved areas of the City, including the Mission District, South of Market, Tenderloin, Chinatown, Bayview, Mid-Market, Excelsior (Outer Mission) and Ocean Avenue.

\$1,509,500 of new funding available, including \$226,425 for Working Solutions administrative expenses and \$1,283,075 in additional loan capital.

According to Ms. Gasner, 15 percent of the total funds provided to Working Solutions would be for expenses to administer the Small Business Revolving Loan Fund, which are designed to be one-time payments and are not intended to fund the administration of the Small Business Revolving Loan Fund in perpetuity. The \$226,425 in administrative costs would fund approximately 3 FTE for the first year as shown in Table 3 below:

Table 3: FTE Positions for Working Solutions Administrative Costs

Position	FTE
Executive Director	0.25
Operations and Marketing Manager	0.25
Post Loan Technical Assistance Staff Manager	0.50
Business Development Manager	0.50
Client Intake Specialist	0.50
Loan Officer and Pre-Loan Technical Assistance Staff	0.50
Business Development Officer	0.50
<b>Total FTE</b>	<b>3.00</b>

According to Ms. Gasner, Working Solutions will leverage additional funding from the U.S. Treasury Department and private corporations to continue the same level of services after the first year to continue to administering the new loans. Ms. Matz and Ms. Gasner are currently discussing entering into a Memorandum of Understanding (MOU) that would grant Working Solutions the use of the interest payments, from the loans, which have remained unused as of the writing of this report, to cover Working Solutions' future administrative costs.

According to Ms. Gasner, currently the average small and micro-business loan is \$25,000, such that the additional available capital of \$1,283,075, shown above in Table 2, would fund approximately 51 loans, each of which, by the requirements of the loan, would generate at least one job for low or moderate income workers, or a total of at least 51 new jobs in San Francisco.

## POLICY ISSUE

As of the writing of this report, there has not been an overall evaluation of the existing Small Business Revolving Loan Fund Program. In addition, as of the writing of this report, as noted above, neither the OEWD nor Working Solutions knew the number of low or moderate income jobs that have been created under this Program. As discussed above, since 2009, the Small Business Revolving Loan Fund Program has been administered by the OEWD, through an agreement with Working Solutions, which was previously funded with \$550,000 of unused Federal Housing and Urban Development (HUD) Community Development Block Grant funds and \$250,000 of unused Title IX Economic Development Administration funds, for a total of \$800,000.

As shown in Table 1 above, there is currently \$258,675 of repaid loans from these original funds. In addition, the City is providing \$432,500 of previously approved loan funds from Wells Fargo



and \$77,000 of repayments from previous Economic Development Administration Title IX loans to the Small Business Revolving Loan Program. Together, these three funding sources would provide \$768,175 of immediate funding for the Small Business Revolving Loan Program.

Given that there has not yet been an evaluation of this program, and that there is currently a total of \$768,175 of funds available to continue the Small Business Revolving Loan Program, the Budget and Legislative Analyst considers approval of an additional \$1,000,000 of General Fund revenues at this time, to be a policy decision for the Board of Supervisors.

## **RECOMMENDATION**

Approval of the proposed ordinance is a policy decision for the Board of Supervisors.

