



LODI CITY COUNCIL

Carnegie Forum
305 West Pine Street, Lodi

AGENDA – Shirtsleeve Session

Date: January 24, 2023

Time: 7:00 a.m.

For information regarding this Agenda please contact:

Olivia Nashed
City Clerk
Telephone: (209) 333-6702

Notice Regarding Public Comments

Public Comment may be submitted in the following ways:

- In-person – The Carnegie Forum is open to the public in accordance with CDPH and CalOSHA guidelines.
- Zoom Webinar
 - Meeting ID: 813 1843 2140
 - Passcode: 696650
 - Phone number: +1 720 07 2699 or +1 253 215 8782
 - Link: <https://us06web.zoom.us/j/81318432140?pwd=VIZmZzZoTFN5VjBEQXloM0g0K3ZzZz09>
- Email – councilcomments@lodi.gov
 - Received no later than 4:30 p.m. on the business day prior to the meeting.
- Mail – City Clerk's Office, P.O. Box 3006, Lodi, CA 95241
- Hand delivered to: City Clerk's Office, 221 W. Pine Street, Lodi, CA 95240
 - Received no later than 4:30 p.m. on the business day prior to the meeting

A. Call to Order / Roll Call

B. Topics

B-1 Receive Information about Proposed Hometown Microloan Program for Lodi Startups and Micro Businesses and Provide Direction (CM)

C. Comments by Public on Non-Agenda Items

THE TIME ALLOWED PER NON-AGENDA ITEM FOR COMMENTS MADE BY THE PUBLIC IS LIMITED TO FIVE MINUTES.

Public comment may only be made on matters within the Lodi City Council's jurisdiction (Government Code Section 54954.3, Lodi City Council Protocol Manual Section 6.3I). The Council cannot take action or deliberate on items that are not on this agenda unless there is an emergency and the need to take action on that emergency arose after this agenda was posted (Government Code Section 54954.2(b)(2)). All other items may only be referred for review to staff or placement on a future Council agenda.

If you wish to address the Council, please refer to the Notice at the beginning of this agenda. Individuals are limited to one appearance during this section of the Agenda.

D. Adjournment

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

Olivia Nashed
City Clerk

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COUNCIL COMMUNICATION

AGENDA TITLE: Receive Information about the Proposed Hometown Microloan Program for Lodi Startups and Micro Businesses and Provide Direction

MEETING DATE: January 24, 2023

PREPARED BY: Business Development Manager

RECOMMENDED ACTION: Receive Information about the proposed Hometown Microloan Program for Lodi startups and micro businesses and provide direction.

BACKGROUND INFORMATION: In preparation of the Fiscal Year 2023 operating budget, the City Manager asked staff to “think big” and develop new funding recommendations in line with City Council goals and objectives set in 2015. In response to the

City Council’s goal related to economic development, staff recommended the establishment of a microloan loan program offering direct loans for Lodi startups and small businesses with ten or fewer employees who were creditworthy, but unable to meet traditional underwriting loan requirements.

Since July, staff has been researching the establishment and administration of a microloan program by contacting local lenders and regional non-profit lenders that administer many types of small business loans for the underserved.

The purpose of this agenda item is two-fold — 1) to receive City Council consensus on guiding program goals and objectives; and 2) to present staff recommendations and receive direction for the microloan program components including: a) target market (borrowers), b) loan requirements, c) loan types, d) loan committee authorization e) terms, including interest rates, eligible uses, maturity, and loan amounts.

Hometown Microloan Program Goals and Objectives

1. To assist creditworthy, but not quite bankable minority, women, low-income, and veteran Lodi entrepreneurs and other small business owners achieve economic growth by providing small-scale loans for business purposes.

Objective 1. Provide short-term loans of up to \$50,000 to creditworthy Lodi entrepreneurs and small businesses that are not being well-served by traditional lenders.

2. To provide applicants with a path towards becoming eligible for additional business loans from traditional sources by establishing a positive credit history.

APPROVED: _____
Stephen Schwabauer, City Manager

Objective 2. Extend terms that “help level the financial playing field” for undercapitalized Lodi entrepreneurs and small businesses, including lower interest rates and lower fees.

3. To enhance loan success by requiring Lodi entrepreneurs and undercapitalized businesses to receive coaching and technical assistance provided by the San Joaquin County Small Business Development Center (SBDC).as a condition to receiving a loan.

Objective 3: Applicants in-training must participate in regular meetings to make repayments, continue their practical financial education, and access a support network.

4. To establish Lodi as an entrepreneurial and small business-friendly community.

Objective 4: Microloans and small business technical assistance will serve as an entrepreneurial and small business retention and business attraction tool.

5. To capitalize a Revolving Loan Fund, and encourage the creation of Lodi’s own community-based nonprofit in the future dedicated to improving access to capital for Lodi businesses.

Objective 5: Loan 100 percent of the initial capital within three (3) years, establish a self-replenishing pool of money utilizing interest and principal payments on old loans to issue new ones, and attract outside sources of capital from local lenders.

Microloan Program

The Hometown Microloan Program will be guided by a Loan and Administrative Procedures Manual. All microlenders researched by staff provide loans in accordance with a loan policy and procedures manual. This document will be prepared by staff based on microlending industry standards. It should be noted, however, that loan policies and procedures are tied to source of funding. For example, microlenders, Financial Development Corporations (FDC) and Community Development Financial Institutions (CDFI), who lend funds from the Small Business Administration (SBA) and the Economic Development Administration (EDA) base policy and procedures on federal and state statute.

The Hometown Microloan Program is initially funded by Lodi’s General Fund. Therefore, staff recommends policies and procedures be aligned with the program goals and objectives as outlined above, and microlending industry standards.

FDCs were created in the California Corporations Code to aid the California Small Business Financial Development Corporations throughout the state remove barriers for access to capital. FDCs aim to support small businesses and stimulate economic growth in underserved communities. They are intermediaries and are usually non-profit and mission-driven.

FDCs are similar to Community Development Financial Institutions (CDFI) that are private sector financial institutions that focus on lending and business development efforts in disadvantaged local communities requiring revitalization. CDFIs can also serve as intermediaries, but they also lend their own funds.

Both FDCs and CDFIs also receive funding from private sector sources such as individuals, corporations, and religious organizations. These entities sprung up as a direct result of the Community Reinvestment Act of

1977 which was created because of banking and economic development inequalities throughout communities in the U.S.

The Loan Policies and Administrative Procedures Manual will guide the Hometown Microloan Program in at least four broad policy areas given below.

Financing Policies	Organizational Structure	Underwriting Criteria	Loan Administration
Eligible Borrowers	Make-up of Loan Committee	Underwriting Criteria Grid	Intake
Eligible Activities	Authority of Loan Committee	Capital	Pre-application
Loan Size	Conflict of Interest	Cash Flow	Application
Interest Rates	Policy Review and Update	Credit/Character	Underwriting process
Terms		Collateral	Loan closing/disbursement
Fees			Loan servicing/monitoring
Equity Contribution			Problem loans/delinquency
Collateral Requirements			Accounting/Audit/Reporting

The Loan Policy and Administrative Procedures Manual will support effective decision-making authorizing the City Manager to implement the policies established by City Council. Policy recommendations will be written to provide a range of interest rates and loan terms which appropriately reflect risk without establishing barriers to capital.

While the Loan Policy and Administrative Procedures Manual will provide detail, the following policy items are given below to give staff conditional approval in order to complete program design. Final approval will be provided by resolution at a later date.

Eligible Borrowers	Loan Requirements	Eligible Activities
Start-ups in the City of Lodi	Personal credit (600+) or current on all liabilities	Equipment
Small business (10 or fewer) in the City of Lodi	Collateral required when available/UCC filing on business assets/personal guaranty	Interior/Exterior Improvements
Located within Lodi city limits	Minimum equity injection of 10 percent for start-ups	Working Capital/Inventory
Half of fund's investment targeted to minority, veterans, low-income & women-owned businesses	Financial statements, revenue projections and business plan	Life/Fire/Safety Improvements/Environmental Clean-Up
Borrowers unable to access traditional bank financing	Historical or Projected Debt Service Coverage Ratio of at least 1.00	Engineering and Design (pre-project costs)

Loan Amounts

The SBA defines microloans as small loans for businesses ranging from \$5,000 to \$50,000. Staff recommends loans within this range. First-time loans may be available for less than \$5,000 to be repaid within a 12-month time frame.

Interest Rates, Maturity, Interest Rate and Fees

Nonprofit organizations contracted and funded by governmental agencies are the most common microlenders who make business loans available in small amounts, generally up to \$50,000. Interest rates are lower than for profit lenders, and are usually fixed for the life of the loan. Staff researched terms offered by eleven California Financial Development Corporations (FDCs) which are all nonprofit and mission-driven.

FDC	Min-Max Amounts	Maturity	Interest Rate	Fees
California Capital	Up to \$150,000	Up to 7 years	Up to 9.75 percent	3 percent + \$250
California Coastal	\$5,000-\$50,000	1 to 6 years	Prime + 4 percent	3 percent + \$250
California Southern ²	\$25,000-\$20M	Up to 7 years	N.A	2.5 percent + \$250
Opening Doors, Inc.	\$1,000 to \$50,000	1 to 5 years	Prime + 8.5 percent	2.0 percent + \$50
Economic Development Financing Corporation (EFDC)	From <\$10,000 to \$50,000 (Micro) From \$50,001 to \$250,000 (Small)	3 to 15 years	6 to 12 percent	2.5 percent + \$150
Main Street Launch	\$10,000 to \$350,000	Based on life of asset	3.5 to 7.5 percent	2 percent + costs
City of El Centro	\$5,000 to \$100,000	1-10 years	4.0 to 5.0 percent	2 percent + costs
SBDC Orange County ¹	\$2,000-\$30,000	1-5 years	Prime + 5 percent	N.A
Nor-Cal FDC	\$500-\$10,000	1-5 years	varies	varies
PCR Corporation	Up to \$50,000	1-5 years	Prime + 5 percent	3 percent
Valley SBDC	Up to \$50,000	1-10 years	8 percent	2 percent + \$350

¹ Entrepreneur Loan Fund

² No direct loans only loan guarantees

The current prime lending rate is 7 percent. For the first year of the microloan program, staff recommends a fixed interest rate equal to the current federal funds discount rate of 4 percent. The federal funds rate is usually about three percentage points below prime. Since interest rates extended may vary depending upon the risk of the loan as established by underwriting practices, staff further recommends the interest rate not to exceed prime. This range of interest rates will help the target market of creditworthy but not quite bankable entrepreneurs and microbusinesses grow their businesses, build their credit while undergoing training and create jobs in our community.

If the federal funds discount rate changes before the first loan is issued, the borrower's interest rate will not exceed three percentage points below prime. However, City Council may establish an alternative lower and upper threshold interest rate,

Microlenders impose a loan fee to cover the cost of processing, underwriting and executing a loan. Fees to cover the cost of the loans range from two to three percent of the loan. Additional fees are imposed to cover

the costs of credit reports and UCC filings. Staff recommends these fees cover actual costs. Fees can be rolled into the loan balance, be paid in cash, or taken out of the funds received. A cost sharing approach between borrower, City and County will be explored and brought forward to incorporate within the loan policy.

Loan Administration

Staff recommends entering into a contract with the San Joaquin County Revolving Loan Fund (SJRLF) to administer the loans, including underwriting. The SJRLF contracts with the National Development Center, a national nonprofit since 1969, to provide underwriting services. Staff anticipates negotiating a partnership agreement with the SJRLF to include fees for processing, underwriting and servicing the loan. As noted above, the National Development Center will charge a cost for underwriting the loan. In addition, the SJRLF will charge a loan fee to cover the cost of processing and servicing the loan. The partnership agreement will identify and describe these fees for City Council approval. A cost-sharing approach between borrower, City and County will be explored.

Staff anticipates that a majority of microloan applicants will require financial and technical assistance. The assistance will be provided by the San Joaquin Small Business Development Center (SBDC). The SBDC shares office and program space with the San Joaquin Revolving Loan Fund. This service will be provided at an annual cost of \$20,000.

Organizational Structure

The City Manager will be responsible for overseeing the contract between the City and the San Joaquin County Revolving Loan Fund's Hometown Microloan Program and the Business Development Manager will handle the day to day contract administration.

The San Joaquin Revolving Loan staff and its underwriter will be responsible for screening loan applications, providing financial analysis, and preparing loan packages for loan review by the Hometown Microloan Loan Committee (LC). RLF staff and underwriter will be skilled in loan packaging, processing, servicing and credit analysis.

Once staff determines that an application meets the requirements of the Hometown Microloan Program as defined in the Loan Policy and Administrative Procedures Manual, The LC will review the application based on the information in the loan package. The LC will make a recommendation of approval or denial to the City Manager by a simple majority. The LCs recommendation can be as per the terms and conditions proposed by the underwriter, or the LC can recommend alternative terms and conditions. Five out of seven LC members shall be necessary to constitute a quorum for the transaction of business. Staff recommends the LC be comprised of:

- One member representing the FDC industry
- One member representing the CDFI industry
- One member representing the credit union industry
- One member representing the Lodi Chamber of Commerce
- One member representing City of Lodi financial services
- City of Lodi Business Development Manager
- One member representing Lodi community-based organizations

The LC's recommendation along with the loan package will be forwarded to the City Manager for the final determination of approval or denial of the loan.

Below is the estimated timetable leading to the implementation of the first loan application:

January 24, 2023	Receive consensus on goals and objectives, conditional approval on recommendations, and further direction
February 2023	Preparation of Loan Policy and Administrative Procedures Manual; Negotiation of Partnership Agreement with San Joaquin Revolving Loan Fund
March 2023	Hometown Microloan Program approval resolution to City Council; contract with SJRLF to City Council for approval, Loan Policy and Administrative Procedures Manual approval to City Council
April 2023	Access to Capital Meeting for potential borrowers; selection of Loan Committee
May 2023	Application Portal activated

FISCAL IMPACT: Staff resources must be dedicated to program design and implementation. The annual cost of providing financial technical assistance of \$20,000 will be requested in a mid-year budget adjustment.

FUNDING AVAILABLE: The staff resources budget is available in the FY23 operating budget.

Andrew Keys
Deputy City Manager/Internal Services Director

B. Astrida Trupovnieks
Business Development Manager