

CITY OF OAKLAND
Community and Economic Development Agency
Agenda Report

TO: Office of the City Manager
ATTN: Robert C. Bobb
FROM: Community and Economic Development Agency
DATE: September 19, 2000

RE: RESOLUTION TO AMEND THE CONTRACT BETWEEN CITY OF OAKLAND AND OAKLAND SMALL BUSINESS GROWTH CENTER TO INCREASE THE FUNDING OF THE PROGRAM BY \$190,000 TO PROVIDE TECHNICAL ASSISTANCE AND CAPITAL ACCESS FOR BUSINESSES IN THE BUSINESS INCUBATOR AND OTHER BUSINESSES IN THE EAST OAKLAND ENHANCED ENTERPRISE COMMUNITY AREA, CENTRAL EAST OAKLAND AND ELMHURST COMMUNITY DEVELOPMENT DISTRICTS AND THE COLISEUM REDEVELOPMENT AREA

SUMMARY

The proposed technical assistance and capital access program is designed to stimulate economic development in the East Oakland Enhanced Enterprise Community, Central East Oakland and Elmhurst Community Development Districts and the Coliseum Redevelopment Area. Specifically, business owners in these areas have made clear their concern regarding the lack of business support and financing services available to assist in the expansion and stabilization of their businesses. To address this concern, CEDA is proposing to amend the existing contract with the Oakland Small Business Growth Center to implement a Technical Assistance and Capital Access Program designed to provide the following services:

- *outreach*
- *business assessments*
- *pre loan assistance leading to business plan development*
- *loan packaging and loan referral to the One Stop Capital Shop (OSCS)*
- *post loan technical assistance and monitoring*
- *site referral and leasing assistance through the Neighborhood Commercial Revitalization (NCR) unit*

The Technical Assistance and Capital Access Program will assist small business owners in the target communities to prepare and implement viable business stabilization and expansion plans. These business plans will assist businesses in the target area to contribute to the economic revitalization of the target communities in East Oakland. The business plans created as a result of this program will also serve as the basis for loan applications to the EEC Revolving Loan Fund that has approximately \$2 million of funds targeted for small business loans in that area.

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FISCAL IMPACTS

During the budget development process, the City Council allocated \$180,000 in Coliseum redevelopment funds to the NCR program for use in the Coliseum area during FY 99-00. It was intended that \$60,000 would be used in each of three Community Development Districts – Fruitvale/San Antonio, Central East Oakland, and Elmhurst. Funding for the Growth Center is proposed to be taken from the Central East Oakland (\$30,000) and Elmhurst (\$30,000) allotments for a total of \$60,000. The remaining \$130,000 would be from Enhanced Enterprise Community Economic Development Initiative (EDI) funds. As both sources have sufficient funds to cover this allocation and this is a grant of those funds, there are no negative fiscal impacts as a result of this action. This requested amendment is intended to represent a one-time only contract extension.

BACKGROUND

To meet the needs of small business owners attempting to open and maintain new businesses in Oakland, the City Council, on April 21, 1992, passed Resolution No. 68856 authorizing the creation of a Small Business Incubator Center. The Resolution also approved the allocation of \$1,714,500 for the acquisition and rehabilitation of such a center. Subsequently, Resolution No. 69193 approved by the City Council March 9, 1993 authorized the City Manger to enter into an agreement with the Oakland Small Business Growth Center (OSBGC) to manage the City's Small Business Incubator Center. The Oakland Small Business Growth Center has continued to manage the City's Small Business Incubator Center under contract since that time and the Center continues to serve as an important extension of the City's business support services.

The City's Small Business Incubator Center is located in the East Oakland Enhanced Enterprise Community, which is within both the Elmhurst Community Development District and the Coliseum Redevelopment Area. The incubator has 11,000 square feet and houses 21 small business tenants which average two years of operating experience. The goal of the Business Incubator is to nurture the growth and development of these businesses for approximately three years until they are prepared to expand into storefronts and other office space.

The City's Small Business Incubator Center also provides services to other "virtual" tenants located throughout the City of Oakland and primarily in the target communities. These "virtual" tenants do not actually reside in the facility but pay a reduced rate to receive the benefit of tenancy. Such benefits include reception services, conference facilities, facsimile and copy services, business development workshops and access to technical assistance in the operation of their business. One component of the proposed Technical Assistance and Capital Access program is the expansion of this "virtual" tenant network to provide an "Incubator Without Walls" for businesses already in storefronts or other office space that need the same assistance as existing tenants in the incubator.

The Oakland Small Business Growth Center is also involved in an expansion program which encompasses a Contractor's Assistance Center. Currently the OSSBGC houses five contractors and is working with the Port of Oakland's MBE program to assist other contractors as well.

In addition to providing a centralized location for small business owners in East Oakland to receive technical assistance and capital access, the program also incorporates a newly developed First Source Lease program through the Neighborhood Commercial Revitalization (NCR) unit. NCR staff have a long history of working closely with landlords of commercial properties and other small business owners through the many programs and projects they manage. As a result, NCR staff is aware of many vacant commercial sites that might be appropriate for the relocation of the former incubator tenant. When a client in the Technical Assistance and Capital Access program is prepared to move out of the incubator facility the First Source Lease program would simply require the program participant to first contact the NCR unit to receive referrals to available lease spaces in the target area. In this way, the City's investment in the business through the support provided in the incubator can be recaptured through the business expanding within the City of Oakland and specifically within the target communities.

The Technical Assistance and Capital Access program was developed in response to the expressed needs of the small business community in the target area to receive focused technical assistance leading to greater access to capital. The Technical Assistance and Capital Access program is a natural extension of the existing programs offered by the City's Business Incubator Center operated by the Small Business Growth Center. The City of Oakland will benefit by the stabilization and growth of small businesses in economically challenged areas of Oakland leading to job creating and community revitalization.

To implement this program, the OSBGC will work collaboratively with the East Bay Small Business Development Center, a technical assistance provider co-located in the One Stop Capital Shop facility, and the City's One Stop Capital Shop and Neighborhood Commercial Revitalization units.

PROGRAM COMPONENTS

1. Outreach

The OSBGC will target clients in the East Oakland Enhanced Enterprise Community and Coliseum Redevelopment Area, with emphasis in the Central East Oakland and Elmhurst Community Development Districts. The outreach will encompass orientation sessions with the current incubator partners and virtual partners, listings of such orientations in the public announcement sections of local media (e.g. newspaper and cable TV) referrals from financial institutions, City of Oakland, business and commerce organizations, community development district councils, and other business development organizations that are serving the local community.

Other outreach efforts in the form of brochures, personal contacts, press releases, and presentations to relevant organizations will be conducted on an on-going basis. Priority emphasis will be given to lower income and economically impacted areas (higher vacancy rates, blighted properties, vacant land, low sales per square foot, and higher potential to achieve goals of the Oakland City Council).

2. Business Assessments

Essentially, there are two aspects to the business assessment program. The first is an initial assessment of the business to determine what the businesses needs are for fostering stability and/or expansion. The second assessment is to determine the fundability of the business if the first assessment yields that the business has financing needs. The funding assessment will include the following steps:

- Conduct Client interview
- Review City Staff's initial assessment
- Review latest financial statements
- Review Income Tax Reports
- Review Business Structure
- Make preliminary assessment of collateral to be offered
- Discuss use of funds
- Conduct client interview

After the above reviews have been completed, the OSBGC will prepare an evaluation of its findings to be discussed and approved by City staff at the OSCS. The findings will include the OSBGC's judgement as to the potential of a client to stabilize and expand as well as their capital financing needs. In addition, the evaluation will identify the size of the intended loan request. This latter discussion is necessary because of demands in the market place for loans greater than \$50,000. As a general practice, clients who may qualify for loans of less than \$50,000 will be referred to the city's micro loan program operated by the Oakland Business Development Corporation co-located in the One Stop Capital Shop Facility.

Following the authorization of OSCS staff, the loan will be packaged and submitted to the OSCS for funding consideration. OSCS staff will implement their standard procedures for loan approval with all loans over \$100,000 coming before the City Council for final approval.

1. Pre Loan Assistance

The first part of this phase will be the intense gathering and validation of client information. The standard documents and information required of all applicants for City funded loans will be required in making this assessment.

The OSBGC will compile and review all submitted information, then conduct a field visit to the place of business of all "virtual" clients. Unobtrusive observations will be made as to the nature of the client's business and general condition of the facility. In addition, ambiguities, inconsistencies and other unclear information will be discussed at this time and steps taken to receive correct information.

It is known that many clients have not fully thought through how they wish to improve or grow their business. The OSBGC will assist the client in establishing some concrete goals and objectives. These goals will be quantifiable and will provide the basis for developing the business plan and/or loan package.

Data gathered during this Pre Loan Assistance phase would be the basis for making final decisions on whether or not to recommend preparing a business plan and/or loan package for a client. The following factors will be used to assist in rendering this judgement.

Client Factors

- Evaluation of personal assets and liabilities
- Evaluation of personal monthly budget
- Evaluation of training and experiences
- Assessment of anecdotal information
- Interpret client's perception of business' market position
- Review personal credit history

Business Factors

- Nature and type of business
- Products and services offered
- Length of time business has been operational
- Evaluation of key personnel
- Review product and service support policies
- Review business credit history

Financial Factors

- Review business financial statements
- Review business tax reports
- Analyze financial data
- Perform key ratio analysis

It has been the experience of the OSBGC that a comprehensive assessment of the above information will yield information that fairly represents the status of a business. For example, the factors under client information would indicate whether or not a client has entrepreneurial qualities. An evaluation of the business factors would yield information on the exact nature and status of the business. The total assessment would take into consideration business credit history, experience and longevity of key personnel, potential growth of the business in terms of market and competitors and general acceptability of product an/or services.

Probably most revealing will be the financial history of an existing business and the financial plan for a proposed business. Under the OSBGC assessment of the financial data particular attention is given to test of profitability, asset utilization and liquidity. The information necessary to render these findings can be gleaned from the Federal Tax reports and reliable business financial statements. Key ratios are run and compared to industry standards, where significant variations are analyzed and as far as practical extrapolations are made for comparisons to local markets. Major variances are discussed with client and casual data is then factored into the analysis.

The above analysis becomes the basis for the OSBGC's recommendations to the OSCS staff to proceed or not to proceed with the preparation of a business plan or loan package. The OSBGC will also make a recommendation as to whether or not additional technical assistance would be beneficial to clients who were not ready for financial assistance at this time. All findings are

discretely handled and an ongoing atmosphere of openness is maintained so that the client will not be surprised if the findings do not meet their expectations. It is estimated that this assessment will require a total of three (3) person days.

1. Loan Packaging and Loan Referral to the One Stop Capital Shop

By the time a client reaches the packaging phase a significant amount of data will already have been gathered. Thus, the tasks for this phase will be to focus on the specific amount of funds needed, how they will be used, and what technical support the client needs to aid in completing the business plan.

The OSBGC will make every effort to be timely in gathering and packaging a client, however, past experiences reveals that clients are very slow in providing financial information. Often it is necessary to actually prepare financial statements from client representations and tax reports. This process is slow and often provides for inconsistencies as the information is often not based upon reliable information. The most obvious disadvantage of preparing this type of financial report is that usually the current period is the only one covered and therefore trends in the financial history remain largely undiscovered. The desire of having two and three year histories on financial performance is costly under these circumstances. To the extent possible, the OSBGC will insure that all financial information fairly represents the current status of the business.

Once the above specifics have been defined and refined for the business plan and/or loan package, it is necessary to refine and define the remainder of the needs.

AREAS OF LOAN PACKAGING NEEDS

- Market Data
- Product and Services
- Organization and Management
- Financial Data

Following is a brief description of needs in each of the above areas and the OSBGC method for gathering, analyzing and preparing business plans and/or loan packages.

a) MARKET DATA

Market information is the most critical information in any small business loan package since this is the foundation for the financial projections and support for loan repayment ability. The OSBGC uses essentially two approaches to gather and analyze market data. The first approach is that used for mature existing businesses. This is the “historical approach.” The second approach is that used for new or growth businesses. This is the “dynamic approach.” The use of these approaches is in lieu of more expensive market studies and market tests. Major difficulties are that you do not get segmentation analysis, market share data, product or service acceptability, market penetration data, etc. However, most businesses in economic development target areas only have area wide influence in their primary market area and that infinite market data while useful is not necessary; this particularly true for an established business.

b) PRODUCT AND SERVICES

It is often necessary to assist the client in preparing a proper description of their goods and services. This information is not only needed for comparison purposes with competitors but must be used in preparing promotional and advertising programs. The proper classification permits the proper use of industry ratios. This description is often critical with new products and processes.

c) ORGANIZATION AND MANAGEMENT PLANS

It is well known that most small businesses do not have personnel job descriptions or organization plans. Since, the city has a job creation or job retention component as part of Revolving Loan Fund program; clients need assistance in properly classifying new positions. Moreover, long range growth of the company requires that future positions be budgeted in the financial plan. The OSBGC often makes recommendations on salary levels, promotional lattices, and performance evaluations. This information is often needed when advising business owners on how to compensate and retain key personnel. When long range projections are required, the OSBGC will prepare personnel growth plans for an affected business.

d) FINANCIAL DATA

Following is a checklist that the City's OSCS uses in the normal course of gathering financial information.

→Business Financial Data

- Income and Expense Statements - Past three years plus current period within ninety days
- 2 year Income and Expense and Cash Flow projections
- Balance Sheet - Past three years plus current period within ninety days
- Aging Schedules Accounts Receivable/Payable
- Schedule of Debts
- Credit Report (Business/Applicant)
- Business Federal Tax Returns (Past three years)

→Personal Financial Data

- Personal Financial Statements
- Individual Federal Tax returns of Principals (Past three Years)

All of the above data will be organized, analyzed and the business plans and/or loans package written. The OSBGC will review the package with the client and have the client sign that they understand its contents and agree that in their opinion it fairly represents the status of their business. Key sections are given to the client in draft form in order to insure that the representations are consistent with information obtained in interviews and other research. A sample business plan outline is used by the OSBGC in order to acquaint clients with the data and procedures necessary to process their loan. A copy of this outline will be given to and discussed with each client referred to the OSBGC for packaging.

The OSBGC will participate in any meetings necessary in order to explain information in the business plan and/or loan package and to facilitate explaining the package on the client's behalf.

The client is also advised that additional supporting information may be necessary and that it would be their responsibility to cooperate to provide that information. Often clients are reluctant to continue to provide additional information if they are not certain that the loan will be approved. This usually involves appraisals of real property, fixtures or equipment that is being offered for collateral. Clients are made aware of these considerations in order to minimize problems as the package is reviewed for processing.

It is estimated that an average of ten (10) person days is needed to complete a comprehensive loan package.

1. Post Loan Technical Assistance and Monitoring

The OSBGC will provide post loan technical assistance to clients who have received loans through this program and may be having difficulty in managing their business. A review of periodic financial statements, request by the borrower and anecdotal information will be the key that triggers a technical intervention. Every effort will be made to proactively detect any problem that may lead to the failure of the business or interfere with the business' ability to repay the loan as agreed.

2. Site Referral and First Source Leasing Assistance

When a client in the Technical Assistance and Capital Access program is prepared to move out of the incubator facility, the First Source Lease program would simply require the program participant to first contact the NCR unit to receive referrals to available lease spaces in the target area. In this way, the City's investment in the business through the support provided in the incubator can be recaptured through the business expanding within the City of Oakland and specifically within the target communities.

PERFORMANCE MEASURES

As part of the program, the OSBGC will report to the City Council on a quarterly basis on the following performance measures that represent quantifiable performance measurements to document the actual success of the program. These objectives will form the base evaluation standards against which the OSBGC's performance during the contract period will be measured. Representatives from the OSBGC will be required to make a quarterly report to the City Council regarding their success in meeting the following benchmarks.

A) Outreach

1. Develop and distribute 2,000 brochures and fliers.
2. Make two (2) presentations per month regarding the program to business associations, community groups and technical assistance providers.
3. Advertise in at least three (3) Bay Area trade journals and business networking publications every six months.

B) Business Assessments

1. 24 Assessments (2 Assessments per month)
2. An eligible applicant at either the Small Business Growth Center or the One Stop Capital Shop initiates a loan request or request for technical assistance. Applicant is interviewed and if approved, the process will be initiated.

C) Pre Loan Assistance

1. 12 Pre Loan Technical Assistance Clients (1 client per month)

D) Loan Packages and Loan Referral to One Stop Capital Shop

1. Approximately 10 loan packages submitted with 8 EEC loans approved and funded. Minimum total amount of loans funded: \$400,000.
2. The initial pool of applicants will be tenants of the OSBGC incubator. There are eighteen business located at this site and 50% have indicated that they need loan assistance. In addition, the One Stop Capital Shop will be making referrals for the preparation of loan packages from eligible applicants who operate a business in the area. Moreover, this project covers the Central East Oakland and Elmhurst Community Development Districts and the Coliseum Redevelopment Area. It is expected that a substantial number of applicants will come from these areas.
3. The job creation ratio for loans will be the creation of 1 full time job for every \$35,000 of loan funds provided. Each individual loan shall be subject to this requirement. Jobs will be targeted for residents of the East Oakland Enhanced Enterprise Community.

E) Post Loan Technical Assistance and Monitoring

1. All of the loan recipients will be eligible for this service.
2. To ensure that those businesses receiving loans are successful, Post Loan Assistance will be offered. Each business receiving a loan will be subjected to quarterly reviews for the first year after a loan has been made. Data indicates that the critical time is from six to nine months after a loan has been dispersed. All Applicants will be required to submit quarterly financial information. Based on a review of this information a package of post loan technical assistance strategies will be made.

F) Site Referral and First Source Leasing Assistance

1. 12 Businesses will be referred to the NCR unit of CEDA for leasing referrals.
2. All applicants will be required to enter into the City's First Source program for business location. The OSBGC will make applicants aware of this requirement and include the City's agreement in the loan package.

F) Site Referral and First Source Leasing Assistance

- 1) 12 Businesses will be referred to the NCR unit of CEDA for leasing referrals.
- 2) All applicants will be required to enter into the City's First Source program for business location. The OSBGC will make applicants aware of this requirement and include the City's agreement in the loan package.

RECOMMENDATIONS AND RATIONALE

This project provides for significant improvement in the access to capital and provision of technical assistance to businesses at their greatest point of need. The combined efforts of the One Stop Capital Shop, the Neighborhood Commercial Revitalization unit, the Oakland Small Business Growth Center and the East Bay Small Business Development Center will significantly increase the opportunities for businesses in East Oakland to stabilize and gain access to the capital they need for business expansion.

Businesses in the incubator and "virtual" tenants will benefit from the comprehensive service package offered by this program that should lead to their greater profitability and success. The success of businesses participating in this program will expand job opportunities and business opportunities and increase tax revenues which support other city services.

ACTION REQUESTED OF THE CITY COUNCIL

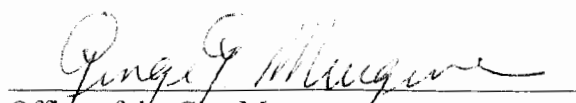
It is requested that the City Council approve the resolution authorizing the City Manager to amend the Contract between the Oakland Small Business Growth Center and the City to implement Technical Assistance and Capital Access program.

Respectfully Submitted


WILLIAM E. CLAGGETT
Executive Director

Prepared by:
Greg Garrett, Manager
One Stop Capital Shop


APPROVED AND FORWARD TO THE
CITY COUNCIL


Office of the City Manager

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C. M. S.

INTRODUCED BY COUNCILMEMBER _____



RESOLUTION TO AMEND THE CONTRACT BETWEEN CITY OF OAKLAND AND OAKLAND SMALL BUSINESS GROWTH CENTER TO INCREASE THE FUNDING OF THE PROGRAM BY \$190,000 TO PROVIDE TECHNICAL ASSISTANCE AND CAPITAL ACCESS FOR BUSINESSES IN THE BUSINESS INCUBATOR AND OTHER BUSINESSES IN THE EAST OAKLAND ENHANCED ENTERPRISE COMMUNITY AREA, CENTRAL EAST OAKLAND AND ELMHURST COMMUNITY DEVELOPMENT DISTRICTS AND THE COLISEUM REDEVELOPMENT AREA

WHEREAS, the City of Oakland has entered into a contract with the Oakland Small Business Growth Center (OSBGC) since 1992, authorized through City of Oakland Resolution 68856 C.M.S. dated April 21, 1992, to operate a small business incubator, currently located at 675 Hegenberger Road in Oakland, within the boundaries of the East Oakland Enhanced Enterprise Community and Coliseum Redevelopment Area, and adjacent to the Central East Oakland and Elmhurst Community Development Districts; and

WHEREAS, it is the mission of the OSBGC to provide a nurturing environment for small businesses, offering attractive rents, on-site technical assistance, loan packaging assistance, and reduced cost business services to small businesses to strengthen their growth and development into self-sustaining, expanding businesses; and

WHEREAS, it is the goal of OSBGC under this program to work with the City of Oakland's One Stop Capital Shop to provide outreach to small businesses located within the subject areas of the City of Oakland (1) to identify businesses with expansion, job creation and commercial loan potential, (2) to assess the financial stability and expansion potential of selected businesses, (3) to provide one-on-one technical assistance to individual business owners as needed to complete a comprehensive business plan, (4) to provide loan packaging assistance, (5) to provide post-loan technical assistance for all clients receiving new loans, (6) to require that all program participants enter into the City's First Source program for business location; and

WHEREAS, these goals work to support achievement of Mayor and City Council 1999-2001 priority objectives to attract, help startup, retain and expand environmentally sound and sustainable businesses throughout Oakland's neighborhoods and to create opportunities for job creation and retention for Oakland residents; and

WHEREAS, specific and quantifiable performance measures have been developed around the objectives of outreach, business assessments, one-one-one technical assistance, pre-loan assistance, loan packaging, post loan assistance, loan referrals, and site

referrals and leasing, that will form the base evaluation standards against which OSBGC's performance during the contract period will be measured; and

WHEREAS, the degree to which these performance measures are achieved will provide a standard against which the funding of future agreements between the City of Oakland and OSBGC will be based.

NOW THEREFORE BE IT RESOLVED: That the City Council does hereby authorize the amendment of the existing contract between the City of Oakland and the Oakland Small Business Growth Center to increase the funding of the program by \$190,000 to provide technical assistance and capital access for businesses in the Business Incubator and other businesses in the East Oakland Enhanced Enterprise Community Area, the Central East Oakland and Elmhurst Community Development Districts and the Coliseum Redevelopment Area; and be it

FURTHER RESOLVED: That funding sources are to include \$60,000 of Coliseum Redevelopment funds from the Neighborhood Commercial Revitalization program and \$130,000 of Enhanced Enterprise Community grant funds; and be it

FURTHER RESOLVED: That the amendment of this contract upon and subject to such appropriate terms and conditions as the City Manager or his designee may determine; and be it

FURTHER RESOLVED: That the City Manager or his designee is hereby authorized to negotiate and execute documents for the amendment to the contract with OSBGC, administer the contract, extend or modify contract terms, and take whatever other action with respect to the contract 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, _____, 19_____

PASSED BY THE FOLLOWING VOTE:

AYES- BRUNNER, CHANG, MILEY, NADEL, REID, _____, SPEES 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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