

CITY OF OAKLAND
AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2004 MAY 26 AM 10:11

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: June 8, 2004

RE: **REPORT AND RESOLUTION AUTHORIZING REVISION OF THE CITY'S ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) REVOLVING LOAN FUND (RLF) ADMINISTRATIVE PLAN, APPROPRIATING PREVIOUS EDA RLF LOAN REPAYMENTS, AND AUTHORIZING APPROPRIATION OF FUTURE LOAN REPAYMENTS**

SUMMARY

The purpose of this report is to request that the City Council approve a resolution authorizing revision of the City's updated Economic Development Administration (EDA) Revolving Loan Fund (RLF) administration plan, appropriating previously earned loan repayments and program income, and authorizing appropriation of future loan repayments and program income into spendable accounts. The EDA RLF existing administrative plan was developed by the City in 1986 using EDA guidelines and is now being updated to include the new role of the Oakland Business Development Corporation (OBDC) in underwriting and processing EDA RLF loans. OBDC's role in underwriting and processing EDA RLF loans was approved by Council Resolution No. 76972 C.M.S. dated February 26, 2002 which authorized OBDC to underwrite and process all of the City's commercial loans in amounts under \$100,000. Commercial Lending staff will soon submit a proposal to City Council to increase OBDC's lending limit to \$249,500.

FISCAL IMPACT

Authorization of the updated EDA RLF administrative plan will have no fiscal impact. The appropriation of EDA RLF interest and fee income and principal repayments will redeposit those funds into the EDA RLF loan pool and make them available for re-lending to eligible borrowers. The appropriation of previously earned EDA RLF interest and fee income and principal repayments will be as follows:

- \$44,709.24 of program income and principal repayments attributable to the CDBG funded portion of the EDA RLF loan fund will be appropriated to the EDA RLF CDBG account: Fund 2108, Organization 88579, Project G02520
- \$82,412.76 of program income and principal repayments attributable to the EDA grant funded portion of the EDA RLF loan fund will be appropriated to the EDA RLF EDA Grant account: Fund 2104, Organization 88579, Project G02510

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Community and Economic Development Committee
June 8, 2004

BACKGROUND

The EDA RLF loan program was created by the City in 1985 with a \$193,830 Department of Commerce EDA grant and \$133,929 of matching CDBG funds from the City. These EDA loan funds were intended to provide financing for businesses in Oakland's industrial and targeted retail areas for commercial real estate acquisition and improvement, business equipment purchases and working capital. Successful applicants were to demonstrate repayment ability and credit worthiness, provide adequate collateral, leverage private and other public investment of at least two to one (2:1), support the City's economic development strategy, and have the potential to create jobs for Oakland residents.

The first EDA RLF loan was funded in early 1987 and 15 loans have been funded to date totaling \$957,259 with an average loan size of \$63,800. The largest loan funded was a \$200,000 equipment and leasehold loan for expansion of an employee-owned book distributor in 1991, and the smallest loan was the initial loan in 1987 for an employment and training company. Other borrowers have included a franchised fast food restaurant, paper products manufacturer, and a specialized refrigeration equipment manufacturer.

Nine loans totaling \$679,759 have been fully repaid, two loans in the combined original amounts of \$100,000 defaulted on \$22,592 of combined principal, and four loans with a cumulative balance of \$141,177 were outstanding on April 1, 2004. Cumulative interest and fee income of \$153,698 was earned from the 15 funded loans since 1987 and \$86,918 of that income was used prior to 1993 for administrative expenses as permitted by EDA. Approximately \$200,000 of EDA RLF funds, including repayment interest and fees, are currently available for lending. The 15 EDA RLF loans funded to date have leveraged \$4.5 million of private debt and equity investment, and approximately \$1 million of other public debt. They have also created 72 jobs and helped retain 127 more.

PROJECT DESCRIPTION

EDA RLF Loan Terms

The minimum interest rate the City is permitted on EDA RLF loans is set at four percentage points below the current money center prime rate quoted in the Wall Street Journal. Regardless of the prime rate, however, the minimum EDA RLF interest rate cannot be set below 4%. The loan repayment periods are not specified by EDA, but the City has elected to use traditional repayment terms ranging from as short as one year for some working capital loans to as much as 20 years for real estate acquisition and construction/rehabilitation loans. EDA also does not mandate specific collateral requirements, but expects RLF administrators to utilize generally accepted underwriting and lending practices for public loan programs based on sound judgment. The City has applied the collateral standards required by the HUD Section 108 loan program to the EDA RLF, but has been flexible as needed to create viable financing structures when other characteristics of the borrower and project are strong.

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KEY ISSUES AND IMPACTS

Authorization of the revision of EDA RLF administration plan will permit OBDC to officially assume a key role in the administration of the EDA RLF program. This will enable the EDA RLF program to enjoy the same operational efficiencies that were expected when Council authorized the processing and administration of all commercial loans under \$100,000. These operational efficiencies are expected to result in even greater economic and job growth for the City of Oakland. The proposal to be presented to City Council in the near future to increase OBDC's \$100,000 loan limit to \$249,500 will expand the pool of applicants and projects that OBDC will be able to finance.

SUSTAINABLE OPPORTUNITIES

Authorization of revision of the City's EDA RLF administrative plan and appropriation of previous EDA RLF loan repayments and fees will support continued economic and job growth in Oakland.

DISABILITY AND SENIOR CITIZEN ACCESS

All EDA RLF loans will continue to be available to all Oakland citizens regardless of age or disability.

RECOMMENDATION(S) AND RATIONALE

Staff recommends that Council adopt the attached resolution authorizing revision of the City's EDA RLF administrative plan, appropriating previous EDA RLF loan repayments and program income, and authorizing appropriation of future loan repayments and program income. The actions authorized by this resolution will 1) enable OBDC to perform underwriting and loan processing functions related to the EDA RLF loan program, thereby increasing the timely access of Oakland's small businesses to these loan funds; and 2) insuring that loan repayments, interest and fees are properly recycled to the loan fund.

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ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council approve the attached resolution authorizing the City's EDA RLF administrative plan, appropriating previous and future EDA RLF loan repayments and program income, and authorizing appropriation of future EDA RLF loan repayments and program income.

Respectfully submitted,



Dan Vanderprien

Director Economic Development and
Redevelopment

Prepared by:
John Quintal
Economic Analyst III
CEDA, Commercial Lending

APPROVED AND FORWARDED TO THE
CITY COUNCIL COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:


OFFICE OF THE CITY ADMINISTRATOR

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2004 MAY 26 AM 10:11

APPROVED AS TO FORM AND LEGALITY:



Deputy City Attorney

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

INTRODUCED BY COUNCILMEMBER _____

**A RESOLUTION CERTIFYING REVISION OF THE CITY'S
ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)
REVOLVING LOAN FUND (RLF) ADMINISTRATIVE PLAN,
APPROPRIATING EDA RLF LOAN REPAYMENTS, AND
AUTHORIZING APPROPRIATION OF FUTURE LOAN
REPAYMENTS**

WHEREAS, the City of Oakland has operated a RLF under the requirements of the Department of Commerce EDA since 1985; and

WHEREAS, the City's EDA RLF has provided loans totaling \$957,259 to 15 local businesses, leveraged \$5.5 million of private and other public investment, and helped those businesses create 72 jobs, the majority of which were filled by low and moderate income Oakland residents; and

WHEREAS, the EDA RLF has generated \$ 153,698 of interest and fee income for redeposit into the RLF loan pool, less \$86,918 utilized for program administration expenses; and

WHEREAS, City Council approved Resolution No. 76972 C.M.S. dated February 26, 2002 which authorized the Oakland Business Development Corporation (OBDC) to underwrite and process all of the City's commercial loan, including EDA RLF loans; and

WHEREAS, EDA requires the public entities which operate EDA RLF loan programs to develop administrative plans for operation of those loan programs; and

WHEREAS, the City's EDA RLF plan administrative needs to be updated to include OBDC's involvement in the underwriting and processing of EDA RLF loans, and better focus EDA RLF lending consistent with Council economic development goals and the City's current economic development strategy; and

WHEREAS, EDA requires the governing bodies of those public entities operating EDA RLF loan programs to certify their administrative plans and revisions thereto:

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**COMMUNITY & ECONOMIC
DEVELOPMENT CMTE**
JUN 8 2004

NOW THEREFORE BE IT RESOLVED: That the City Council does hereby 1) certify revision of the City's EDA RLF administrative plan to include OBDC's underwriting and processing of EDA RLF loans as previously approved by City Council; 2) authorize the appropriation of EDA RLF interest and fee income and principal repayment in the amount of \$44,639.24 to the EDA RLF CDBG account (requisite account codes are: Fund 2108 Organization 88579, Project G02520) , and in the amount of \$82,412.76 to the EDA RLF EDA Grant account (requisite account codes are: Fund 2104, Organization 88579, Project2510); and 3) authorize the City Administrator to appropriate future EDA RLF loan interest and fee income and principal repayments into appropriate spendable accounts for relending to eligible borrowers, and be it

FURTHER RESOLVED: That the City Administrator or his or her designee is hereby authorized to amend the City's EDA RLF administrative plan, negotiate and execute documents, administer any agreements, extend or modify terms of such agreements, and take whatever other action with respect to such agreements consistent with this Resolution and its basic purpose; and be it

FURTHER RESOLVED: That any such documents shall be approved by the Office of the City Attorney and filed with the Office of the City Clerk.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2004

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN, AND PRESIDENT DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST:

CEDA FLOYD
City Clerk and Clerk of the Council
of the City of Oakland, California

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COMMISSION ON ECONOMIC
DEVELOPMENT CMTE

JUN 8 2004