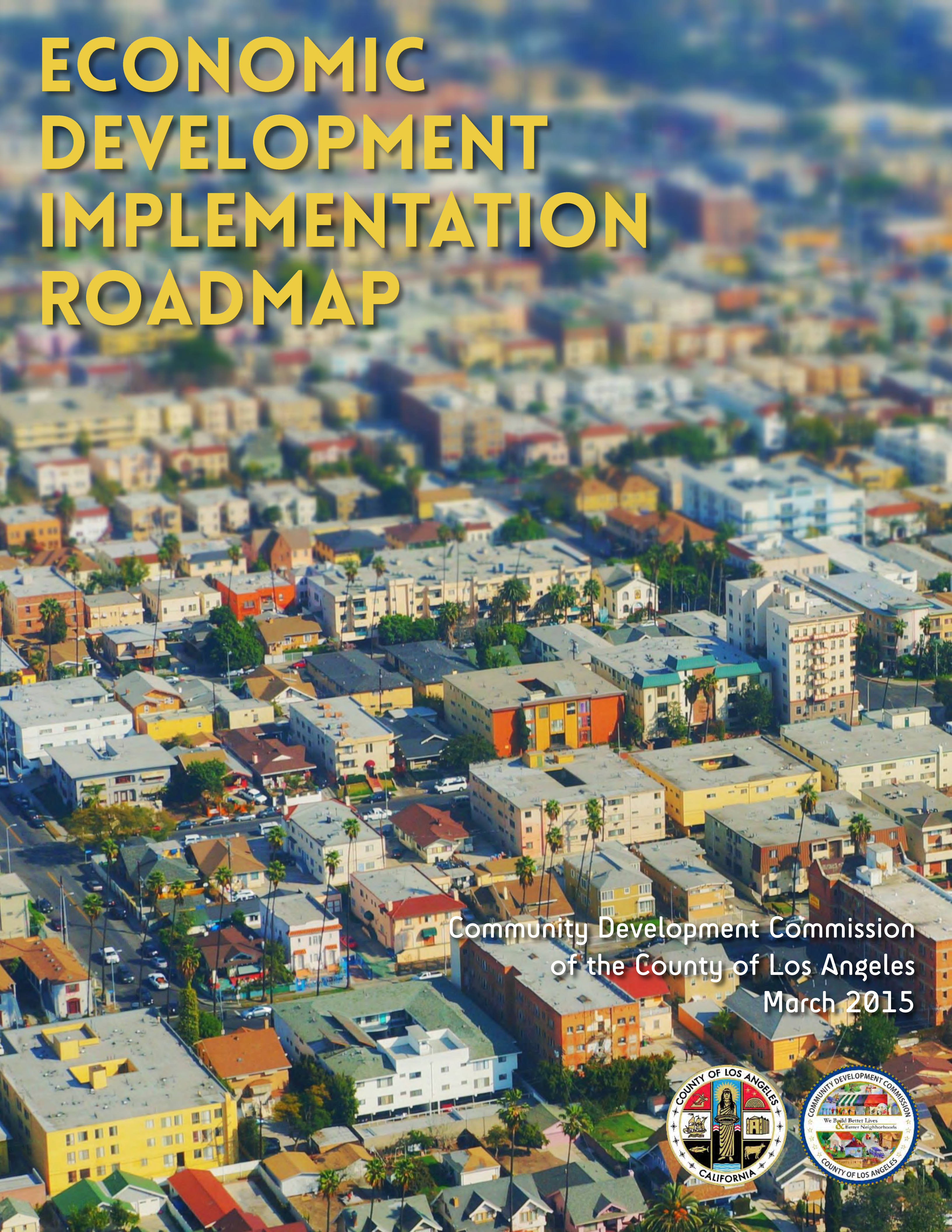
ECONOMIC DEVELOPMENT IMPLEMENTATION ROADMAP



Community Development Commission
of the County of Los Angeles
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This paper presents an implementation roadmap for a proposed economic development program for Los Angeles County (County). This document builds on a white paper that outlined potential elements of an economic development fund established by the County, with a focus on the four following areas:

1. Promoting small business and light manufacturing

2. Investing in the region's emerging growth sectors

3. Targeting catalytic projects

4. Attracting foreign investment

Based on that work, the LACDC Economic Development Implementation Roadmap provides a framework to guide implementation of these focus area activities.

PROGRAM GOALS AND OBJECTIVES

The program's intent is to fill the funding gap left in the wake of redevelopment's dissolution and the elimination of the Enterprise Zone program. The program is also a model for inclusive economic growth – creating good jobs, assisting small- and medium-sized businesses, attracting foreign investment, and supporting emerging sectors to promote long-term job growth.

This model is rooted in the notion that expanding economic opportunity to all ensures the region has a robust middle class, strong tax base, and global competitiveness. By strategically deploying funding, the County can leverage the positive aspects of the regional economy to ensure that benefits accrue to traditionally excluded communities and populations.

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PROGRAM ELEMENTS

To achieve these objectives, the program focuses on the following elements:

1. Supporting Small Businesses and Manufacturers

This element provides support and services for enterprises in unincorporated County areas.

Component #1 – Create a Manufacturing Revolving Loan Fund
This component provides financing for small- and medium-sized manufacturers looking to locate, rehabilitate, expand, and/or improve the environmental sustainability of their operations. Potential financing ranges from $500,000 to $5 million.

Component #2 – Provide Technical Assistance Services
The second component provides technical assistance to current and prospective small businesses, especially in places designated as Employment Protection Districts (EPDs) and other targeted locations. Potential financing ranges from $500,000 to $3 million.

Component #3 – Develop a Small Business "Clearinghouse"
The final component supports small business owners and entrepreneurs by providing a collection of resources through an open source website. To minimize the amount of investment for this component, we recommend enhancing existing County resources such as the Department of Regional Planning's EnerGov platform.

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2. Investing in Emerging Sectors

This element implements a cluster strategy that advances well-paying growth sectors in the region and prepares the workforce with necessary skills and training.

Component #1 – Create a Competitive Grant Program for Cluster Building Efforts
This program will build on industry-specific efforts at the sub-regional level, emphasizing collaborative projects that involve diverse stakeholders. Potential financing for this component ranges from $500,000 to $2 million.

Component #2 – Deploy an "Open Data" Dashboard
The County could play a role in collecting economic development data and releasing it through a publicly available platform. To limit the amount of investment, we recommend the County include economic data as part of an ongoing effort to make an open data platform available to the public.

Component #3 – Sector-Specific Marketing Services
The County can play a leading role in convening key stakeholders to develop a unified marketing strategy to articulate the strength of some of the region's leading sectors. Potential financing for this component ranges from $25,000 to $75,000.

3. Targeting Catalytic Projects

This element explores creating a fund to invest in catalytic projects designed to jump-start job-creation activities and create permanent, family-supporting employment opportunities in economically depressed communities. Based on similar funds, the estimated cost to build a business plan for the fund ranges from $150,000 to $250,000.

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4. Attracting Foreign Investment and Prioritizing Imports

This element markets the County as a destination for foreign direct investment and helps local businesses export their products.

Component #1 – Fund and Develop a Backbone Organization
The organization would serve as the "front desk" service to foreign delegations: coordinating logistics, setting itineraries and lining up meetings, and connecting delegations to resources and information. Estimated annual operating costs are between $250,000 and $350,000.

Component #2 – Create a Website for Foreign Direct Investment Opportunities
The County can support the creation of the first comprehensive website that aggregates international investment opportunities. Potential financing ranges from $100,000 to $150,000.

Component #3 – Create Coordinated Marketing Effort Tailored to International Investors
The County may play a role in developing a coordinated marketing effort to highlight a unified and supportive business community committed to innovation. Potential investment ranges from $50,000 to $100,000.

Component #4 – Release RFP for Export Services Support
To increase the region's share of export dollars, the County should release an RFP to find a vendor that will target mid-sized "export ready" or "export capable" companies. Potential annual investment ranges from $50,000 to $100,000.

The LACDC is well situated to administer the first three elements of the program. We recommend that the CEO's Office administer the fourth element.

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PROGRAM STRUCTURE: CREATE TWO POOLS OF FUNDING

To implement this program, we recommend the County establish two pools of funding. These funding sources would be made available to economic development entities and their partners to finance efforts that bolster the region's competitiveness. One pool of funding would be available for projects implemented in unincorporated County areas. The other pool of funding would be available for projects throughout the County, regardless of jurisdiction.

MEASURING SUCCESS

We recommend the County consider the following baseline criteria when evaluating projects:

1. Number of family-supporting jobs created
2. Access to family-supporting jobs for local, disadvantaged populations
3. Ability to enhance the region's competitiveness in well-paying traded sectors
4. Depth and diversity of partnerships and collaboration among the proposers

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INTRODUCTION

INTRODUCTION

This paper presents an implementation roadmap for a proposed economic development program for Los Angeles County (County). It will outline the program's scope and provide an implementation strategy for four specific elements.

CONTEXT

In late 2013, Los Angeles County's Second Supervisorial District commissioned a white paper that described the potential elements of an economic development fund that could be established by the County. The paper explored four potential focus areas: (1) promoting small business and light manufacturing; (2) investing in the region's emerging growth sectors; (3) targeting catalytic projects; and (4) attracting foreign investment and prioritizing exports. Following the release of the white paper, the authors briefed the Los Angeles County Board of Supervisors' Economic Development Deputies and the Los Angeles Community Development Commission (LACDC) on the recommendations. In addition, the LACDC convened a roundtable of key economic development leaders and experts to share the findings, gather feedback, and elicit ideas for potential next steps.

This paper builds on that work and provides a framework to guide the implementation of the activities described above. It describes the goals and objectives of the proposed economic development program, outlines the major facets of four specific economic development programs, and provides a strategic framework to implement the recommendations.

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PROGRAM OBJECTIVES

The proposed program is intended to help fill an economic development funding gap that was left in the wake of the dissolution of California's redevelopment agencies and the elimination of the Enterprise Zone program. Prior to dissolution, redevelopment dollars were often the primary source of funding for local governments' economic development activities. Cities in Los Angeles County generated hundreds of millions of tax increment dollars that were used for infrastructure investment, land acquisition, predevelopment costs, commercial façade improvements, marketing, and other commercial and business assistance programs. With the shuttering of redevelopment agencies in 2012 and the elimination of California's Enterprise Zone program in 2013, local governments' economic development efforts have been stymied.

In light of this reality, the County of Los Angeles is considering reserving a portion of property tax revenue that was once allocated to redevelopment agencies to support a countywide economic development program. Supervisorial District 4 has proposed to set aside revenues received as a result of redevelopment agency property sales to fund affordable housing, economic development, and capital projects. In addition, the County is considering taking residual tax increment revenues and using the funding to finance "future infrastructure projects."[1]

The program detailed in this document will act as a model for inclusive economic growth – one that creates good jobs, assists small- and medium-sized businesses, attracts foreign investment, and supports emerging sectors to promote long-term job growth.

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WHY WE NEED AN INCLUSIVE MODEL OF ECONOMIC DEVELOPMENT

As California and Los Angeles County begin to climb out of the recession, growth has been uneven. Foreign direct investment in the region is increasing, with commercial,[2] hotel,[3] and residential[4] real estate markets seeing a significant rise in global capital. A growing technology cluster "is bringing a cohesion to the L.A. tech scene that entrepreneurs had long worried wouldn't be attainable,"[5] and the County's job growth is on track to return to pre-recession levels this year. In spite of this progress, wage growth "has barely kept pace with inflation."[6] The county's unemployment rates vary substantially by race and geography.[7] And the region's housing market is considered the least affordable in the nation, with rents averaging "about 48 percent of the area's median income . . . up from about 35 percent in the 1980s and 1990s."[8] The result is an increasingly bifurcated economic system where the top-earning five percent of Los Angeles residents earn "more than the bottom 20% took in."[9]

The County has an interest in ensuring that more families have an opportunity to share in the region's economic prosperity. Expanding economic opportunity ensures that the region has a robust middle-class, a strong tax base, and remains competitive in the global economy. By strategically deploying funding, the County can leverage the positive aspects of the regional economy to help ensure that the benefits accrue to communities and populations that have traditionally been excluded. This strategic approach harnesses the region's existing strengths (e.g., the manufacturing, media, arts, and philanthropic sectors), builds the necessary infrastructure to attract burgeoning sectors (e.g., software, biotechnology, and cleantech), and leverages existing investments (e.g., a regional rapid transit expansion and foreign direct investment) to build a more inclusive economy.

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The goal of this economic development program is to build capacity in all communities so that more households can meaningfully participate in the region's economy. This will help attain the long-term goal of building the region's aggregate demand, which will, in turn, spur additional growth. This implementation roadmap focuses on disadvantaged communities since these are the places where capital does not flow. For Los Angeles County, these areas may include the unincorporated communities of Altadena, Athens, East Los Angeles, East Rancho Dominguez, Florence-Firestone, Lennox, Maravilla, West Altadena, Westmont, Willowbrook, as well as the Slauson Overhill Corridor.

Investments in these communities are often lacking because of real or perceived deficiencies in the market – whether it is inadequate infrastructure, a lack of a trained workforce, or an inability to effectively deploy capital. By implementing this program strategically, these economic development interventions can help shift how capital in the region is generated and deployed. These public investments can serve as catalysts for future private investment and lay the necessary groundwork for disadvantaged communities to benefit from expanded investment.

The County may also consider directing investments toward the Department of Regional Planning's proposed Employment Protection Districts, including Avocado Heights, East Pasadena-East San Gabriel, Lopez Canyon, North Whittier, South San Jose Hills, South Walnut, South Whittier-Sunshine Acres, West Carson, West Whittier-Los Nietos, and Whittier Narrows, among others. Aligning the County's economic development program with its General Plan will enable it to build on existing strengths and prevent the conversion of economically-viable industrial and employment-rich land into non-industrial uses.

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PROGRAM ELEMENTS

To accomplish these goals, the economic development program will be structured around the following elements: (1) supporting small businesses, (2) investing in emerging sectors, (3) targeting catalytic projects, and (4) attracting foreign investment and prioritizing exports.

Element 1: Supporting Small Businesses and Manufacturers

This element of the program is intended to provide support and services for small and medium-sized enterprises by focusing efforts on two initiatives: (1) supporting and aligning an industrial incentive program that targets small and medium-sized manufacturers in key regional sectors; and (2) ensuring that businesses that pay family-supporting wages in the unincorporated parts of the County have access to technical assistance, loans, and commercial improvement programs.

Element 2: Investing in Growth Sectors and Emerging Clusters

This aspect of the program focuses on implementing a cluster strategy to accomplish two goals: (1) advancing key well-paying growth sectors in the region and (2) preparing the workforce with the skills and training needed to be successful in these fields.

Element 3: Targeting Catalytic Projects

This part of the program would explore creating a fund that invests in catalytic projects designed to jump-start job-creation activities and create permanent, family-supporting employment opportunities in economically depressed communities.

Element 4: Attracting Foreign Investment and Promoting Exports

This program element is aimed at marketing the County as a destination for direct foreign investment and helping local businesses export their products. This program will be tasked with achieving the following: (1) raising the County's profile as a destination for foreign investment, (2) increasing contracting opportunities for local businesses by building robust regional supply chains, and (3) directing foreign investment to promote local job creation.

HOW THIS PROGRAM WILL ACCOMPLISH THESE GOALS

To accomplish these goals, we recommend that the County establish two pools of funding. These funding sources would be made available to economic development entities and their partners to finance efforts that bolster the region's competitiveness. Applicants would be asked to propose projects that employ an inclusive model of economic growth. Through this solicitation process, the County will have a mechanism to surface the best ideas from regional and sub-regional economic development entities, industry associations, as well as workforce development and training groups. These organizations will be in the best position to define strengths, identify needs, and effectively deploy resources within their communities.

Overall Structure

One pool of funding will be available for projects that will be implemented in unincorporated Los Angeles County. The other pool of funding will be available for countywide projects. For each funding category, the County would issue a Notice of Funding Availability or a Request for Proposals to generate project submissions.

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FUND FOR PROJECTS IN UNINCORPORATED COMMUNITIES

Funding for Los Angeles County's unincorporated communities will be used to finance small business assistance programs and to administer a catalytic development fund.

Small Business and Manufacturing Firm Assistance

The small business/manufacturing assistance fund will be deployed to address the needs of small and medium-sized manufacturing businesses operating in (or businesses looking to open, expand, or relocate within) unincorporated Los Angeles County. The fund would focus on three activities:

- Establishing and administering a manufacturing revolving loan fund that provides financing for small and medium-sized manufacturers that are looking to locate, rehabilitate, expand, and/or improve the environmental sustainability of their operations in the County

- Development of a small business clearinghouse that provides business owners and entrepreneurs with a suite of resources on a centralized, easily accessible online platform

- Providing technical assistance and small business support services

Catalytic Development Fund

- For the catalytic development fund, the County may choose to restrict the funding available to finance projects located in unincorporated communities. (If more funding is available, the fund may expand to include projects throughout the County for which cities can partner with the County by providing matching grants and assistance.) This financing would be invested in catalytic projects designed to address the needs of economically disadvantaged areas, with an emphasis on creating permanent, family-supporting employment opportunities, infrastructure, and transit oriented development projects

- Rehabilitation and/or expansion of commercial and industrial properties

- Providing a match for projects that qualify for state and regional funding opportunities with aligned objectives (e.g., the funds can be used to provide a match for projects that secure cap and trade funding that is dedicated to improving public health, quality of life, and economic opportunity in disadvantaged communities)

- Providing funding for projects that advance the goals in the Department of Regional Planning's proposed Employment Protection Districts

FUND FOR COUNTYWIDE PROJECTS

The funding for countywide projects will be used to implement a regional cluster strategy and will provide financing for activities that attract foreign investment and promote exports. This countywide fund can also be used to fund catalytic development projects, depending on how much funding is allocated for the catalytic development fund and whether cities would be interested in providing matching funds or grants to leverage the County's investment.

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Cluster Strategy Fund

The cluster strategy fund will be dedicated to activities related to the implementation of a cluster strategy. The financing should be used to further the following goals: (1) to advance well-paying growth sectors in the region, and (2) to prepare the workforce with the skills and training needed to be successful in these fields.

Applicants will be asked to identify the geographic cluster of businesses in one of the County's key traded sectors that will be the focus of the applicant's efforts. They will also be asked to propose interventions to grow the cluster, set quantified metrics for success, and provide a detailed implementation strategy. Eligible uses may include the following:

- Development and implementation of a workforce training and/or education program to create a pipeline of qualified workers for the targeted cluster
- Development of a sector-specific marketing strategy to retain and attract businesses that pay family-supporting wages in one of the region's key traded sectors
- Deploying a data dashboard to measure progress and identify gaps at the sub-regional level

Considerations
The size of the funding pool will dictate which sectors are targeted. If the funding pool is relatively small (i.e., under $1 million), it may be most efficient for the County to pick one or two key sector(s) that will be the focus of cluster-building activities, such as bioscience or cleantech. If the funding pool is larger (i.e., above $1 million), then the County may ask applicants to propose geographic clusters to promote within one of the County's key traded sectors.

Attracting Foreign Investment and Promoting Exports

This pool of funding would be dedicated to marketing the County as a destination for direct foreign investment as well as helping local businesses export their products. Eligible projects should accomplish the following goals: (1) raise the County's profile as a destination for foreign investment, (2) increase contracting opportunities for local businesses by building robust regional supply chains, and (3) attract direct foreign investment to promote local job creation. Projects may include the following:

- Developing a "backbone organization" to coordinate international trade activity
- Creating a website for investment opportunities
- Coordinating marketing, messaging, and collateral, with a focus on international opportunities
- Selecting an entity to develop and administer export support services

CRITERIA FOR EVALUATING PROPOSED PROJECTS

We recommend that the County consider the following baseline criteria when evaluating proposed projects that are seeking financing from these funds.

Creating Family-Supporting Jobs

Proposals should be evaluated based on the number of family-supporting jobs that are created or retained. One mechanism to measure this metric would be to ask the proposer to identify the projected number of new jobs created where workers' wages meet or exceed the Self-Sufficiency Standard for Los Angeles County.[10]

Access to Good Jobs for Local Disadvantaged Populations

Proposers should describe how local disadvantaged workers will be employed as a result of the project. This can be ascertained by asking proposers to provide the following: (1) an explanation of how their project will establish or expand a workforce development and training pipeline; (2) a description of how that pipeline meets employer needs; and (3) documentation from employers that have committed to first source hiring from graduates of the training program.

Enhancing Regional Competitiveness

Projects should be evaluated based on their ability to enhance the region's competitiveness in well-paying traded sectors. Proposers should be asked how their project(s) build on the region's existing competitive advantages and what interventions their project(s) will use to address the area's deficiencies.

Diversity of Partnerships

Projects should be evaluated based on the depth and diversity of partnerships and collaboration among the proposers. The County may consider whether or not the proposing teams are working with a wide array of stakeholders. Potential collaborations may include teams comprised of local economic development corporations, community-based organizations, community development financial institutions, labor groups, educational institutions, business associations, industry trade groups, and/or philanthropic entities, among others.

OTHER RECOMMENDATIONS TO SUPPORT AN INCLUSIVE ECONOMIC DEVELOPMENT PROGRAM

In addition to the programmatic elements previously outlined, professionals and experts in the field have proposed other considerations that we recommend the County include in a comprehensive economic development program. They include the following:

1. Leverage procurement and contracting policies to create more opportunities for local businesses and provide jobs for disadvantaged populations

2. Craft a strategy to advance the local nonprofit and social entrepreneurship sectors

3. Invest in infrastructure to spur development in underserved communities

4. Use land use and planning tools to foster developments that provide community benefits

5. Strategically align decisions to lease and purchase office space and other real estate for County operations to support economic development aims

Procurement and Contracting

Los Angeles County may consider examining its procurement and contracting policies to expand business opportunities for local vendors and to ensure that contractors are hiring local disadvantaged workers to deliver services. The County procures a significant amount of goods and services and has programs in place to increase participation from local vendors. The Department of Public Works alone procured over $70 million "in products and services from local County vendors and local small businesses"[11] in 2013. The County may consider expanding these successful procurement practices to include more departments, agencies, and/or programs. Procurement and contracting policies can be deployed to enable more local disadvantaged, women-owned, and/or minority-owned businesses to provide goods and services to County entities.

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Advancing Local Nonprofit and Social Entrepreneurship

Regional economic development typically focuses on traditional for-profit, private sector elements of the economy. However, the nonprofit sector and a growing social entrepreneurship movement are making significant contributions to the region's overall economic health. For instance, "it is clear nonprofit activity in the San Gabriel Valley makes a significant contribution to the local economy," with almost 6,200 nonprofit organizations registered in the Valley.[12] Likewise, the growing social enterprise movement, which includes any "organization or venture that achieves its primary social or environmental mission using business methods,"[13] may also warrant consideration as a target sector. In addition to nonprofit organizations, social enterprises can also include benefit corporations (B Corporations), low-profit limited liability companies (L3Cs), and flexible purpose corporations.[14] New tools such as social impact bonds also present an opportunity for reimagining economic development strategies in the region. These sectors may warrant consideration for targeted interventions.

Infrastructure Investments

Insufficient infrastructure can be a barrier to attracting capital and investment to underserved communities. In Los Angeles County, "industrial land and office space in the unincorporated areas are in need of retrofits and upgrades to accommodate target industries and attract high-paying jobs."[15] The County may consider making targeted infrastructure upgrades in unincorporated communities to attract investment and businesses from key sectors. This may include rehabilitating or financing the construction of new infrastructure in areas where the County is looking to attract specific sectors. A potential candidate for this type of investment might be the Bioscience Corridor in East Los Angeles or the unincorporated area surrounding Harbor-UCLA Medical Center.[16] Likewise, in areas where the County would like to lay the foundation for a broad variety of future investments, decision makers may consider establishing enhanced infrastructure financing districts (EIFDs) that allow governments "to develop infrastructure funded by tax increment revenue."[17] This type of financing mechanism is being considered to fund major improvements along the Los Angeles River corridor.[18]

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Land Use and Planning Tools

The County can tailor its land use and planning tools to create more inclusive economic outcomes. For instance, Regional Planning is considering creating Employment Protection Districts to preserve "economically-viable industrial and employment-rich lands, with policies to prevent the conversion of industrial land to non-industrial uses."[19] This type of targeted policy focuses on retaining job-generating land for industries that typically pay workers higher wages. The County may consider similar real estate policies that aim to preserve and market land that is suitable for job-producing businesses.

County Real Estate Leasing and Purchasing Decisions

The County can leverage its real estate leasing and purchasing decisions to affect more inclusive economic outcomes. In cases where the County is considering private sector ground lease development on County-owned property and in instances where the County is considering purchasing real estate, agencies and departments should consider economic development outcomes as part of the decision-making process. These considerations should be intentional about where facilities are located, evaluating a development's capacity to enhance access to transit, good jobs, and affordable housing. The County already has a policy in place that considers "centrality of location, accessibility of public transit, access to constituents, and cost as critical factors for siting County department headquarter facilities."[20] Supervisorial District 2 recently introduced a motion to use these guiding principles to enhance County-owned facilities in the Vermont Corridor. This policy might be applied more broadly to achieve a greater, more far-reaching impact, encompassing real estate decisions regarding the sale and ground lease of County property near employment and research centers.

SUPPORTING SMALL BUSINESS AND MANUFACTURING

SUPPORTING SMALL BUSINESS AND MANUFACTURING

The first element of this economic development roadmap is structured around supporting small businesses and manufacturers. This element of the program is intended to provide support and services for small and medium-sized enterprises by focusing efforts on two initiatives: (1) supporting and aligning an industrial incentive program that targets small and medium-sized manufacturers in key regional sectors; and (2) ensuring that businesses in the unincorporated parts of the County have access to technical assistance, loans, and commercial improvement programs.

Prior to dissolution, redevelopment dollars were often the primary source of funding for streetscape and infrastructure investments, commercial façade improvements, and other commercial and business assistance programs. Additionally, within the City of Los Angeles, the Community Redevelopment Agency (CRA/LA) had developed an industrial incentive program to encourage manufacturers to locate in the area or expand, rehabilitate, or "green" their current operations. As the County is considering allocating former redevelopment funds to build an economic development program, we recommend directing a portion of these funds towards assisting small businesses and manufacturers to supplement the County's past economic development activities, create and/or retain good jobs, and support emerging sectors to promote long-term quality job growth.

To accomplish this goal, the County should consider the following three approaches:

1. **Establishing a manufacturing revolving loan fund** that provides financing for small and medium-sized manufacturers looking to locate, rehabilitate, expand, and/or improve the environmental sustainability of their operations in the County

2. **Providing technical assistance support** by enlisting the services of local economic development corporations

3. **Developing a small business clearinghouse** that provides business owners and entrepreneurs with a suite of resources on a centralized, easily accessible platform

COMPONENT 1 – CREATE A MANUFACTURING REVOLVING LOAN FUND

The first component of this element is to establish a manufacturing revolving loan fund that provides financing for small and medium-sized manufacturers looking to locate, rehabilitate, expand, and/or improve the environmental sustainability of their operations within the County. The fund might follow guidelines similar to the CRA/LA's Industrial Incentive Program, which provided grants and conditional loans to new or existing industrial businesses seeking to locate, rehabilitate, expand, or "green" their operations.

The program might be targeted towards manufacturers from key sectors and industry clusters that the County is looking to promote and expand, or it could be made more broadly available to manufacturers located within unincorporated County areas in industries that pay above a certain wage. The overall goal of this component is to promote urban manufacturing and the creation of family-supporting manufacturing jobs, incorporate sustainable principles into the expansion of the County's manufacturing base, and retain and expand the current manufacturing workforce, which is the largest in the nation.[21]

Funding could be used for:

1. **Locating, developing, or rehabilitating a manufacturing business**

   a) Acquiring land and/or buildings
   b) Making construction/renovation/tenant improvements

2. **Energy audits and cost/benefit analyses for greening manufacturing processes and/or facilities**

3. **Capital plant and equipment expenses**

4. **Hiring a skilled Project Manager** – pulled from a list of experienced providers

Administrative guidelines for the fund would include:

1. Eligibility criteria

    a. Meets the definition of “industrial” or “manufacturing”
    b. Creditworthiness
    c. Location within the County
    d. Length of current operations (may include some exceptions for start-ups)
    e. Viability of operations

2. Underwriting criteria

    a. Ability to achieve and sustain job creation or retention goals
    b. Ability to complete proposed development/expansion plans
    c. Cash contribution to the development/expansion
    d. Ability to support additional debt
    e. Creditworthiness

3. Funding criteria

    a. Maximum funding amount
    b. Determining eligible funding amount

4. Job creation criteria

    a. New or retained
    b. Pay equal to or above current Living Wage
    c. Best efforts to support local hiring

5. Targeted sectors

6. Contract requirements

7. Program restrictions and exclusions

Under one model, the County could capitalize and operate the fund. Under another model, the County, along with other applicable public and private sources, could capitalize the fund and then turn over operations to the LACDC for the purpose of making working capital loans to eligible manufacturing enterprises. The LACDC currently manages a revolving loan fund program (County Business Loan Program (CBL)) and thus has the experience and staff necessary to manage a similar program. Additionally, there is a long, steep learning curve that comes with managing a revolving loan fund as the manager must deal with delinquency in loans and job creation, as well as potential turns in the economy. This learning curve is no longer an obstacle for the LACDC as it has managed its program for over 20 years.

Under this model, the LACDC would not only manage the fund program but would also conduct loan fund marketing, intake, administrative processes, applicant screening, underwriting analysis, closings, and loan servicing. The objective is to create an incentive that is easy to access and has a quick approval timeline to meet businesses' development or expansion timelines. Therefore, the goal is to average three months from application to funding.

The County should take the following steps,[22] recommended by the Council of Development Finance Agencies (CDFA), to set up and design the fund's structure:

1. Create the necessary application forms, program guidelines, and other materials (see Appendix B for sample forms and guidelines from the CRA/LA's industrial incentive program)

2. Invite lenders, potential borrowers, and community organizations to participate in the design process

3. Establish the purpose of the fund, including a needs assessment

4. Set the eligibility requirements for borrowers

5. Determine the allowed uses of funds as well as prohibited uses

6. Set a minimum and maximum amount for the loans

7. Decide if the loans must be matched by existing equity or other sources of funds

SUPPORTING SMALL BUSINESS AND MANUFACTURING

The LACDC should then take the following steps[23] to set up and design the fund's administrative guidelines:

1. Determine the length of the loan term, which may vary based on the use of the loan. For example, the term for a loan to purchase equipment may be based on the life of the product

2. Establish an application fee, origination fee, and policies regarding closing costs. Define the default and delinquency terms

3. Decide if the interest rate will be variable or fixed and whether the rate will vary based on the project

4. Develop the loan application form. Create a short pre-application form or checklist to help borrowers determine if they are eligible

5. Set up a committee to review loan applications

6. Determine the administrative duties and staffing needs associated with the program

7. Promote the fund; capitalize with funds from grants and individual donations, if necessary

8. Provide loans and technical assistance to borrowers

In order to meet the County's goals, we recommend giving priority to enterprises that:

- Create jobs (which may be required if capitalizing with federal grant funds)
- Pay living or family-supporting wages
- Are located or will locate in targeted unincorporated areas of the County
- Operate within key industry sectors
- Are owned by minorities or women or employ minorities, women, or displaced workers
- And commit to local hiring

Additionally, the amount funded will depend on the number of jobs created and by the source of any additional funds. For example, grantees of programs funded by CDBG funds must demonstrate that they create or retain at least one full-time equivalent, permanent job per $35,000 of CDBG funds used.[24] If this revolving loan is capitalized using general fund dollars, this restriction would not apply. We recommend that as LACDC considers leveraging its general fund dollars with other sources, it consider the restrictions associated with each source and how it might affect the program's flexibility.

Our recommendation is to structure the fund so that applicants are eligible without having been previously rejected by traditional lenders. This mandatory condition, imposed when using U.S. Economic Development Administration (EDA) grant funds, significantly diminishes the applicant pool, adding unnecessary time to the application process, and serves as a deterrent for potential applicants. This requirement also limits a fund's ability to diversify its risk portfolio. Since many applicants cannot access conventional capital markets, the majority of borrowers are considered high-risk. Although widening the applicant pool to include lower risk borrowers will help diversify the fund's risk portfolio, it is important to ensure that high-risk enterprises have an opportunity to access these funds. The LACDC may consider collaborating with local community organizations (e.g., Community Financial Resource Center and Pacific Coast Regional) to conduct outreach and implement additional screening guidelines to ensure that high-risk enterprises have access to these funds.

Cost Ranges

1. Low Level of Investment ~ $500,000

2. Medium Level of Investment ~ $1,000,000

3. High Level of Investment ~ $5,000,000

These cost ranges are relatively conservative when compared to the existing LACDC revolving loan fund that operates at a much larger scale. By way of comparison, the LACDC's existing CBL program's initial capitalization was $14.47 million and is currently funded at nearly $35 million. Given the size of the County, the start-up costs associated with creating this new revolving loan program, and the administrative expenses of managing the fund, dedicating anything less than $500,000 to capitalizing the program would severely limit the number and size of loans that could be made to manufacturing firms.

COMPONENT 2 – PROVIDE TECHNICAL ASSISTANCE SERVICES

The second component of this element is to provide technical assistance support to current and prospective small businesses in unincorporated County areas. These services may be especially effective in places that are designated as Employment Protection Districts (EPDs), as well as other targeted locations (e.g., the Antelope Valley Planning Area and the Santa Clarita sub-region) that the County may identify.

The Employment Protection Districts include:

- East San Gabriel Valley Planning Area
  - Avocado Heights
  - South San Jose Hills
  - South Walnut

- Gateway Planning Area
  - North Whittier
  - Rancho Dominguez
  - South Whittier-Sunshine Acres
  - West-Whittier-Los Nietos
- Metro Planning Area
  - Florence-Firestone
  - West Rancho-Dominguez
- San Fernando Planning Area
  - Lopez Canyon
- South Bay Planning Area
  - Lennox
  - West Carson
- West San Gabriel Valley Planning Area
  - East Pasadena-East San Gabriel
  - Whittier Narrows

Existing Small Business Assistance Providers

Currently, there are a number of agencies and organizations that provide assistance to small businesses in the County. They include the Los Angeles County Office of Small Business, the Los Angeles County Economic Development Corporation, the Los Angeles Chamber of Commerce, the Los Angeles Regional Small Business Development Center, and the recently restructured Los Angeles County Department of Consumer and Business Affairs.

Los Angeles County Office of Small Business

The Los Angeles County Office of Small Business provides workshops and training for businesses on selling goods and services to the County, State, and Federal governments; certifying businesses; and other technical assistance. However, many of the services provided are for businesses that are already certified or the services are relegated to other County agencies.

SUPPORTING SMALL BUSINESS AND MANUFACTURING

Los Angeles County Economic Development Corporation

The Los Angeles County Economic Development Corporation also provides business assistance, including help with permitting, securing incentives, workforce development, financing assistance, and project management. Most of these services are provided to large and international businesses or result in referrals to other service providers.

Los Angeles Area Chamber of Commerce

The Los Angeles Area Chamber of Commerce also provides business assistance services, which are made available to paying members.

Los Angeles Regional Small Business Development Center

One organization that does offer an expansive array of free and/or low-cost services to small businesses is the Los Angeles Regional Small Business Development Center, which provides assistance in business planning, management, marketing, sales, procurement, and strategic planning, as well as access to financing.

Los Angeles County Department of Consumer and Business Affairs

Another effort that is underway, but has not yet launched, is the County's Department of Consumer Affairs. On January 20, 2015, the Board of Supervisors adopted an ordinance to change the name of the Department of Consumer Affairs to the Department of Consumer and Business Affairs. The action also specified the general powers and additional duties of the Director of Consumer and Business Affairs. Many of the additional duties are related to providing assistance to small businesses, such as technical assistance, contracting opportunities, outreach, education, and permitting assistance, and other procedural requirements.[25] At this time, the Department of Consumer Affairs nor the Los Angeles Regional Small Business Development Center are proactive in targeting certain types of businesses and/or geographic areas of the County.

Deploying Technical Assistance Services

In order to provide technical assistance services to targeted EPDs and other areas, the County may enlist the services of the LACDC. The agency is knowledgeable about the characteristics of the region and has familiarity with the resources and services that are most needed. In addition, the LACDC has prior experience providing “boots-on-the-ground” services with its Community Business Revitalization program, which provided financial and technical assistance to support business tenants and property owners. With the appropriate support and funding, the LACDC can serve as a liaison to local small businesses in these targeted districts.

Release an RFP for Technical Assistance Providers

We recommend that the LACDC release an RFP to local economic development corporations and other applicable organizations to serve as potential technical assistance providers. The LACDC would be responsible for managing the RFP process and administration of the program. The County would be responsible for identifying target unincorporated communities. RFP respondents will be asked to consider the following:

1. Discerning prime opportunity sites within the target unincorporated communities

2. Isolating and ameliorating current and future impediments
    i. Identify common issues faced by current/potential small businesses (e.g., business planning, bookkeeping, lease negotiation)
    ii. Procedures, policies, regulations (e.g., permitting, legal structure, certification)
    iii. Financing and incentive opportunities and limitations

3. Designing an implementation and marketing plan

SUPPORTING SMALL BUSINESS AND MANUFACTURING

Funding Categories

Once provider(s) are selected, the LACDC can deploy the designated funds for targeted business assistance services to include:

1. **Business planning**

   i. Site location
   ii. Strategies
   iii. Marketing
   iv. Bookkeeping

2. **Business revitalization**

   i. Commercial façade improvements
   ii. Streetscape/infrastructure improvements

3. **Business services**

   i. Legal review (structure, taxes, contracts, leases)
   ii. Certification (MBE/WBE/SBE)
   iii. Navigating government (e.g., regulations, permits, licensing)

4. **Project management**

   i. Technical assistance (e.g., permits, contracts)
   ii. Financing assistance (e.g., identifying lenders, packaging loan applications)
   iii. Cost containment
   iv. Incentives (e.g., relocation, expansion, capital improvements)

Monitoring & Tracking

In order to track the performance of the program, the LACDC should incorporate performance indicators that capture and communicate success. These outcome-based program measures should track the performance of the activities provided by the program and should be designed to communicate important strategic objectives, align day-to-day activities with these strategic objectives, and continually drive improvement, efficacy, and efficiency. Such metrics may include the number of business start-ups, jobs created that pay above a certain wage, jobs above a certain wage that are retained, capital infusion within the targeted areas, and increases in sales for assisted businesses. Additionally, all information related to the program should be included in the small business clearinghouse created by this element's third component.

By deploying funds to provide targeted technical assistance services, the County will make it easier for businesses to establish, operate, and expand by providing direct assistance to business owners, fostering development in targeted districts, and linking employers to a skilled and qualified workforce in these targeted areas.

Cost Ranges

1. Low Level of Investment ~ $500,000
2. Medium Level of Investment ~ $1,000,000
3. High Level of Investment ~ $3,000,000

The County's investment would dictate the number of EPDs and focus areas that benefit from the program, as well as the type of technical assistance services provided. A $500,000 investment would limit the geography of the program and allow for relatively limited technical assistance services. A $1-3 million investment could be disbursed to more areas and provide a more robust array of services. With a higher investment, the County could also disburse the funds and enlist the LACDC to release a Notice of Funding Availability that asks organizations within the targeted districts to form collaborative partnerships and apply for funding. The winning organizations could then provide the necessary assistance services to small businesses within their districts.

COMPONENT 3 – DEVELOP A SMALL BUSINESS "CLEARINGHOUSE"

The final component of this element is to support small business owners and entrepreneurs by providing a collection of resources through an open source website. This website would be a "one-stop shop" for information on permits, processes, MBE/WBE/SBE certification, financial, technical, and procurement assistance programs, as well as other programs that fuel entrepreneurship and small business location and expansion throughout the County. The website would cull statistics that are already publicly available from individual departments, jurisdictions, and agencies onto a single platform in order to provide a full picture of the County's small business landscape.

The Existing Landscape

Currently, there are various websites, agencies, and organizations that provide information and services to small business owners and entrepreneurs. These entities include the Los Angeles County Office of Small Business, the Los Angeles Regional Small Business Development Center (SBDC), the Los Angeles Area Chamber of Commerce, and various economic development agencies. At this time, the County does not have a full-service website that provides the necessary information a small business owner or entrepreneur would need to start or expand operations within the County.

Option 1: Adapt Los Angeles County's Energov Technology To Serve Small Businesses

In September 2014, the County's Department of Regional Planning signed a contract with Tyler Technologies for its "EnerGov" planning, permitting, and licensing tool. EnerGov will expand the public's access to a number of County services by using Web-enabled applications that "support payment and application portals, electronic plan reviews, and public information requests."[26] As this effort is already underway, the County should continue this commitment, and consider enhancing this service by incorporating functionality that assists small businesses. The LACDC, along with the Department of Consumer and Business Affairs, could work with the Department of Regional Planning to adapt the new effort to include additional information for small businesses and entrepreneurs looking to locate or expand in the County.

Option 2: Modify Policies To Promote Transparency

If the current EnerGov contract cannot integrate additional resources, the County could take its own measures to make information more accessible and easy to read. For example, the County can combine the information currently provided by other agencies and jurisdictions onto one platform. The County may also consider providing public-facing documents that use accessible language to explain policies, rules, and procedures. Likewise, the County may consider discontinuing the use of PDF and Word documents as they are more difficult to search and are not easily accessible across platforms.[27]

More long-term objectives may include optimizing a public-facing website for mobile and tablet devices, converting information to HTML format, providing a portal for online permitting, and incorporating the use of social media to be more proactive in providing assistance to current and potential business owners.
In this digital era, governments should strive to provide the public with easily accessible information that can be made available on a variety of platforms. By consolidating information and providing the business owners with a digital "one-stop-shop," the County will promote transparency and increase efficiency.

PROMOTING A CLUSTER STRATEGY

CLUSTER STRATEGY

INVESTING IN GROWTH SECTORS AND EMERGING CLUSTERS

The second element of this program focuses on coordinating economic development work in order to grow key "clusters" in the region. Clusters are geographic concentrations of related companies, organizations, and institutions that are present in a particular region. Companies of the same sector tend to co-locate, or "cluster" for many reasons, including proximity to a skilled workforce, specialized suppliers, and a shared industry knowledge-base. Clusters not only increase productivity and efficiency, they also facilitate new business formation and stimulate innovation.[28]

The Existing Landscape

Given the size of Los Angeles County, companies, organizations, and institutions of the same sector tend to gather in smaller "sub-clusters." For example, bioscience start-up companies may wish to locate near research universities to draw on intellectual capital and support. In Los Angeles County, promising locations for these firms include areas near the Harbor-UCLA Medical Center in the South Bay and the LAC+USC Health Science Campus in East Los Angeles. On the other hand, large manufacturing and research & development companies may wish to locate in areas with large swaths of industrial-zoned land, such as the Antelope Valley.
The Los Angeles Economic Development Corporation (LAEDC) has identified 11 of the largest traded clusters in the region.[29] Their industry cluster work provides a picture of employment and wages at a regional level, and how the County fares in comparison with the nation as a whole. These 11 traded clusters are:

1. Aerospace and Defense
2. Biopharmaceuticals and Medical Devices
3. Cleantech and Advanced Transportation
4. Education and Knowledge Creation
5. Entertainment
6. Fashion
7. Food Manufacturing

8. IT and Analytical Instruments
9. International Trade
10. Marketing, Design, and Publishing
11. Tourism and Hospitality

A successful cluster strategy must also consider trends at the sub-regional and firm level. Throughout Los Angeles County, various economic development organizations are dedicated to supporting industry clusters in their respective regions. Their services include data analysis, convening industry working groups, business surveying, business assistance, and marketing.

Historically, the County has lacked a focused strategy to promote industry clusters for key emerging sectors. The County has only recently embarked on an attempt to coordinate a strategy around the bourgeoning bioscience sector. On November 2014, the Board of Supervisors (Board) received a Master Plan from the Battelle Memorial Institute to advance the bioscience industry in Los Angeles County. In response, the Board directed the County to seek the resources necessary to develop an implementation strategy for the Los Angeles Biotech Master Plan.[30] In the fields of aerospace defense, cleantech, and hospitality, LAEDC has played an important role in convening key players, providing business assistance, and releasing data. However, as a region, Los Angeles County needs to hone in on sector-specific strategic interventions, deploying resources to execute a strategy, and evaluating its progress and success.

Deploy a Competitive Grant Program

Cluster development strategies are collaborative efforts by nature. Los Angeles County can promote the region's key clusters by deploying a competitive grant program focused on supporting local economic development efforts. The program can be designed to focus on select sectors for the entire county, or it can focus on particular sub-regions. In the initial years of the program, the County may wish to focus on one or two traded clusters or sub-regions and provide dedicated funding to collaborative efforts that engage economic and workforce development partners for multi-year efforts. The success of the efforts should be measured against clear metrics established by the County in consultation with industry and workforce development leaders. Cluster development efforts should also be coupled with a marketing strategy that will emphasize a unified Los Angeles County business community and a coherent vision for local innovation.

Deploy an Open Data Dashboard

Collecting local trend data (number of firms by sector, firm size, number of employees, wages, etc.) is a common way for economic development organizations to ascertain the state of their region. This is a crucial, yet costly endeavor often requiring the engagement of specialized outside consultants. Though costly, the results of data analysis influence an organization's priorities and direction for years to come. Often, these data points are already collected by County, State, and Federal agencies, but are not available in a user-friendly format. Los Angeles County could help to streamline and focus the efforts of sub-regional economic development organizations by entering into a master agreement with a research firm to publish labor and employment data and make it publicly available to economic and workforce development organizations in Los Angeles County. By creating a centralized data portal, the County can free-up resources for local and sub-regional economic development groups that can then be redirected towards important business retention and assistance efforts.

COMPONENT 1 – CREATE A COMPETITIVE GRANT PROGRAM FOR CLUSTER BUILDING EFFORTS

The purpose of the competitive grant process is to build on industry-specific efforts at the sub-regional level. Examples of entities eligible to apply include, but should not be limited to: local economic development corporations, community-based organizations, community development financial institutions, labor groups, educational institutions, usiness associations, industry trade groups, and philanthropic entities. Collaborative bids among multiple entities should be highly encouraged. A grant program can be designed in one of two ways:

- **Option 1: Target One or Two Sectors:** Over a two to three year period, the County would select one or two traded sectors identified by the LAEDC to prioritize for cluster development. Los Angeles County would release a Request for Proposals/Qualifications (RFP/Q) to solicit proposals to promote business clusters within those sectors at the sub-regional level. Collaborations of economic, workforce development and other stakeholder groups could submit proposals offering a suite of services aimed at strategically growing the number of businesses and employment within the targeted sector in a given geographic area over a grant period of two to three years. We recommend this approach if the County can only commit limited funds to this effort. The benefit of this approach is that the County could focus building momentum for one or two signature industries like bioscience or aerospace. The downside of this approach is that not all areas of the County may be competitive in the one or two clusters selected for attention.

- **Option 2: Invite Sub-Regions to Propose a Cluster Strategy for their Area:** Through this approach, the County would release a Notice of Funding Availability (NOFA) for collaboratives of economic development, workforce development, industry associations and other stakeholders from sub-regions with the County (e.g. San Gabriel Valley, South Bay, South Los Angeles, San Fernando Valley, Santa Clarita, Gateway Cities, Eastside, etc.) to propose how they would promote a particular industry cluster within their sub-region. The applicants could propose to promote any of the traded clusters identified by LAEDC. We recommend this approach if the County can commit to a higher funding level. The benefit of this approach is that all regions of the County could tailor their efforts to the particular cluster for which they have a competitive advantage. The downside of this approach is that it might result in the County funding cluster development efforts for several industry sectors at once, diluting the push for one particular industry like bioscience.

Regardless of the approach, each submittal should contain a compelling, quantifiable justification for their focus on a particular sector and sub-region. Each proposal must also contain a "jobs plan," which would describe how a proposal, if selected, will contribute to the creation of jobs that pay a family-supporting wage in Los Angeles County. A proposal must also identify quantifiable metrics for success, and describe how metrics will be tracked and reported on periodically. In addition, applicants should be encouraged to identify matching or additional sources of funding (in the form of grants, in-kind contributions, etc.) that could leverage the County's investment.

Examples of Activities/Services to Fund

Activities may vary by sector and sub-region, but may include:

- Business surveying to determine sector and/or sub-regional needs
- Formation or support of an employer, workforce, sectoral, and/or cluster council
- Business attraction services, including marketing the sector and/or region at key trade events
- Business retention services (e.g. permitting, incentives, financing assistance)
- Identify and market "opportunity sites" for new and expanding businesses
- Piloting job training and placement programs between community colleges, training providers and employers
- Funding for the creation of sector-specific apprenticeship programs

Steps to Implement

- **Determine Funding Allocation and Program Design:** The program design, as described earlier, should be based on the funding allocation available. To the extent possible, this program should leverage the current activity of workforce and economic development organizations in determining which areas to target.

- **Draft RFP/Q or NOFA:** LACDC should draft a Request for Proposals/Qualifications or a Notice of Funding Availability (NOFA) in consultation with representatives from each Supervisorial District, and other County offices as required.

- **Assemble an Advisory Committee:** The Advisory Committee should be comprised of existing companies, entrepreneurs, investors and training organizations, and provide LACDC guidance in the selection of grantees.

- **Announce grantees and deploy funding**

- **Ensure program accountability and success:** As a condition to funding, the County should request that grantees regularly report on progress on specific metrics as identified in their proposals.

Timeline

- **Determine Funding Approach** (focused sector vs. call to sub-regions for proposals): 1 month

- **Draft Request for Proposals/Qualifications or NOFA:** 1 month

- **Submission Period:** 2 months
- **Application Review Period:** 1 months
- **Interviews and Final Selection:** 1 month

Total to Launch: 6 months

Cost Ranges

Individual grants could range from $50,000 - $150,000 annually over the course of a two- to three-year period. The funding amount should be based on the number of partners and types of services proposed. The total program allocation can be broken down as follows:

1. Low Level of Investment ~ $500,000 (focus on one to two sectors and award to two or three sub-regions)
2. Medium Level of Investment ~ $1 million (open call to sub-regions for up to 10 awards)
3. High Level of Investment ~ $2 million (open call to sub-regions for up to 20 awards)

COMPONENT 2 – DEPLOY AN "OPEN DATA" DASHBOARD TO MEASURE PROGRESS/IDENTIFY GAPS AT SUB-REGIONAL LEVEL

Data is an important tool for policy makers and business leaders to understand how a particular sector is faring in a region over time. The results of data analysis influence an organization's priorities and direction for years to come. However, data collection is a costly activity for economic development organizations, often due to the technical expertise required to gather, analyze, and aggregate data. In addition, the cost of accessing proprietary datasets can be prohibitively high for smaller organizations.

Existing Landscape

Today, many sub-regional organizations choose to publish their data in an annual report, while others keep their data private or share it selectively. For example, the San Gabriel Valley Economic Partnership, contracts with the LAEDC's Kyser Center for Economic Research to gather data on economic indicators and key industries in the San Gabriel Valley. The data is compiled and released publicly in an annual report.[31] Other organizations, such as the Los Angeles County Business Federation, share their data only in aggregate form and keep detailed data collection results confidential.[32] The LA BizFed partners with the USC Marshall School of Business to aggregate member data. Similarly, the Santa Clarita Valley Economic Development Corporation (SCVEDC) has partnered with the Harvard Business School's Institute for Strategy and Competitiveness to develop an "industry cluster" data mapping tool that culls data from a broad array of data sources.[33] SCVEDC is currently working with Harvard and other local economic development partners to refine the tool to display data at the zip code level.

County Role in Streamlining the Process for Accessing Economic Data

The County could help to reduce costs by playing a role in collecting economic development data and releasing it through a publicly available platform. A publicly available, user friendly data portal could provide County Departments, interested stakeholders, economic development organizations, and County residents with up-to-date-information on the state of the region across various metrics. As noted in a recent motion by Supervisor Mark Ridley-Thomas,[34]'open data can enhance transparency, improve collaborations, foster innovation, and promote stronger regional economic development. Useful data sets to collect may include the number of firms and employees by sector and average wages. Though regional data is helpful, the dashboard should contain data at the ZIP code level in order to be most useful. By creating an open platform for sharing key economic development data, the County could reduce the need for economic development organizations to engage in duplicative efforts and enable groups to devote fewer resources to research and more towards business assistance efforts.

Steps to Implement

The County has taken a considerable step forward in adopting "open data" standards. In January 2015, Supervisor Ridley-Thomas introduced a motion authorizing the creation of a website for information on budgets, crime statistics, welfare, etc." The website is intended to be user-friendly and made free and available to the public.[35] While the motion does not recommend specific labor and employment data sets, the Motion does direct the task force to identify other relevant data that could be added to the data portal.

- The County should move quickly and direct the task force to also identify relevant labor and employment data sets that can be included in this website. The task force should look at internal County departments, such as the Office of the Assessor, as well as state agencies, such as the California Employment Development Department
- The task force should also interview organizations that are already collecting labor and employment data for their sub region, such as the SCVEDC, in order to determine the types of commonly used data, interface types, and their approximate cost to procure
- The County should direct the task force to calculate the additional cost of adding labor and economic data to the proposed website

COMPONENT 3 – SECTOR SPECIFIC MARKETING SERVICES

Los Angeles County leads the nation in sectors such as aerospace and manufacturing. However companies, investors, and policy makers, are often unaware of the region's competitive strengths in areas outside of the entertainment sector. Moreover, Los Angeles is often associated with the notion of not being as "business friendly" as other areas of the United States. This notion is often trumpeted by other regions, who seek to move companies away from Los Angeles and into their own locales. In short, Los Angeles is often defined negatively by competing regions, and has had difficulty projecting a unified, coherent message that highlights its considerable economic strengths.

CLUSTER STRATEGY

The County can play a leading role in convening key stakeholders to develop a unified marketing strategy for one or two of the region's leading sectors. Partners can include existing companies, entrepreneurs, universities, real estate professionals, local government representatives, etc. The goal of this component is to produce marketing materials that articulate the strength of key clusters, the business advantages of locating in Los Angeles County, and, most importantly, to build awareness and brand recognition. The marketing materials would be available for sub-regional EDC's and individual cities to use as part of their business attraction and retention efforts. The sector-specific marketing pieces can reinforce the cluster development efforts at the sub-regional level.

A robust sector marketing campaign must include the following:

- One-page flyer articulating the strength of the region, with infographics and relevant data
- A brief review of "best practices" for sector marketing campaigns in the selected sector, which can include interviews with companies in order to understand industry needs and challenges
- A booklet aggregating sector-specific incentive programs, with concise descriptions of the program, as well as contact information for the program administrators
- A sector-specific workforce development guide that summarizes all of the local workforce training programs in the region, along with contact information for the program administrators
- The creation of a website or webpages (either as a stand-alone or under an existing site), that would contain the sector-specific marketing materials and can be updated regularly
- Regional and sub-regional maps that display the location of major companies
- A social media plan to increase cluster awareness on Facebook, Twitter, LinkedIn, and other platforms that would direct traffic to the aforementioned website

Steps to Implement

- **Determine Priority Sectors and Funding:** The County should determine its funding allocation for the program and the number of sectors it wishes to promote. The County should leverage the current activity of workforce and economic development organizations, as well as efforts of competitive bid awardees in Component 1.

- **Draft Request for Proposals/Qualifications (RFP/Q):** LACDC, working in consultation with LAEDC and industry leaders, should draft a Request for Proposals/Qualifications to solicit proposals to produce sector marketing materials. A separate RFP/Q should be released for each sector.

- **Assemble an Advisory Committee:** The Advisory Committee should be comprised of existing companies, entrepreneurs, investors, and training organizations to provide input on the RFP/Q scope.

- **Review Bids:** Once bids are received, the County should reconvene an Advisory Committee to provide guidance on the selection of marketing consultant(s).

- **Announce grantee(s) and deploy funding**

- **Ensure program accountability and success:** As a condition to funding, the County should request that consultants regularly check in with the Advisory Committee for feedback on drafts and iterations, in order to ensure that the final materials have broad buy-in and support. Moreover, we recommend that LAEDC, as part of its contract to provide services to the County, be charged with ensuring that the marketing materials are periodically updated to maintain their long-term relevance and use.

Timeline

- **Determine Priority Sectors and Funding:** 1 month
- **Draft Request for Proposals/Qualifications:** 1 month
- **Submission Period:** 2 months
- **Application Review Period:** 1 months
- **Interviews and Final Selection:** 1 month

Total to Launch: 6 months

Cost Ranges

1. Low Level of Investment ~ $25,000
   This amount includes marketing pieces for 1 key sector.
2. Medium Level of Investment ~ $50,000
   This amount includes marketing pieces for 2 key sectors.
3. High Level of Investment ~ $75,000
   This amount includes marketing pieces for 3 key sectors.


ANDERSEN
MORROW

ESTABLISHING A CATALYTIC DEVELOPMENT FUND

CATALYTIC DEVELOPMENT

TARGETING CATALYTIC PROJECTS

The concept of developing a Catalytic Development Fund is not a new one. Over the last decade, multiple examples of these types of gap financing, patient capital, or subordinated debt funds have emerged in the Twin Cities, Atlanta, Denver, and the San Francisco Bay Area. In Los Angeles, the California Community Foundation, the California Endowment, and the Los Angeles County Metropolitan Transportation Authority (Metro) have explored the potential to start a transit-oriented affordable housing fund in the region with a $10 million investment from Metro.[36] While funds like this offer promising opportunities to promote mixed-income housing development, less attention has been given to structuring investment funds to focus primarily on job creation and maintaining high-quality employment opportunities.

Establish a Catalytic Development Fund

The County should explore the potential of leveraging investments in job creation with those in housing, infrastructure, energy efficiency, and transportation through the creation of a Catalytic Development Fund. The Catalytic Development Fund could provide a better jobs-housing balance in areas like Santa Clarita, Palmdale, and Lancaster, where housing is plentiful but good-quality, family-supporting jobs in close proximity are scarce. In addition, the County could consider using the Catalytic Development Fund to match cap and trade or other state funding sources to promote infill and brownfield development along transit corridors in unincorporated communities. The County could also work with the Department of Regional Planning to focus investment geographically on its Employment Protection Districts to promote the rehabilitation of commercial and industrial properties in unincorporated areas. The Catalytic Development Fund could be used to leverage New Market Tax Credits and conventional bank financing to provide the extra subordinated debt necessary to preserve, rehabilitate, upgrade, and reposition scarce industrial properties. These properties are critical to providing the space necessary for aerospace, advanced transportation, and other high value-added manufacturing firms to stay and grow in Los Angeles County.

Depending on the size of the Catalytic Development Fund, LA County could expand eligibility to include projects in cities interested in matching the County's investments through their own grant and loan programs.

Potential Metrics

One example of how Los Angeles County could identify successful projects is by measuring the number of family-supporting jobs created or retained as a result of financing obtained through the Catalytic Development Fund. By breaking this down per dollar spent, Los Angeles County would be able to tell a compelling story about how deploying investment through the Catalytic Development Fund is making a meaningful impact on its residents.

Recommended Approach

We recommend Los Angeles County explore the formation of a Catalytic Development Fund by convening a working group of stakeholders who have expressed an interest in creating this type of fund. The working group would be charged with determining whether there is a market need for a job creation investment fund within the region, identifying the appropriate lending or investment product mix, structure of the fund, length of term, and target borrowers. The working group's analysis could then form the basis for the County drafting a Request for Proposals (RFP) to identify a consultant team that will design, structure, and administer the fund.

CATALYTIC DEVELOPMENT

Step 1: Convene A Working Group

Potential participants in the working group could include the California Community Foundation, The California Endowment, JP Morgan Chase, Enterprise, Low Income Investment Fund, Bank of America, Wells Fargo, Genesis LA, the Federal Reserve, Kresge Foundation, and others.

The working group should be charged with determining what if any unmet need might be filled by creating a Catalytic Development Fund. Participants should be asked to suggest a structure for the fund, including parameters for lending (e.g. projects located within a half-mile of transit, projects located within the County's Employment Protection Districts, or projects that create a certain number of permanent jobs that pay family-supporting wages), targeted borrowers, and a desired portfolio mix. Based on the Working Group's responses to these questions, the County can determine whether it makes sense to move forward with creating a catalytic development fund.

Step 2: Meet With Potential Investors

If the County decides to pursue the creation of a fund, it should identify interested investors. This could include a mix of philanthropic entities, community development financial institutions (CDFIs), and traditional commercial banking institutions. An important part of meeting with potential investors will be determining what level of risk they are willing to accept and what expectations they will have for the return on their investment. For example, the transit-oriented funds that have been formed recently typically require a public investment to take the "top loss" or "first loss" position in order to attract other investors. It is critical to understand the specific requirements for each potential investor's positioning in the capital stack to design an effectively leveraged fund.[37]

Step 3: Issue RFP For Consultant To Manage Fund

The findings of the working group will be important in drafting a Request for Proposals (RFP) to assemble a consultant team to build out a business plan and run the fund. Additionally, once a consultant team is chosen and the lending sources are established, an advisory board should be assembled with all lenders holding a representative seat as well as a member of the Los Angeles County staff. The advisory board would work in conjunction with the consultant team to oversee and approve all loans.

Estimated Cost

The estimated cost to build out a business plan is expected to run about $150,000-$250,000, based on similar funds.[38] The cost of running the fund is a negotiable fee; typically, the firm receives a fee of up to 2% of capital under management, plus 20% of the cash flow.

Timing

The estimated time needed to set up the fund would be 15-24 months. The planning phase, which would consist of initial research, organizing the working group sessions, and identifying potential partners, should take anywhere between 6 and 12 months. Afterward, Los Angeles County would engage in a 6-12 month period of soliciting capital investments. The team would meet with potential investors while simultaneously issuing the RFP for the consultant and selecting a team to run the fund.

ATTRACTING FOREIGN INVESTMENT AND PROMOTING EXPORTS

FOREIGN INVESTMENT

ATTRACTING FOREIGN INVESTMENT AND PROMOTING EXPORTS

The final element of this economic development roadmap is structured around attracting foreign investment and promoting exports. The Los Angeles region consistently ranks as a leader in foreign trade. According to a report published by the Brookings Institute, Los Angeles leads the country in exports totaling nearly $80 billion annually.[39] The Ports of Los Angeles and Long Beach rank first and second nationally in overall container volume, and are the "gateway" for goods movement throughout the nation. Los Angeles is also a national leader in foreign direct investment. In early 2014, Los Angeles County Mayor Michael Antonovich led a trade delegation to China aimed at strengthening the relationship between LA County and companies in sectors such as information technology, advanced manufacturing, digital media, and others interested in expanding operations into the U.S.[40] Similarly, Los Angeles Mayor Eric Garcetti led a successful trade mission to China, South Korea, and Japan – three of the region's largest trading partners – to encourage foreign companies to locate and invest in Los Angeles.[41]

The Existing Landscape

The Los Angeles Mayor's Office, the Port of Los Angeles, Los Angeles World Airports, the Los Angeles Area Chamber of Commerce's Regional Export Council (LARExC), the Los Angeles Economic Development Corporation, and the Los Angeles Business Council (LABC) are among the many organizations actively involved in promoting foreign trade. Given the number of organizations and their respective strengths, any County investment in this area must be deployed in close consultation and coordination with existing foreign trade organizations to effectively leverage efforts and investment, and ensure success. Though the region is an undisputed leader in global trade, the County must further enhance its position by more proactively pursuing global opportunities.

Elsewhere, organizations such as the Bay Area Council in San Francisco, coordinate among local entities to streamline foreign investment efforts in their region, and send a strong, unified message to foreign investors abroad. Among their many accomplishments, the Bay Area Council has taken the lead on forging trade agreements with provincial Chinese governments to expand trade opportunities, lead and host numerous delegations, attract and host various foreign trade symposiums, and assist foreign businesses on locating in the Bay Area.[42] Most recently, the Bay Area Council announced the joint-hire of a new Executive Director for the California-China Office of Trade and Investment. The California-China Office will serve as the hub for California companies interested in entering or expanding in China, and aid Chinese companies seeking investment opportunities in California.[43]

Create a Backbone Organization to Coordinate Activity

To date, the County of Los Angeles lacks a centralized or coordinated strategy to promote exports and attract direct foreign investment. The region needs a "backbone" entity to coordinate among foreign trade organizations to ensure that each organization plays to its strengths, and effectively promotes the region's advantages. This lack of coherence and coordination results in Los Angeles being passed over for key trade events that can raise the profile for the County, bring key business and government delegations into the region, and can lead to contracting opportunities and job creation for local businesses.

Highlight Direct Foreign Investment Opportunities

Moreover, as the county looks to attract foreign investment, there is a need to develop coordinated marketing materials, collateral, and a website that succinctly and effectively conveys information about the Los Angeles region, opportunities for investment, and ways to get started. Lastly, there is an opportunity to leverage the work of the cluster strategy program and identify firms that are "export ready" or "export capable," in order to increase the county's share of export dollars.

COMPONENT 1 – FUND AND DEVELOP A BACKBONE ORGANIZATION TO COORDINATE INTERNATIONAL TRADE ACTIVITY

The purpose of this backbone organization would be to serve as the "front desk" service for all foreign delegations. This organization will coordinate logistics for all foreign delegations, work with existing foreign trade partners to set itineraries and line up meetings, and connect delegations to the appropriate resources and information. The organization would also be charged with:

- Raising the County's profile among foreign investors
- Working with Consulates to attract foreign trade delegations
- Increasing international contracting opportunities for local businesses
- Increasing the number of trade conferences/high-level meetings around foreign trade
- Increasing the amount of direct foreign investment in Los Angeles County
- Implementing key foreign trade initiatives, as outlined under Components 2, 3, and 4 of this section

Structure

The backbone organization would be comprised of a Board of Directors, Executive Director, and two full-time support staff. The Board of Directors would be comprised of select designees from core foreign trade organizations, such as the Port of Los Angeles, the Port of Long Beach, the Los Angeles Chamber of Commerce, the World Trade Center, the County of Los Angeles, the City of Los Angeles, and others. As the organization grows and thrives, it may consider forming subject matter working groups, to engage an even wider net of stakeholders.

FOREIGN INVESTMENT

Steps to Implement

First, the County, led by the County Chief Executive Office (CEO), should create the backbone organization as a not-for-profit 501(c)(3). Once assembled, the Board will lead the search for a qualified Executive Director. The Director, once hired, should commence a search for qualified support staff. These staff members would be fully dedicated to tracking down delegation opportunities, coordinating between foreign trade organizations, responding to grant opportunities, and linking foreign investors and officials to resources and opportunities within the Los Angeles region.

The County should provide the seed funding for Years 1 and 2 of this organization. However, the Board of Directors, along with the Executive Director, should come up with a funding plan to transition into a self-sustained organization. Board Members should be expected to fundraise on behalf of the organization beginning in Year 2. Support staff, under the direction of the Executive Director, will also apply for grants and other funding opportunities in order to ensure the organization's longevity.

Timeline

- **Non-profit incorporation process:** This includes submitting Articles of Incorporation, Statement of Information, and receiving Employer Identification Number from the State of California: 1 month

- **Assemble Board of Directors:** 5 months

- **Executive Director Search** (concurrent with non-profit incorporation): 6 – 8 months

- **Hire Support Staff:** 2 months

Total: ~ 10-12 months to launch non-profit

Estimated Costs

Yearly operating costs for the backbone organization are estimated to be anywhere from $250,000 - $350,000 per year. This includes staffing and some operational costs. These costs may grow as the non-profit begins to oversee more initiatives.

COMPONENT 2 - WEBSITE FOR DIRECT FOREIGN INVESTMENT OPPORTUNITIES

Interviews with foreign trade experts reveal that the Los Angeles region lacks a website that aggregates investment opportunities (including EB-5) for foreigners interested in investing in Los Angeles. The Gateway Cities COG's Property Site Selector is a good example of a website that aggregates information on real estate opportunities in one place.[44] Ideally, the County-wide website should contain a Google Earth-like interface that allows for potential investors to zoom into investment opportunity locations and explore the surrounding area. By clicking on an investment opportunity, a potential investor should also be able to access information about the nature of the desired investment, and up-to-date contact information for the agent coordinating the opportunity. Like the Gateway Cities COG tool, the website should also have an option to view basic demographic information (median age, income, employment etc.) near potential investment opportunities. Furthermore, the website should have a user-friendly interface, and be widely advertised by local international trade partners and to international markets.

Steps to Implement

- **Draft Request for Proposals/Qualifications (RFP/Q):** The newly formed backbone organization should draft and release a Request for Proposals (RFP/Q) to qualified vendors to build a data platform and aggregate with the requested data.

FOREIGN INVESTMENT

- **Assemble an Advisory Committee:** The Advisory Committee should be comprised of select board members and representatives of organizations that work in promoting direct foreign investment and exports. The advisory group will provide guidance on the drafting of the RFP/Q and provide input in the selection of a vendor.

- **Review Bids:** Once bids are received, the organization should reconvene the Advisory Committee to provide guidance on the selection of the vendor

- **Announce consultant and deploy funding:** An ideal vendor should be able to provide: a well-designed website with a user friendly interface, rigorous testing leading up to the tool launch, revisions as needed, and interim reports throughout the length of the contract.

- **Ensure program accountability and success:** As a condition to funding, the organization should request that the vendor regularly check in with the Advisory Committee as the program tool is developed to ensure widespread support and buy in for the tool.

Timeline

- **Draft Request for Proposals/Qualifications:** 1 month

- **Submission Period:** 2 months

- **Application Review Period:** 2 months

- **Interviews and Final Selection:** 1 month

Total to Launch: 6 months

Cost Ranges

1. Low Level of Investment ~$100,000
2. Medium Level of Investment ~ $125,000
3. High Level of Investment ~ $150,000

COMPONENT 3 - COORDINATED MARKETING PIECES, TAILORED TO INTERNATIONAL INVESTORS

Currently, Los Angeles lacks consistent marketing pieces that brand the region as one of diverse industries and innovation. Various foreign trade organizations have released their own marketing materials, but they are inconsistent in their area of focus (city versus county versus region) and messaging. Developing coordinated marketing pieces, including pamphlets and online media, will stress that Los Angeles County has a unified and supportive business community that is committed to innovation. These marketing pieces should be available in multiple languages, and should be adopted by local foreign trade organizations as part of their own efforts to market the region.

Steps to Implement

- **Draft Request for Proposals/Qualifications (RFP/Q):** The newly formed backbone organization should draft and release an RFP/Q for marketing/branding consultants to develop web and print material to market Los Angeles County. The marketing program should incorporate all segments of the region's overall foreign trade efforts.

- **Assemble an Advisory Committee:** The Advisory Committee should be comprised of select board members and representatives of organizations that work in promoting direct foreign investment and exports. The committee will provide guidance on the drafting of the RFP/Q and provide input in the selection of a vendor.

- **Review Bids:** Once bids are received, the organization should reconvene the Advisory Committee to provide guidance on the selection of the vendor.

- **Announce consultant and deploy funding**

- **Ensure program accountability and success:** As a condition to funding, the organization should request that the consultant regularly check-in with the Advisory Committee as the materials are developed to ensure widespread support and buy-in. The materials should reflect the potential the region possesses and highlight the foreign trade activities already underway.

Timeline

- **Draft Request for Proposals/Qualifications:** 1 month

- **Submission Period:** 2 months

- **Application Review Period:** 2 months

- **Interviews and Final Selection:** 1 month

Total to Launch: 6 months

Cost Ranges

1. Low Level of Investment ~ $50,000
2. Medium Level of Investment ~ $75,000
3. High Level of Investment ~ $100,000

COMPONENT 4 – RELEASE RFP FOR EXPORT SERVICES SUPPORT

According to the Los Angeles Regional Export Plan, 10 local industries accounted for nearly 83 percent of the region's exports in 2010.[45] If Los Angeles County is to grow its share of exports, it must aggressively work to broaden and diversify its export base. One way to do so is by offering targeted assistance to key companies. Rather than marketing to companies broadly, the Los Angeles Regional Export Council (LARExC) recommends targeting mid-sized companies who are "export ready," or "export capable" in order to more strategically increase the region's share of export dollars. Furthermore, this strategy can also focus on mid-sized companies in sectors targeted by the County's cluster strategy (See Page 55, Cluster Strategy).

Export Support Services can include the following:

- Sector-specific information seminars
- One-on-one case management support
- Various other technical assistance services, including connecting companies to various export incentive programs at the state level, such as those available through the Governor's Office of Business and Economic Development (GO-Biz).

Grant funding should last approximately two to three years. All proposals must identify indicators to measure success.

Steps to Implement:

- **Draft Request for Proposals/Qualifications (RFP/Q):** The newly formed backbone organization should draft an RFP/Q for export services support. The bid should be distributed widely to capable export-services firms.

FOREIGN INVESTMENT

- **Assemble an Advisory Committee:** The Advisory Committee should be comprised of select board members and export experts. Board Members that provide export services may need to recuse themselves from this process. The committee will provide guidance on the drafting of the RFP/Q and provide input in the selection of grantees.

- **Select service providers and deploy funding**

- **Ensure program accountability and success:** As a condition to funding, selected grantees should report on the progress along specific metrics as identified in their proposals.

Timeline

- **Draft Request for Proposals/Qualifications:** 1 month

- **Submission Period:** 2 months

- **Application Review Period:** 2 months

- **Interviews and Final Selection:** 1 month

Total to Launch: 6 months

Cost Ranges

The number of sectors and/or geographic clusters targeted (estimated at $10,000 per sector or cluster) inform the amount funded. The total annual program allocation can be broken down as follows:

1. Low Level of Investment ~ $50,000 annually
2. Medium Level of Investment ~ $80,000 annually
3. High Level of Investment ~ $100,000 annually

CONCLUSION

CONCLUSION

CONCLUSION

This paper presented an implementation roadmap for a proposed economic development program for Los Angeles County. The paper provided a framework to guide implementation of the program, proposed mechanisms to administer the recommended program elements, and delineated methods to coordinate and leverage ongoing countywide economic activities with other funding streams and efforts in the public, private, and non-profit sectors.

The roadmap focused on the following four program elements, with each consisting of several recommended components: (1) promoting small business and light manufacturing; (2) investing in the region's emerging growth sectors; (3) targeting catalytic projects; and, (4) attracting foreign investment. While it may not be feasible to implement all recommended components of the program, the County can leverage some of the region's current efforts to implement the more readily accessible components.

The County should explore the potential of leveraging investments and creating partnerships with the various economic development organizations and agencies across the region. The program element to target catalytic projects is poised to leverage the region's current investments in housing, infrastructure, energy efficiency, and transportation through the creation of a Catalytic Development Fund. Further, the Fund could match cap and trade or other state funding sources, leverage New Market Tax Credits and conventional bank financing, and focus on Employment Protection Districts (EPDs) in order to create family-supporting jobs and promote development in targeted unincorporated communities.

The County can also leverage current efforts to invest in the region's emerging growth sectors. By creating a cluster strategy fund to advance well-paying growth sectors, the County can deploy grant funding to economic development organizations dedicated to supporting industry clusters in their respective regions. As the size of the funding pool will dictate which sectors to target, it may be most efficient for the County to pick one or two key burgeoning sector(s) that will be the focus of cluster-building activities, such as bioscience or cleantech.

CONCLUSION

Finally, the County can leverage the efforts and experience of the LACDC to promote small business and manufacturing. The LACDC is one of the region's leaders in promoting small business. If funding can be secured, the LACDC could manage a second revolving loan fund that targets manufacturers in key regional sectors, as well as fund a business revitalization program to ensure small businesses in unincorporated areas and EPDs have access to technical assistance, loans, and commercial improvement programs.

By strategically deploying and leveraging funds to ongoing regional efforts, the County can jump-start job-creation activities, create permanent, family-supporting employment opportunities in economically depressed communities, and support emerging sectors to promote long-term job growth. With the dissolution of redevelopment and the Enterprise Zone program, the County of Los Angeles needs new sources of funding to pay for these much-needed economic development activities.

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APPENDIX

APPENDIX A

LIST OF INDIVIDUALS INTERVIEWED

Adam Friedman, Executive Director, Pratt Center for Community Development

Ann Sewill, Vice President, Housing and Economic Development, California Community Foundation

Benjamin Polk, Justice Deputy, Supervisor Hilda Solis, First District, County of Los Angeles

Brian Prater, Senior Vice President, Low Income Investment Fund

Cal Hollis, Managing Executive Officer, Countywide Planning and Development, Metro

Carlos Valderrama, Senior Vice President, Global Initiatives, Los Angeles Area Chamber of Commerce

Cynthia Kurtz, Executive Director, San Gabriel Valley Economic Partnership

David Riccitiello, Senior Deputy for Economic Development, Sustainability and Mobility, Supervisor Ridley-Thomas, Second District, County of Los Angeles

Dennis Hunter, Deputy Director, Department of Public Works

Efren Martinez, Executive Director, Florence-Firestone Chamber of Commerce

Gerald Caton, Chair Economic Development Working Group, Gateway Cities COG

Holly Schroeder, President and CEO, Santa Clarita Valley Economic Development Corporation

Iris Alvarado, Revolving Loan Fund Administrator, Los Angeles Community Development Commission

James Watson, President and CEO, CA Manufacturing Technology Consulting

Jarrod DeGonia, Field Deputy, Supervisor Michael Antonovich, Fifth District, County of Los Angeles

Jeff Malin, Senior Business Development Specialist, California Governor's Office of Business and Economic Development (GO-Biz)

Jeff Schaffer, VP & Market Leader, Southern California, Enterprise Community Partners

LIST OF INDIVIDUALS INTERVIEWED cont.

Jenna Hornstock, Deputy Executive Officer, Countywide Planning, Metro

JoAnne Golden-Stewart, Senior Director, Strategic Initiatives & Cluster Development, Los Angeles Economic Development Corporation

Kate Sofis, Executive Director, SF Made

Kenn Phillips, President and CEO, Valley Economic Alliance

Kimberly Maevers, Executive Director, Greater Antelope Valley Economic Alliance

Mary Leslie, Executive Director, LA Business Council

Nick Ippolito, Assistant Chief of Staff, Supervisor Don Knabe, Fourth District, County of Los Angeles

Norm Hickling, Field Deputy, Supervisor Michael Antonovich, Fifth District

Rani Narula-Woods, Political Director, Los Angeles County Federation of Labor

Richard Bruckner, Director, LA County Regional Planning

Richard Verches, Executive Director, LA County Workforce Investment Board

Stephen Cheung, Director of International Trade/Port of LA, City of Los Angeles

Steve Coulter, Policy Director, LA Business Council

Torie Osborn, Principal Deputy for Strategy and Policy, Supervisor Sheila Kuehl, Third District, County of Los Angeles

Tracy Rafter, CEO, LA Business Federation (LA BizFed)

APPENDIX B

CRA/LA'S INDUSTRIAL INCENTIVE PROGRAM

List of Appendix Items

1. Industrial Incentive Program Underwriting Analysis Overview
2. Industrial Incentive Program Underwriting Spreadsheet
3. Industrial Incentive Program Administrative Guidelines
4. Industrial Incentive Program Application
5. Industrial Incentive Program Underwriting Guidelines

Industrial Incentive Program Underwriting Guidelines

I. Overview

Goals of the Underwriting Guidelines

The Industrial Incentive Program Underwriting Guidelines ("IIP UG") are a detailed guide to assessing the eligibility of a business for participation in the IIP. They are a companion to the IIP Administrative Guidelines, which should be reviewed thoroughly prior to beginning the underwriting process. The IIP UG are accompanied by the IIP Underwriting Guidelines Workbook (the "Workbook"), which allows users to enter the available financial information for the participating business ("Participant") and calculate the various ratios that guide the underwriting analysis detailed in this document.

The Underwriting Summary Report

The output of the IIP Underwriting process is the Underwriting Summary Report, which describes the findings of the analysis, identifies the strengths and shortcomings of the business, and should justify the proposed IIP investment or denial of IIP funding. The Summary Report is critical to document Staff's decision-making and analysis when recommending funding. The IIP UG Summary Report will also serve as the backup documentation for the Section 33444.6 finding of necessity, which is required for capital equipment financing.

The IIP Underwriting Summary Report will be signed by the CRA/LA staff underwriting the Participant and the Regional Administrator for the participating Region.

Underwriting Analysis: Varies Based on Participant Circumstances

While all businesses seeking IIP funds should be reviewed according to the IIP UG, these guidelines call out different approaches based on the type of business, their current location (in or outside of a Project Area), and type of assistance requested. The modifications to underwriting will generally be around 3 circumstances.

- **Feasibility Assistance:** Businesses seeking only feasibility assistance require a different level of review as the funds granted will likely support the development of plans for future expansions rather than funding the actual expansions. Similarly, a Participant may be seeking both capital equipment and feasibility assistance, but the underwriting analysis may not clearly evidence that the Participant will achieve the projected growth and job creation/retention. In this case, staff may consider offering only the feasibility assistance grant, as a means to assist the Participant achieve stronger operations, sales and cost efficiencies and/or better plan for the expansion and therefore support the proposed expansion project for subsequent funding approval. Staff may recommend a two-tiered funding, whereby the feasibility assistance is expected to eventually support Capital Equipment financing. In either scenario, staff should modify their underwriting analysis to consider if feasibility assistance could help the Participant become ready for an expansion. Throughout the step-by-step analysis, the IIP UG includes suggestions for how to underwrite when only feasibility assistance is being considered. Staff should make clear in the underwriting summary report if and

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why feasibility assistance is recommended, what concerns the feasibility assistance is proposed to address, and the expected outcomes.

- **Start-ups:** Start-up businesses and/or businesses with less than three years of operations will have less operational history and financial information available. A start-up will provide projections that can be used to complete the analyses of the Participant's ability to achieve the proposed growth, but all of the numbers will be only projections. The IIP requires a start-up or business with less than two years of operations to demonstrate that 85% of project funding is in place. This assures that there was likely a very thorough analysis of the business projections by the major funding source(s). Staff may consider talking to the business' funder to get more information or to verify the CRA/LA underwriting review. If the funding source is owner equity, there may not be another outside underwriting review to consider, but the Participant is likely to have a much stronger stake in achieving success as their own money is on the line. For the most part, when underwriting a Participant with less than 3 years of operations, underwriting questions 2, 3 & 5 (described in the step-by-step guide below) will be more critical to CRA/LA determination of IIP funding. The step-by-step guide offers some specific issues/questions to consider for start-ups, in these relevant sections.
- **Businesses not currently in a Redevelopment Project Area:** While the IIP is open to businesses not currently located in a Redevelopment Project Area, it is critical to be ensure that the Participant is dedicated to seeking a location within a Project Area, that the Project Area offers the kind of sites/buildings that meet the needs of the business, and that the area meets the logistical requirements of the Participant. Before committing IIP funds to a Participant not currently located in a Project Area, staff must carefully vet and document the reasons that a move to a Project Area is likely. This is described in more detail within the step-by-step analysis.

II. Document Requirements

Applicants must provide the following documents in order to begin the review and underwriting process.

Initial Assessment (Phase I)

Staff should require the following:

- Brief letter of request stating the name of the company, what the company does, and the proposed use of the funding.
- Project Budget for proposed expansion or new operation, including sources and uses statement
- Staffing plan for proposed expansion, including number of jobs created or retained and wage levels.

This information should be input into Preliminary Worksheets 1 and 2 in the UG Workbook, to create a complete and consistent underwriting analysis.

Industrial Incentive Program Underwriting Guidelines

If Staff determines that the IIP is appropriate for the Participant after the Initial Assessment, a letter will be sent to the Participant along with an application and checklist of underwriting documents required for Phase II review. A sample letter, application and underwriting checklist are included in the IIP standard materials.

Note that if a business does not have all of the Phase I assessment data available, but has other information demonstrating the likelihood of expansion (new contracts, a lease/contract to purchase a new property, etc) they may be a candidate for feasibility assistance to help plan for and execute an expansion.

Underwriting Analysis: Phase II Review.

Participant to provide:

- Three most recent years of business financial statements (or the total available years of statements if the Participant has less than 3 years of operations) , to contain at a minimum balance sheets and profit & loss statements. Include Statement of Cash Flows if available.
- Year to date financials for the current year.
- If business financial statements are not audited, the business shall also provide three (or the total available years of statements if the Participant has less than 3 years of operations) years of business tax returns, all schedules(Form 1040 Schedule C for individuals, Form 1065 for partnerships, and Form 1120 C or S for corporations).
- If Participant business does not clearly demonstrate the financial capacity to complete the proposed expansion and proposes to provide financial assistance from its principals, or if the owner(s) is/are guarantors of the company's debt, provide personal financial statement dated not more than three months prior to the loan application for each principal with 30% or more ownership in the applicant company.
- Current staff list including position, length of employment for each employee, hourly wage.
- Business plan with 2-3 years of financial projections, including projections for proposed expansion project (and any backup relevant to the projections). In some cases, a business that is an ongoing concern may not have a formal business plan or the business plan may not be as comprehensive as needed to complete the underwriting analysis. In that case, the business must provide the following information related to the proposed expansion:
    - Complete project budget, including proposed sources and uses
    - Staffing Plan, including wages of existing and proposed employees that will manage and staff the expansion or new operation
    - Description of development team and/or firm's management team
    - Detail on start-up expenses for expansion, including but not limited to:
        - ✓ Construction costs for tenant improvements
        - ✓ Machinery and equipment cost estimates
        - ✓ Lease Deposit or other property-related expense

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- ✓ Professional fees (legal/accounting/licensing)
- ✓ Opening inventory/supplies
- ✓ Training and/or recruitment
- Projected profit and loss statement for the first 2 -3 years of the new operation

- Copy of lease agreement for existing property and/or site for expansion (must be 3- year term or the length of the term for the Conditional Loan, whichever is greater). If the business is also the property owner or in escrow to purchase, include a copy of grant deed and/or purchase and sale agreement.
- Summary of ongoing contracts or contracts anticipated or pending, including projected revenue from contracts and term, and/or other information to demonstrate projected sales or income.
- Schedule of debts, if not reflected in financial statements.
- CRA/LA Credit Authorization form.

<u>Prior to final approval:</u>

- Proof of insurance, as described in Section 2.7 of the IIP Standard Conditional Loan Agreement and Section 9 of the IIP Standard Feasibility Assistance/Energy Audit Grant Agreement
- CRA/LA Business profile form.

III. Underwriting Analysis – a step-by-step guide

The primary objectives of the IIP are to promote the creation of manufacturing and other industrial jobs in CRA/LA's Redevelopment Project Areas and to promote the incorporation of sustainable principles into the expansion of Los Angeles' industrial base. Unlike a traditional small business loan, the underwriting for this program is not focused on repayment of funds, but rather on ensuring that the Participant will be able to achieve its expansion and/or "greening" plans, will be able to support and sustain projected growth, and, most importantly, will create, retain and sustain the jobs supported through the program. To analyze the Participant's capacity to meet these goals, the IIP UG are organized around five (5) criteria, with recommended qualitative and quantitative analytical steps to assess each criteria:

1. Business' ability to achieve and sustain job creation or retention goals
2. Business' ability to complete proposed development/expansion plans
3. Business' cash contribution to the development/expansion
4. Business' ability to support additional debt
5. Business' creditworthiness

The remainder of this document goes in-depth into each of these criteria, and refers to the underwriting workbook where staff will "spread" the Participant's financial statements and analyze the financial ratios that will help to assess the 5 criteria. A large portion of this section includes technical accounting and proforma analysis language. **Do not panic!** Once the basic financial statements are entered into the workbook, the IIP Underwriting Workbook will perform the calculations. It will then be up to Staff to apply the concepts discussed in the underwriting guidelines and determine the appropriate funding, if any, under the IIP. The Economic Development Unit is also available to provide technical assistance for this process.

The step-by-step guide is organized along the five underwriting criteria. The output of this analytical process is the IIP Underwriting Report that will summarize the review findings and make the final funding recommendation.

1. Business' ability to achieve and sustain job creation or retention goals

This question is the heart of the IIP Program; if the Participant receives IIP funding, will they create and/or retain the anticipated number of jobs and will those jobs sustain for the long term? The analysis for this question is the most quantitatively intensive part of the underwriting guidelines and looks at the Participant's sales history, sales projections, and working capital necessary to produce the goods to be sold and therefore support the job creation and retention goals. There are five main areas of analysis:

a. **Sales growth ratio:** This is the percentage growth (or decline) of sales from year to year. The underwriting workbook looks at the sales growth ratio for the 3 years of financial history as well as 2-3 years of projections for the expanded business operations. Staff should analyze the following:

- *Positive sales growth:* Increasing sales is ideal, as are positive sales projections. Given the status of the economy over the past 3 years (2007 – 2010), positive sales growth over the past 3 years shows particular strength for the business' product and is a good indicator that sales will continue to increase over time as the economy recovers. Be cautious to note that while sales growth is positive, it must be balanced with adequate working capital to support production that keeps up with demand, management of cost of goods sold and other fixed costs associated with increased production.

  Sales projections for the expansion should be supported with backup documentation such as new contracts, market research, or other information that demonstrates the likelihood of achieving projected sales increases. Staff should clearly document in the underwriting summary the factors that support sales projections.

- *Stable sales:* Firms that are maintaining stable sales are also a strong candidate for funding. If the past 3 years of sales have remained stable through the economic decline, the firm has been able to secure strong customers, has a relatively inelastic product, and it is likely to see steady sales. The proposed expansion or new development may be efforts to move from stable to increased sales growth, may be an effort to bring in-house portions of production that are currently outsourced, (which could increase profits by reducing cost of goods sold and also create new local jobs) and/or may be an effort to expand a product line or introduce new goods. With a history of stable sales, a review of the sales projections should clarify the rationale behind any projected increases in sales. If the proposed expansion

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includes stable sales at completion, clarify how the expansion will create new jobs and what role it plays in ensuring continued stable sales.

- *Declining sales growth*. Many firms are experiencing a decline in sales due to the recession, particularly firms in some of the targeted growth industries such as apparel, furniture, and construction materials, whose goods are relatively elastic when the economy is challenged. Declining sales growth is not an immediate cause for denial of IIP funding. If the past 3 years have shown declining sales, focus on the sales projections, whether the business continues to operate profitably or at least at break-even during a period of declining sales (a sign of the strength of the business) and understand the basis for any projections for increased sales. Also consider how declining sales has impacted operations; is the firm able to manage by reducing inventories and identifying other means to keep operations steady when sales decline?

In all 3 sales growth ratio scenarios, consider the following:

- Review any existing or pending contracts to support stable sales or sales growth assumptions and seek additional information that supports the projections.
- If the business is adding a new product line, request information on what the market is for that product and how the sales projections were reached.
- If the business is expanding manufacturing to increase production of an existing product, clarify the demand for more of that product.
- Look at year to date sales and determine if they are in line with previous years and/or the sales projections, and consider how the current year fits into the overall business plan.

ADDITIONAL CONSIDERATIONS

Start-ups: In analyzing projected sales for a business with less than 3 years of operations, consider:

- Is there a market study or research that supports sales assumptions?
- Are there existing or pending contracts?
- Review the business plan and proposals for expanding/generating sales.

Feasibility Assistance applicants:

- Review the business plan/expansion proposal and consider if there is enough information to support the projected increase in sales or expansion of product line. If not, feasibility assistance may identify/quantify the appropriate projections and appropriate expansion project. If the proposal does not seem likely to achieve success, staff should be ready to reject the application for assistance.

b. Inventory and Receivables:

Inventory: The amount of inventory, and changes in inventory, is an indication of how well the company is managed and how it can manage growth. Inventory requires use of cash, therefore excess inventory could be an indication of a lack of available cash. Conversely, inadequate inventory can lead to lost sales. Ideally, a company will keep only sufficient quantities of inventory to meet product needs for a pre-determined amount of time. The correct amount of inventory will vary for each company, and must be determined by each company. In the underwriting analysis, consider how close to those inventory levels the company stays.

Receivables: Receivables are the dollars owed to the company by customers who have purchased goods and services. They are important because, while they represent sales, they are not cash. The ability to collect receivables and timing of this collection are the primary determinants of cash flow and therefore of debt capacity. The underwriting spreadsheet calculates Days Receivable and offers a look at three years worth of receivables on the Balance Sheet. The key questions to consider are how close the Days Receivable track their stated sales terms, and how they track to industry standards for the particular company's industry, which can be found in periodicals such as *Robert Morris Associates*, then to understand any differences from the industry average.

c. **Working Capital Ratio:** Working Capital is the excess of current assets over current liabilities; it is a measure of the ability of a company to meet its financial obligations over the next year. Working Capital is turned into cash through the operating cycle, which is the length of time, measured in days, in which cash remains invested in the operations of a company, to make a profit. The Operating Cycle can be described as follows:

> A company begins with cash and uses that cash to buy inventory. The inventory is sold to generate accounts receivable, the business collects those receivables to generate more cash, which is then used to purchase additional inventory. *(National Development Council)*

When inventory is sold at a profit and becomes a receivable, Working Capital increases. Note that this increase in Working Capital is not an increase in cash until the receivable is collected. The only sources of Working Capital other than profits are long-term loans, equity, and retiring fixed assets through sale or depreciation.

Working Capital is Critical to Growing a Successful Business

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It does not matter how many contracts or orders a business has, if it does not have access to sufficient Working Capital that allows the business to purchase inventory, pay staff, and produce its goods. While banks and the SBA offer Working Capital lines of credit, these relatively unsecured lines are harder and harder to qualify for with the tightening of the credit market, resulting in significant challenges for businesses that are ready to expand but lacking the capital needed to finance that expansion.

- **Permanent Working Capital (PWC)** is the cash that remains invested in the operations of the company and it is the minimum working capital position a company must maintain to operate healthily. A section of the National Development Council's Business Credit Analysis Textbook is paraphrased below to illustrate the importance of PWC in determining a company's ability to grow.

  As companies grow, their investment in PWC increases. As their sales increase, they will invest more cash into receivables and inventory. They will receive more cash from their payables and accruals. The increase in operating uses will exceed the increase in operating sources, and total cash invested in PWC will increase. If this additional investment need is met with the cash that is generated by the operations of the company, then the company is digesting its growth. (The cash generated by the operations of the company is the Gross Funds Flow, calculated as Profits after Tax + depreciation). If a company cannot digest its growth, and cannot meet the cash obligations that result from the operating cycle, it can go bankrupt - even though it is profitable. Since the interest is to facilitate growth, we analyze the company's ability to digest the growth. For example, if the company has a long operating cycle that does not support working capital needs, it may need PWC financing along with a capital equipment loan before moving forward with an expansion.

- **Permanent Working Capital Ratio:** The Permanent Working Capital Ratio is a critical measure of a company's ability to grow healthily. This ratio compares the level of cash invested in PWC over successive years, and compares the change, or additional annual investment, to the annual Gross Funds Flow (GFF), which is the cash generated by operations. If the annual GFF is greater than the annual change in PWC , then the company is digesting its growth. The underwriting workbook completes this analysis automatically once the balance sheet and profit and loss statements are input. It is then up to staff to analyze the changes in PWC and determine if the business can in fact grow healthily to create or retain the jobs to be supported by the IIP investment.

  Key things to consider when analyzing PWC:

  - The historical PWC analysis gives clues about the company's ability to digest growth in the future. If a company has had problems digesting growth in the past, it will probably have difficulty in the future unless its operating cycle changes (gets shorter).

- When reviewing the company's financial projections, quantify the need for additional PWC and determine if PWC financing will be needed as a result of the proposed expansion. If this is the case, the next step is to determine if the business is likely to get PWC financing, by reaching out to banks and particularly SBA lenders. Making this connection in conjunction with IIP funding can be critical to a company's success at expanding and creating more jobs. If the company cannot access a working capital loan, funding for feasibility assistance could assist the company to reduce the Operating Cycle and/or restructure its debt, creating sufficient working capital to support growth and/or helping the business qualify for a traditional working capital bank loan.
- If a company has been digesting its growth, make sure this is happening for legitimate reasons; for example, increasing the days on accounts payable will increase cash on hand but could lead to suppliers demanding cash on delivery or stopping delivery.
- A company with a very short operating cycle will need less WC because receivables turn into cash quickly. These companies can run at negative working capital. Similarly, positive working capital may be unhealthy if the WC is illiquid, i.e. if it cannot turn into cash quickly enough to cover expenses.

ADDITIONAL CONSIDERATIONS

Feasibility assistance applicants:

- If working capital is insufficient, feasibility assistance could help clarify PWC needs and identify changes to company operations that facilitate PWC needs.
- Feasibility assistance could involve a case manager or consultant to connect business to banks that are familiar with that particular industry and are likely to offer working capital financing.
- If the PWC ratio identifies a fundamental WC barrier, and staff feels that there are not sufficient other indicators that the Participant can overcome this barrier and successfully expand, it is appropriate to deny IIP funding, including feasibility assistance.

For start-ups:

- The PWC analysis is particularly critical to determine if the business can manage through the initial operational years and achieve a healthy growth, particularly with given up-front start-up costs that must be absorbed before revenue begins to flow in.

d. **Statement of Cash Flows:** The statement of cash flows reports the impact of a firm's cash flows during an accounting period with information in three categories: operating, investing, and financing activities. The statement of cash flows reports flows, or changes over time, whereas the balance sheet reports amounts at a moment in time. Similar to the Permanent Working Capital analysis, the Statement of Cash Flows offers

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insight into the health of the firm's operations, and if there is sufficient cash to support ongoing operations and/or growth. Even profitable firms can run out of cash. Smaller businesses often do not produce a Statement of Cash Flows as part of their financials, and/or operate sufficiently on a cash basis such that the Balance Sheet and Profit and Loss Statements adequately capture the cash status of the company. In these cases, the Statement of Cash Flows analysis does not apply.

- **Operations:** Most firms use the accrual basis of accounting in measuring net income. The operations portion of the Statement of Cash Flows can decipher if the company is operating and growing with a healthy cash flow. Selling goods and providing services are the most important ways for a financially healthy company to generate cash. Firms typically make most of the cash outflows for expenses prior to or coincident with the sale of the good or service whereas they usually receive cash after the sale. This lag between cash outflows and cash inflows can lead to cash shortfalls, particularly for a growing firm. The faster a successful firm grows, the more likely it will become short of cash and will need to take steps to provide the funds necessary to pay suppliers while it awaits cash collections from its own customers. When studying the Statement of Cash Flows from operations, assess whether the company is steadily and consistently growing cash flows from operations. Also, compare the cash flow from operations to the net income on the income statement to see that they are similar. If they are not similar, that is a red flag and the company's financials need to be analyzed in more detail.

- **Investing:** The second section of the Statement of Cash Flows shows the amount of cash flows from investing activities. The acquisition of noncurrent assets, particularly property, plant, and equipment, usually represents a major ongoing use of cash. A firm must acquire and/or replace noncurrent assets if it is to grow, and obtains part of the cash needed to acquire noncurrent assets from sales of existing noncurrent assets. Such cash inflows seldom, however, cover the entire cost of new acquisitions. Firms not experiencing rapid growth can usually finance capital expenditures with cash flow from operations. Firms growing rapidly must often borrow funds or issue common stock to finance their acquisitions of noncurrent assets.

- **Financing:** Third, a firm obtains cash from short and long-term borrowing and from issues of common or preferred stock. It uses cash to pay dividends to shareholders, to repay short or long term borrowing, and to reacquire shares of outstanding common or preferred stock. These amounts appear as cash flow from financing activities in the statement of cash flows.

e. **Contracts or Orders:** The IIP targets businesses that are expanding or greening their operations and creating jobs. One of the simplest ways to ensure that the expansion is possible, or simply to project continued stable operations, is to look at the quantity and quality of contracts or orders for the Participant's products. Staff may forego review of the contractual documents and request a summary of existing and pending contracts or other forms of documentation. Questions to consider regarding sales contracts and/or orders include:

- Do contracts/orders match sales and sales projections?
- How many customers does the company have?
- Are the customers of sufficient quality to pay their accounts payable?
- What is the level of concentration of sales to one major company account? (Beware of high concentration).

The firm may describe qualitatively any leads on new contracts in negotiation or a business plan may describe a strategy for securing new business. If the contracts, orders or business plan do not sufficiently justify expected growth, staff may consider funding feasibility assistance to determine what kind of growth the company can expect and how to target that growth.

f. **Hiring Practices:** If the business proposes to create new jobs, determine how they have historically found and trained employees. This is an opportunity to link the business to LA's local hiring network, including Worksource Centers, the WIB, and local training programs. The Economic Development Unit has put together a few sources for workforce links.

2. *Business' ability to complete proposed development/expansion plans*

This portion of the underwriting analysis is largely qualitative. The IIP Underwriting Requirements require the business to provide a summary of the proposed expansion plans, both a written description and a pro-forma showing the development costs, start-up costs, sources and uses, and development team.

If the business is not able to produce these items, they may be a likely candidate for feasibility assistance offered under the IIP. If the business has a description of the rehabilitation or expansion plan, consider the following questions:

- Is the expansion plan realistic based on the identified location? Are there significant barriers to entitlements, construction or space limitations that would make the project infeasible?
- If a site has not been identified, how likely is the business to find a site that meets its requirements within a CRA/LA Project Area? Recall that the feasibility assistance requires the business to make a best effort to locate in a CRA/LA Project Area, but there is no guarantee; therefore it is important to determine if the space requirements are achievable within the targeted Project Area and at or near the lease/sales price included in the project proforma. Staff may consider searching available properties to compare the business' space requirements to what is available. Seek assistance from the Economic Development unit for this search, if needed.

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- Are the cost assumptions reasonable? See the CRA/LA Commercial Underwriting Guidelines for standard cost assumptions for development projects or talk to the Department of Capital Finance for assistance.
- Are the financing sources reasonable? For example, if the sources include a bank loan, is there a banking relationship already established? Does the debt service coverage ratio meet standard commercial banking requirements (at least 1.25: 1?)
- Is the development team experienced? Have they designed and completed similar types of projects? In Los Angeles?

These questions apply to all businesses seeking IIP funds, including start-ups, longer term businesses and those seeking only Feasibility Assistance Grants. Summarize the findings in the Underwriting Summary. If the Participant is not currently located in Los Angeles and/or in a Project Area, be very specific as to why staff believes that the Participant is likely to locate within a Project Area, include the proposed steps toward finding a location, and discuss the feasibility of finding a suitable location.

3. *Business' cash contribution to the development/expansion*

The Participants' equity in the expansion is a signal of their commitment to the growth of the business. To complete this analysis, use the Underwriting Workbook and consider:

- Is owners' equity included as a "source" on the construction project sources and uses?
- Retained earnings: Retained earnings represent profits of the company earned over time. Positive retained earnings over time indicate a history of success and negative retained earnings indicates accumulated historical losses, even if company operations are profitable. Are Retained Earnings reinvested in the business' growth? Are they growing or stable?
- What kind of capital expenditures has the business made over time?

ADDITIONAL CONSIDERATIONS

Starts ups:
For start ups, the Participant's equity will show up as a project source and/or as a reinvestment of retained earnings in the financial projections.

For feasibility assistance only:
Owner's equity is critical as it is a prime indicator that the business is vested and will follow through with the recommendations determined through the assistance.

4. *Business' ability to support additional debt*

Industrial Incentive Program Underwriting Guidelines

Whether the Participant is seeking conventional financing along with the IIP or seeking IIP because they cannot secure a conventional bank loan, the ability to support additional debt is a critical factor in determining the appropriate level of IIP funding, if any. This information is a key factor in making the CRL Section 33444.6 finding, required before providing funds for capital equipment purchase, that there is no private market means for capital equipment financing. The analysis will also demonstrate if the Participant will be able to secure all the funding needed to complete the proposed project.

a. **Debt Service Coverage Ratio (DSC):** The debt service coverage ratio is one of the most critical factors to determining if a business can secure a new loan. It also tells if a business is over-leveraged to the point that could create operational problems and hinder expansion plans. The UG workbook calculates the DSC automatically, however it is important to ensure that all debt is included in the calculation. The financial statements might not reflect all current debt, so the workbook includes a section where Staff can input a schedule of all current debts, to include in the calculation. The DSC is calculated as:

- Debt obligations:
  - ✓ Current Portion of Long Term Debt in the Balance Sheet (this is the principal portion of debt service that must be paid in the current year) +
  - ✓ Interest expense from the Profit and Loss Statement, divided by 12 to get a monthly amount +
  - ✓ Any additional monthly debt payments as noted in the schedule of debts.
- Cash Available to Service Debt:
  - ✓ The underwriting workbook will calculate this. It is essentially the funds left over after paying for the expense of running the business; the equivalent of the net operating income.

DSC	=	Cash Available to Service Debt / Debt Obligations

The "acceptable" DSC varies from bank to bank, but a general rule of thumb is at least 1.25, and in this economic climate many banks require up to 1.40 if the tenant is not a national credit tenant. If the Participant does not achieve this DSC, they are not likely to qualify for a bank loan. This suggests that the proposed expansion must be partially funded using non-loan sources, such as owner's equity and potentially IIP funding. Staff must feel comfortable that the project financials are stable enough such that even though the business does not qualify for a conventional loan, the expanded operations can be funded and sustained given the financial position, and particularly the debt burdens, of the company.

b. **Supportable Debt.** A second way to analyze the Participant's ability to support additional debt is to determine the supportable debt based on the cash available for debt and the Debt Service

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Coverage Ratio that would be expected from a bank. The workbook calculates this using the same information as in the DSC ratio calculation. If the supportable debt is less than the financing needs of the Participant, IIP funding may be justified.

Net Cash Flow [GFF – ΔPWC – Non-Operating Uses]	/	**Debt Coverage Ratio**	=	**Supportable Debt**

c. **Debt to Equity Ratio (D/EQ):** The D/EQ ratio is a statement indicating what relative portion of a business is financed through debt and what relative portion is financed through equity. This ratio is important because it is a primary factor that lenders consider when assessing whether to extend financing to a business. A higher debt to equity ratio indicates a higher use of debt in the total financing of a business and is considered an indicator of higher risk and a weak financing situation. The key concerns behind companies with high D/EQ ratios are that, all else equal, they have high fixed costs (due to high fixed debt service), their owners are less invested in their success, and they have less cash available to invest in permanent working capital or to take on new debt.

A company's Debt to Equity ratio is calculated as follows:

$$D/EQ = \frac{\text{Liabilities} - \text{Subordinated Officer Debt}}{\text{Net Worth} + \text{Subordinated Officer Debt} - \text{Intangibles}}$$

A D/EQ ratio of 1:1 indicates that $1 of debt exists for every $1 of owner equity, or that 50% of the company's assets are financed by its owners and the other 50% are financed by creditors. Different lenders will have different D/EQ ratio policies; for example, the SBA tries to keep D/EQ ratios below 5:1, with certain exceptions.

NOTE: A high Debt to Equity ratio is not a reason to deny IIP assistance, and in fact D/EQ ratios do not do a very good job of estimating a company's ability to service its debts. However, because D/EQ ratios are used by banks to determine whether or not a loan will be issued, a high ratio can be used to determine if a Participant will be able to secure financing without CRA/LA assistance, which is a critical part of the required Section 33444.6 finding for IIP Capital Equipment funding.

d. **Quality of Company's Debt Structure:** More important than a company's debt to equity ratio is the quality of its debt structure, or the relative term of the debt structure on the company's balance sheet. A longer term debt structure has higher quality to the company, and results in:

- Lower monthly payments
- Lower cash flow break-even point

- Greater ease of meeting debt service
- Better matching of loan terms to life of the assets purchased with loan proceeds
- Greater cash flow available for investment in the operating cycle
- Better working capital position (due to lower Current portion of Long-Term Debt)

Assessing the quality of a company's debt structure is a qualitative process. Gather information from the company about the terms of its current debts and proposed debt for expansion, and evaluate the debt's quality based on those terms.

ADDITIONAL CONSIDERATIONS

Start ups:

Given that the IIP will only fund start-ups with at least 85% of their funding committed, the section on debt is less critical. Any debt secured by a start-up with 85% of funding has been closely underwritten. Some start ups may be mostly financed with equity, in which case Staff should note if the IIP funding is truly necessary or it the proformas suggest that a conventional loan is possible. A key factor to consider is that many traditional banks will not lend to a start-up, even if financial projections meet basic lending criteria.

Feasibility Assistance:

The financial structure of a company could be a major hindrance to expansion plans, even if the product demand and/or contracts are in place. If the Participant does not show a clear capacity to secure debt, one goal of financial assistance could be to look at the financial structure of the company and recommend changes that facilitate future growth.

5. ***Business' creditworthiness***

The Participant will be required to provide a Credit Authorization form. Staff should work with the Contracts Department to get a credit report. A credit score of at least XX is acceptable. Staff should review the credit report to determine if there are any pending debts that have not been disclosed as part of the underwriting analysis. If the credit score is below XX, Staff should seek information from the Participant as to the reasons noted for the score and determine if there is sufficient other information to make the Participant a viable candidate for IIP funding. This analysis should be noted in the Underwriting Summary Report.

IV. General Notes on the Underwriting Review

The step-by-step guide to underwriting, along with the underwriting workbook, are meant to guide staff in determining the viability of a business seeking IIP funds. It is unlikely that most businesses will fit

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neatly into each underwriting standard, and because the IIP offers different kinds of assistance and is open to start-ups, there will be a fair amount of discretion throughout the process. It is anticipated that the Staff underwriting the Participant will have an ongoing dialogue with the Participant in completing the analysis. Staff is also invited to seek assistance from the Economic Development unit in completing the underwriting review and/or in review of a draft Underwriting Summary Report. In addition, Staff may seek assistance from the prequalified pool of underwriting consultants, established in support of the IIP, and managed by the Economic Development unit.

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CRA/LA
BUILDING COMMUNITIES

THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CA
INDUSTRIAL INCENTIVE PROGRAM (IIP) – BUSINESS APPLICATION

GRANT/LOAN APPLICATION FOR:	Amount Requested:
☐ Feasibility Assistance Grant (Up to $50,000)	$
☐ Energy Audit Grant (Up to $50,000)	$
☐ Capital Equipment Conditional Loan (up to $250,000)	$

APPLICANT INFORMATION

APPLICANT NAME (BUSINESS NAME):	Date:
Applicant's Mailing Address:	
Contact (Name and Title):	
Tax ID # (If Corporation or Partnership):	
Telephone #:	Fax #:
Email Address:	

PROJECT INFORMATION

PROJECT ADDRESS (FOR PROPOSED EXPANSION / RELOCATION / REHABILITATION, IF AVAILABLE):	
Assessor's Parcel Number (APN) – *Found on Property Tax Statement or Grant Deed*	
Telephone #:	Fax #:
Email Address:	

Complete the following section only if Applicant and Property owner are not the same person

PROPERTY OWNER'S NAME:	
Property Owner's Mailing Address:	
Telephone #:	Cell #:
Fax #:	Email Address:

GENERAL DESCRIPTION OF PROPOSED IMPROVEMENTS *Attach Letter of Request with complete information*

CRA/LA IIP Application, Page 2 of 3

ATTACHMENT CHECKLIST

Phase I Assessment.
Please attach the following exhibits to your completed application:

☐ **Letter of Request**
Brief letter stating company's name and function, and the proposed use of the funds

☐ **Project Budget**
Project Budget for proposed expansion or new operation, including sources and uses statement

☐ **Staffing Plan**
Staffing plan for proposed expansion, including number of jobs created or retained and wage levels

Phase II Assessment.
CRA/LA staff will review the Phase I assessment materials and determine if your business is eligible for the IIP. If so, CRA/LA will contact you and request the following materials:

☐ **Business Financial Statements**
Three most recent years of audited business financial statements (including at a minimum balance sheets and profit & loss statements)

OR

☐ **Business Tax Returns**
Three most recent years of business tax returns, all schedules (Form 1040 Schedule C for individuals, Form 1065 for partnerships, and Form 1120 C or S for corporations)

☐ **Current Staff List**
Include all positions, length of employment for each employee, hourly wage

☐ **Business Plan or Expansion Project Proposal**
Include 2-3 years of financial projections, including projections for proposed expansion project

☐ **Tenant Lease Agreement**
For property lessees: copy of lease agreement for existing property and/or site for expansion (must be 3- year term or the length of the term for the Conditional Loan, whichever is greater)

OR

☐ **Grant Deed and/or Purchase and Sale Agreement**
For property owners: copy of grant deed and/or purchase and sale agreement

☐ **Contracts Summary**
Summary of ongoing contracts, contracts anticipated or pending, including projected revenue from contracts and term, and/or other information to demonstrate projected sales or income

☐ **Schedule of Debts**
Include if not reflected in financial statements

☐ **CRA/LA Credit Request Form**
CRA/LA shall provide this

CRA/LA IIP Application, Page 3 of 3

Complete the following section only if Applicant and Property owner are not the same person

PROPERTY OWNER'S NAME:	
Property Owner's Mailing Address:	
Telephone #:	Cell #:
Fax #:	Email Address:

GENERAL DESCRIPTION OF PROPOSED IMPROVEMENTS *Attach Letter of Request with complete information*

CRA/LA IIP Application, Page 2 of 3

Industrial Incentive Program

Underwriting Analysis Summary

Deal Summary

Business:

Request:

Recommended Funding and terms:

Project Overview

Brief Project Summary, no more than a paragraph.

Underwriting Analysis

1. ***Business' ability to achieve and sustain job creation or retention goals***
    a. Sales Growth Ratio – describe findings (about a paragraph). Include information about sales expectations and the basis for projections.
    b. Working Capital Ratio – describe findings, including description of ratio analysis. Is there a history of positive GFF and sufficient PWC to digest growth? If deficiencies are found, describe how IIP funding either fills these or additional steps/financing in place to address
    c. Contracts or Orders – describe comfort level with current and future contracts and orders.
    d. Hiring Practices – describe how the company proposes to identify and train new employees
2. ***Business' ability to complete proposed development/expansion plans***
    a. Summarize findings based on Underwriting Guidelines' suggested analysis
3. ***Business' cash contribution to the development/expansion***
    a. Discuss owner's equity, retained earnings and capital investments in the business over time.
    b. Summarize how these findings support (or show concerns for) the business' likelihood of completing the project and achieving the job creation goals.
4. ***Business' ability to support additional debt***

    Discuss the following, and if Capital Equipment Financing is part of the recommended funding package, connect this information to the required Section 33444.6 findings that there is no other way to finance the equipment in the private market:

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a. Current Debt Service Coverage Ratio
b. Supportable Debt
c. Debt to Equity Ratio
d. Quality of Debt Structure

5. ***Business' Creditworthiness***

Summary of Findings related to market financing sources

Final Recommendation

Describe funding recommendation

Completed By:

____
Author/Underwriter (Signature and Date)
NAME, TITLE

I concur with the analysis and recommendations above.

____
Reviewer (Signature and Date)
Jenna Gulager, Chief, Strategic Planning and Economic Development

APPENDIX B

CRA/LA INDUSTRIAL INCENTIVE PROGRAM
ADMINISTRATIVE GUIDELINES

I. OVERVIEW & OBJECTIVES

A. Overview

The Community Redevelopment Agency of the City of Los Angeles (CRA/LA) is offering the Industrial Incentive Program ("IIP"), to promote urban manufacturing, job creation and greening of industrial and manufacturing businesses in the City of Los Angeles, and particularly in redevelopment project areas. The IIP will provide up to $100,000 in grants and up to $250,000 in conditional loans to existing or new industrial businesses seeking to locate, rehabilitate, expand and/or "green" their operations in participating redevelopment project areas ("Project Areas"). The incentives fall into three (3) categories:

Grants:

(1) Funding for feasibility assistance that supports the location, development or rehabilitation of an industrial or manufacturing business;
(2) Funding for energy audits and cost/benefit analysis for greening manufacturing processes and facilities.

Conditional Loans:

(3) Reimbursement of a portion of capital equipment expenses.

All of the incentives are tied to the creation or retention of jobs for local area residents and the greening of operations and/or properties for industrial and manufacturing users. Pursuant to California Redevelopment Law (CRL), tax increment funding must be linked to physical improvements, therefore the IIP is available only to businesses seeking physical rehabilitation or construction of an industrial or manufacturing property (see definition of "Industrial" or "Manufacturing" in section III.A) in conjunction with job growth. These administrative guidelines offer a program overview, eligibility criteria, underwriting criteria, intake and administration process, and conditions for the funding. The IIP may be combined with any commercial or industrial rehabilitation programs and/or façade improvement programs to complete a rehabilitation or construction project.

In addition to these administrative guidelines, the complete IIP documents include comprehensive underwriting guidelines, standard application forms, standard term sheet, standard loan agreement, reporting forms and a standard Board Memorandum and Finding of Necessity resolution (together the "Program Documents.")

B. OBJECTIVES

The primary objectives of the IIP are to promote the creation of "family-supporting[1]" manufacturing jobs in CRA/LA's redevelopment project areas, and to promote the incorporation of sustainable principles into the expansion of Los Angeles' manufacturing base. Toward achieving these objectives, the goals of the IIP are to:

- Support expansion of the urban manufacturing core in the City of Los Angeles and particularly in redevelopment project areas;

[1] The CRA/LA strategic plan defines Family Supporting as the self-sufficiency wage for a 4-person household with 2 earners, or $12.61 per hour as of September 2009. Note that the program encourages family supporting jobs, but eligibility for funding is tied to the Living Wage, which is slightly lower.

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- Support the development of the City of Los Angeles as the "Clean Technology" hub for the nation;
- Address two of the key challenges facing manufacturers; access to capital and technical and feasibility assistance required for expansion;
- Retain industrial businesses considering leaving the City of Los Angeles;
- Encourage new green manufacturers to locate in the City of Los Angeles;
- Encourage existing industrial businesses to adopt energy and water efficiency measures thereby freeing resources for job creation ;
- Connect growing businesses with the City's workforce resources and support local hiring;
- Create an incentive that is relatively easy to access and quick in the approval timeline, to meet business' expansion timelines. The goal is to average 3 months from application to funding.

Note that it is not a goal of the IIP to merely cause the relocation of an Industrial or Manufacturing business from nearby cities to the City of Los Angeles, but rather to attract businesses already considering a move or expansion, and to support, retain and green the existing expanding businesses already in the City of Los Angeles.

II. PROGRAM COMPONENTS

The IIP has three components.

(1) CAPITAL EQUIPMENT.

The CRA/LA will provide reimbursement for the purchase of new equipment that is directly used to fabricate, process, assemble, or manufacture a product or commodity and that is associated with the development and/or rehabilitation of a property that is, or will be, used for industrial or manufacturing purposes. The amount funded will depend on the number of jobs created or retained (see Section V) and shall not exceed $250,000 per participant. Eligible equipment for this program shall have an expected useful life of at least two years and an acquisition cost of any single asset of $5,000 or more, whether purchased outright or acquired through a capital lease. For purposes of this program, furniture, office equipment, and tools are excluded. The equipment purchased must ensure that the expanded operations are the most energy efficient feasible given the total project budget, available financing, and in consideration of the other machinery and equipment available to the participant. The CRA/LA will coordinate with qualified consultants, DWP and the Gas Company to perform an energy audit and ensure that the proposed equipment purchase meets energy efficiency criteria on a project by project basis. Capital Equipment purchased with IIP funds must stay within the Redevelopment Project Area for the term of the IIP Conditional Loan.

Note that CRL Section 33444.6 (b) requires that any capital equipment financing assistance must be "necessary for the economic feasibility of the development and that the assistance cannot be obtained on economically feasible terms in the private market." The IIP Underwriting Guidelines offer more on the findings required to justify the capital equipment financing assistance.

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(2) **ENERGY AUDITS.**

The CRA/LA will fund up to $50,000 for feasibility assistance consultants to perform energy audits, make recommendations for new equipment and/or manufacturing processes, and offer a cost/benefit analysis to determine the feasibility for a "Green" retrofit of an industrial business. "Energy audits" shall include an evaluation of current energy and water consumption levels and applicable tariff rates, and an identification of best practices and strategies leading to reduced energy and water consumption. CRA/LA has developed a prequalified pool of consultants to perform the energy audits. IIP participants shall contract directly with prequalified energy audit consultants and CRA/LA will provide funding directly to the IIP participant upon invoicing. After the audit is completed, the CRA/LA will coordinate with the DWP and the Gas Company to identify potential rebates and low to no-interest financing options to implement the recommended energy and water efficiency activities. CRA/LA capital equipment funds may be used to facilitate purchase of equipment identified in the energy audits, coupled with the minimum job creation requirement.

(3) **FEASIBILITY ASSISTANCE.**

The CRA/LA wishes to support businesses that are ready to move, expand or complete a physical rehabilitation, but need assistance in determining what financing the business can support, how to finance an expansion, how to incorporate sustainability into business operations, and how to implement the supportable expansion project. To that end, the IIP will fund up to $50,000 that can be used to hire consultants from four prequalified pools, to provide feasibility assistance to businesses. Feasibility assistance may vary, but will generally fall into the following categories:

- ***Planning/Feasibility studies*** to assist in sizing and planning for the development or rehabilitation;
- ***Case management*** consultants to assist with project planning, putting together financing, and managing the expansion project;
- ***Entitlements consultants*** to assist with securing permits and entitlements for the proposed expansion;
- ***Manufacturing consultants*** to identify lean processing opportunities, logistics planning, and cost efficiencies for manufacturers that can support the proposed rehabilitation or development.

Feasibility assistance conditional grants will vary, but shall not exceed $50,000 per business. Consultants shall be selected from the CRA/LA's prequalified pool of consultants. The Participant should seek at least two bids for the work, and CRA/LA staff will approve the scope of work, milestones/tasks, and make progress payments toward those tasks. At Staff's discretion, the Participant may select a qualified consultant that is not part of a prequalified pool, however the scope of work and progress payments for all consultants paid through the feasibility assistance grant must be approved by CRA/LA Staff. IIP participants shall contract directly with the consultant and CRA/LA will provide funding directly to the IIP participant upon invoicing.

III. ELIGIBILITY REQUIREMENTS

A. General eligibility requirements. Businesses requesting any form of IIP funding must meet the following general eligibility requirements:

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1. ***Industrial.*** California Redevelopment Law does not provide a definition of "industrial" or "manufacturing." For the purposes of this program, the NAIOP (National Association of Industrial and Office Properties Research Foundation) definition shall apply:

   An industrial building is "a facility in which space is used primarily for research, development, service, production, storage or distribution of goods and which may also include some office space.

   Industrial buildings can be divided into three categories:
   - **Manufacturing building:** a facility used for the conversion, fabrication, and/or assembly of raw or partly wrought materials into products/goods
   - **Warehouse:** a facility primarily used for the storage and/or distribution of materials, goods, and merchandise.
     - **Distribution building:** a type of warehouse facility designed to accommodate efficient movement of goods.
       - **Truck terminal:** a specialized distribution building for redistributing goods from one truck to another as an intermediate transfer point. Primarily used for staging loads rather than storage.
   - **Flex facility:** an industrial building designed to allow its occupants flexibility of alternative uses of the space, usually in an industrial park setting.
     - **Service Center/Showroom:** a type of flex facility characterized by a substantial showroom area, usually fronting a freeway or major road.

   Note that studios and sound stages for movie, television and music production meet the definition of "industrial."

2. ***Creditworthiness.*** A review of the business's credit worthiness must be complete, as described briefly in Section IV and in detail in the Underwriting Guidelines.

3. ***Location within Project Area.*** Businesses seeking to participate in the IIP must be located in or moving into a redevelopment Project Area.

4. ***Development or rehabilitation.*** CRA/LA funding for the IIP must be associated with the development or rehabilitation of an industrial or manufacturing property. A rehabilitation may consist of installation, modification or repair of either the interior or exterior of a property. For interior work, rehabilitation costs must apply to permanent fixtures.

5. ***Ongoing concern.*** The IIP is generally geared toward existing businesses with at least two years of operations. There are some exceptions for "start-up"

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businesses with less than two years of operations, if they have at least 85% of project financing secured and access to working capital at the time of the application.

B. **Program Exclusions.** While fitting the definition of industrial or manufacturing, the following businesses are excluded for funding in the IIP:

a. Pallet Yards
b. Metal Scrapping facilities
c. Walk-in recycling
d. Auto Repair, Auto Wrecking and Auto Salvage
e. Any illegal or unpermitted uses

CRA/LA reserves the right to modify this list of program exclusions at any time,

C. **Eligibility for Capital Equipment**

To receive capital equipment funding, all businesses must provide evidence that demonstrates capacity to complete the development or rehabilitation project. This evidence should be submitted as part of the initial program application and through the underwriting process, described in more detail in the IIP Underwriting Guidelines.

"Capital Equipment" shall mean equipment or machinery directly used to fabricate, process, assemble, or manufacture a product or commodity. Eligible equipment for this program shall have an expected useful life of at least two years and an acquisition cost of any single asset of $5,000 or more, whether purchased outright or acquired through a capital lease. For purposes of this program, furniture, office equipment, and tools are excluded. Exceptions may be made on a case-by-case basis.

The IIP can reimburse for equipment purchased up to twelve (12) months prior to the related physical rehabilitation or construction project, however the Regional Administrator and Economic Development Unit may grant exceptions.

CRL specifically states that capital equipment financing requires a public hearing and findings that there is no economically feasible means of funding the equipment in the private market. A sample resolution for such findings is included in the Program Documents.

D. **Eligibility for Feasibility Assistance**

If a business is requesting only the feasibility assistance portion of the IIP, the business must be operational and demonstrate that its development, rehabilitation or moving plans are viable based on either new contracts or a business plan projection. The feasibility assistance may be the source of the feasibility study or plan for the expansion project, but there must be must be some basis for determining that the project is likely. A business can demonstrate viability of expansion by any of the following:

- Increases in annual revenues over a 2-year period;

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- Demonstration of demand for product, sufficient to support expansion (for example new contracts or orders);
- 5 years of sales projections and assumptions;
- Business plan created for the expansion (if available, or at minimum written description of expansion plans).

Specific factors/ratios/issues to look for when evaluating the supporting documentation are provided in the IIP Underwriting Guidelines.

IV. UNDERWRITING CRITERIA

The primary objectives of the IIP are to promote the creation of manufacturing jobs in CRA/LA's Redevelopment Project Areas and to promote the incorporation of sustainable principles into the expansion of Los Angeles' manufacturing base. Unlike a traditional small business loan, the underwriting for this program is not focused on repayment of funds, but rather on ensuring that the business funded will be able to achieve its expansion and/or "greening" plans, will be able to support and sustain projected growth, and, most importantly, will create, retain and sustain the jobs supported through the program. Toward that end, the underwriting analysis has five (5) main criteria, with several recommended analytical steps to assess each criteria:

1. Business' ability to achieve and sustain job creation or retention goals
2. Business' ability to complete proposed development/expansion plans
3. Business' cash contribution to the development/expansion
4. Business' ability to support additional debt
5. Business' creditworthiness

Specific direction on the underwriting process and how to determine if a business meets the underwriting criteria is provided in the IIP Underwriting Guidelines. To perform the underwriting review, the basic information that is to be collected in the underwriting process includes:

- Brief letter of request stating the name of the company, what the company does, and the proposed use of the funding.
- Three years of business financial statements (or two if the company has been in business for only two years) , to contain at a minimum balance sheets and profit & loss statements
- If business financial statements are not audited, the business shall also provide three (or two, if only two years of operations) of business tax returns, all schedules(Form 1040 Schedule C for individuals, Form 1065 for partnerships, and Form 1120 C or S for corporations)
- Current staff list including position, length of employment for each employee, hourly wage
- Business plan with 2-3 years of financial projections, including projections for proposed expansion project (and any backup relevant to the projections). In some cases, a business that is an ongoing concern may not have a formal business plan. In that case, the business must provide the following information related to the proposed expansion:

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  - Complete project budget, including proposed sources and uses
  - Staffing Plan, including wages of existing and proposed employees that will manage and staff the expansion or new operation
  - Description of development team
  - Detail on start-up expenses for expansion, including but not limited to:
    - Construction costs for tenant improvements
    - Machinery and equipment cost estimates
    - Lease Deposit or other property-related expense
    - Professional fees (legal/accounting/licensing)
    - Opening inventory/supplies
    - Training and/or recruitment
  - Projected profit and loss statement for the first 2 -3 years of the new operation
- Copy of lease agreement for existing property and/or site for expansion (must be 3- year term or the length of the term for the Conditional Loan, whichever is greater)). If the business is also the property owner or in escrow to purchase, include a copy of grant deed and/or purchase and sale agreement.
- Summary of ongoing contracts, contracts anticipated or pending, including projected revenue from contracts and term, and/or other information to demonstrate projected sales or income.
- Schedule of debts, if not reflected in financial statements
- CRA/LA Credit request form

In the review of the information collected, if Staff finds that the Participant business does not clearly demonstrate the financial capacity to complete the proposed expansion, and proposes to provide financial assistance from its principals, staff may request personal financial statements dated not more than three months prior to the loan application for each principal with 30% or more ownership in the applicant. Personal financial statements shall also be required if the owner(s) is/are guarantors of the company's debt.

As part of the underwriting process, Staff will also verify that the project is compliant with CEQA and determine the appropriate steps to secure CEQA approval. Staff will also run a Uniform Commercial Code (UCC) Lien Search where personal property is being taken as security (i.e. equipment or business assets).

V. FUNDING CRITERIA

A. Maximum Funding Amount

The IIP will offer up to $250,000 per business for capital equipment, up to $50,000 for feasibility assistance and up to $50,000 for energy audits and energy and water efficiency analysis.

B. Determining eligible funding amount

CRA/LA's IIP funding is tied to job creation and retention. The CRA/LA IIP funding will be provided at the level of up to $35,000 per job created or retained, with a combined maximum of $350,000 in grants and conditional loans per business, requiring 10 or more eligible jobs. The table below outlines the IIP funding parameters:

Category	Type of funding	Max Funding

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Capital Equipment	Conditional Loan	$250,000
Feasibility Assistance	Grant	$50,000
Energy audits and efficiency analysis	Grant	$50,000
Funding per job created or retained		$35,000
Maximum CRA/LA funding	Combination	$350,000
Jobs required for maximum funding		10

If an applicant is requesting a Conditional Loan of more than $250,000, CRA/LA staff is encouraged to underwrite the business using the CRA/LA standard underwriting procedures, seek assistance from CRA/LA Capital Finance team, and must secure Loan Committee, Board and City Council approval.

C. **Funding for Start-ups**

Start-ups, defined as businesses with less than two years of operating experience, may be eligible for IIP funding at the same levels outlined above, with the following caveats:

Category	Type of funding	Max Funding
Capital Equipment	Conditional Loan	$250,000, but funded amount cannot exceed 15% of total project costs.
Feasibility Assistance	Grant	$50,000
Energy audits and efficiency analysis	Grant	$50,000
Funding per job created or retained		$35,000
Maximum CRA/LA funding	Combination	$350,000

D. Job Creation Criteria

In order for a job to generate the $35,000 funding, each job must meet the following criteria:

- The job must be either a new job created because of the project funded, or the job must be retained in the City of Los Angeles as a direct result of IIP funding. Evidence must be provided that the jobs were at risk to leave the city.
- The job must pay equal to or above the current Living Wage, as increased annually the City of Los Angeles and/or the CRA/LA. (http://bca.lacity.org/index.cfm?nxt=pay&nxt_body=div_occ_current_lw.cfm)
- The business must agree to use best efforts to support local hiring, described in detail below.
- If the job is not a standard 40-hour per week job, staff can determine eligibility of the job by annualizing the salary of the position and determining if it is equivalent to a full time job at the current Living Wage.

Local Hire

A "local" hire is defined as either a Community Area Resident or a Local Resident:

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- Community Area Residents – individuals who reside within the City of Los Angeles and within three miles of the Project Area's border;
- Local Residents – individuals who live within the City of Los Angeles and within a zip code containing at least part of one census tract with an unemployment rate in excess of 150% of the L.A. County unemployment rate.

"Best Efforts" to achieve local hiring can be demonstrated by evidence that the Participant has engaged at least two of the following five options in efforts to identify qualified local employees:

(1) Worksource centers
(2) Local community college employment center
(3) Local nonprofit/job training organization/employment center
(4) Own efforts (documented)
(5) Private employment consultant

Living Wage and Family Supporting Wages
Companies with jobs that hit the CRA/LA's targeted "Family Supporting Wage" (and higher) are encouraged and shall be given funding priority. A company may qualify for the program if it currently employs people in jobs below the Living Wage, however only those new or retained jobs at or above Living Wage will count toward funding eligibility. Note that any funding over $100,000 triggers the CRA/LA's Living Wage policy, which states that any entity receiving CRA/LA funds must pay all of its employees a Living Wage for at least one year; this means that both new and existing employees must be paid at least the Living Wage for one year.

E. Targeted sectors

In general, the IIP will target (but not be limited to) industry sectors showing the greatest potential for growth, create higher paying jobs, and are willing/able to incorporate energy and water efficiency into their business and manufacturing practices. The CRA/LA has identified the following sectors as targeted growth and expansion sectors:

- Aerospace
- Biomedical
- Clean technology
- Entertainment (sound stages and some production studios may qualify as industrial)
- Furniture manufacturing
- Food processing
- Fashion/apparel manufacturing
- Green construction materials
- Metals

While these sectors will be given priority, any business that meets the IIP eligibility and underwriting criteria is eligible for funding.

F. Funding structure

The IIP funding will be provided as follows:

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- ***Capital Equipment:*** reimbursement to participant upon documentation of purchase or direct payment to vendor with appropriate invoice. It is the CRA/LA's preference to provide funds through direct payment to a vendor, when feasible. Up to 50% advance payment for capital equipment is allowed, with appropriate documentation of payment requirements. Funding can be provided for equipment purchased up to twelve (12) months prior to related physical rehabilitation or construction projects, with longer term exceptions possible based upon review by the RA and Economic Development Unit.
- ***Feasibility assistance, including energy audits:*** CRA/LA to provide Participant up to 25% upon execution of contract with assistance provider and shall make payments according to milestones/tasks outlined in the scope of work and contract, subject to CRA/LA review and approval. CRA/LA to receive a copy of all work product, if applicable.

VI. TERMS

A. Fee

There is no fee for participation in the IIP Grant program. A small set-up fee (approximately $75 but subject to change) will apply to participants receiving a Conditional Loan.

B. Terms

Grants: The term of the Grants will be for two years, to allow for completion of the grant-funded assistance and assurance that the Participant is making efforts to identify a site in a Redevelopment Project Area, achieve the identified efficiencies, and complete the expansion project. If the grant funded activities are completed and the Participant has met its public benefit requirements in less than two years, the grant may be deemed ended at an earlier date, at the sole discretion of CRA/LA Regional Staff.

Conditional Loan: The term of the Conditional Loan will be a maximum of four years. The job creation or retention shall be achieved within two years and monitored for an additional two years. If the job creation/retention goals are achieved in less than two years, the two-year monitoring period can start at the time that the jobs are created/retained and the loan shall be deemed repaid two years after that date.

C. Repayment

The IIP is set up so as not to require repayment provided the objectives are met. The Grant funds will have some conditions but shall not require repayment. The Conditional Loan funds shall be deemed repaid at the time that the jobs are created or retained, and maintained for at least two years, as documented by annual reporting statements. To the extent that the business meets the IIP requirements, the Conditional Loan shall be deemed repaid at the end of the term.

D. Interest

If the Participant is compliant with the terms of the IIP Conditional Loan, the funding shall be deemed repaid at the end of the term, with no interest. In the case of a default on the Conditional Loan, IIP funding will accrue interest at a rate of 5% per year. The interest is applicable to the full outstanding amount of the Conditional Loan, in which case the business must repay principal plus accrued interest for the year(s) that it is not in compliance with the Conditional Loan requirements.

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E. Default

The following activities will constitute a default of the IIP agreement:

- The Participant is unable to meet the public benefit goals defined in the term sheet and the project agreement within the specified term;
- The Participant fails to comply with any of the CRA/LA and/or City of Los Angeles policies associated with the IIP funding and specified in the project agreement;
- The Participant fails to comply with any other conditions specified in the IIP agreement.
- The Participant relocates out of the City or moves the capital equipment purchased with IIP funds to a different location prior to the completion of the term for the Grant or Conditional Loan.

In the case of a default, the Conditional Loan shall begin to accrue interest at the rate identified above from the date the funds were drawn down. In such circumstances, staff is encouraged to work with the participant to identify and solve any barriers to meeting the requirements of the agreement. If the default is not corrected within sixty (60) days, or any other such time specified in the Conditional Loan agreement, the Participant will be required to begin repayment of the Conditional Loan, plus interest. Payments will be amortized over a five (5) year term and will be due quarterly. Staff may work out an amortized payment schedule if a portion of the jobs were created; for example, if the Agreement includes 10 new jobs and 7 jobs were created, Staff may allow the business to repay 3/10ths of the Conditional Loan amount (on an amortized basis).

If a participant receiving a Grant (not Conditional Loan) does not follow through with its general obligations under the project agreement, the CRA/LA shall "Bar" that participant from future funding opportunities with the CRA/LA.

F. Security/Collateral Requirements

Conditional Loans shall be evidenced by a Promissory Note. In addition, the Conditional Loan will be secured with UCC-1 recording pledging interest in equipment, fixtures, furniture, receivables, and inventory (subordinated as necessary). If the Participant has provided personal financial statements as a means to qualify for the IIP, and/or if the owners of the participating business regularly guarantee the business' debts, then the Conditional Loan shall be secured by a personal guarantee by the owner(s), along with a spousal consent, if applicable.

VII. CONTRACT REQUIREMENTS

The following basic requirements apply to all IIP participants, however each Project Area may identify additional requirements or may request modifications to the requirements through the CRA/LA Board of Commissioners and City Council.

- Job creation that is funded with IIP must be achieved within 2 years and maintained for at least two years;
- Local hire preferences as described in Section D;
- Ongoing maintenance of property;
- Commitment to implementing green efficiencies identified in the audit(s);
- For feasibility assistance, the participant must make reasonable efforts to locate in City of Los Angeles, and within a CRA/LA Project Area, as evidenced by:
    - Site visits to properties meeting location criteria

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    - Efforts to negotiate lease or purchase of properties meeting location criteria
- Completion of the location/expansion/rehabilitation project being funded within the timeline set in the Conditional Loan agreement but not later than 5 years;
- Annual reporting on job creation, wage levels and sales revenues, through IIP reporting documents. Five years of reporting required to assist CRA/LA in program evaluation;
- Compliance with all CRA/LA and City of Los Angeles policies, as applicable, including but not limited to:
    - Healthy Neighborhoods
    - Living Wage
    - Equal Opportunity Requirements
    - Contractor Responsibility
    - Insurance Requirements must be met for the term of the Grant and Conditional Loan Agreements. (See standard loan agreement for insurance requirements.)

VIII. PROGRAM RESTRICTIONS

This section is to highlight specific activities that are not eligible for funding under the program, or items that are specifically restricted in the program.

- All funding must be in conjunction with the rehabilitation or development of an industrial or manufacturing property;
- IIP funding is not to promote "poaching" of businesses from one City to Los Angeles, but rather is targeted to businesses actively seeking expansion and relocation opportunities;
- Capital equipment funding for start-up companies (less than 2 years of operations) is only provided if the participant has at least 85% of its start-up funding committed and the grant or loan will fill the balance.

IX. PROGRAM EXCEPTIONS

The IIP Guidelines are designed to allow staff to implement funding on an administrative basis. Understanding that each business will have unique circumstances and that the IIP is a pilot program, there must be some flexibility to deviate from the guidelines using an administrative process. The following items may be waived or reconsidered on an administrative basis, and are listed below along with the recommended process for securing a waiver from the guidelines:

Waiver for:	Administrative review required:
Maximum funding amounts for feasibility assistance may exceed $50,000 per category but shall not exceed the IIP maximum of $100,000 in total grant funding.	Regional Administrator (RA) and Chief Operating Officer (COO) for Real Estate and Economic Development
Funding per jobs created may exceed $35,000 per job, up to $50,000 per job to the extent that the business provides other comparable public benefits.	RA and COO for Real Estate and Economic Development
Percent of funding requested relative to total project costs (for start-ups) may exceed 15% but shall not exceed 25%.	RA and Senior Finance Officer or Manager of Capital Finance and COO for Real Estate and Economic Development
Standard Underwriting criteria	Senior Finance Officer or Manager of Capital

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	Finance and COO for Real Estate and Economic Development
Use of non-CRA/LA prequalified consultants for feasibility assistance and energy audits, subject to Staff review of consultant's qualifications and the same review of scope of work and milestones for progress payments.	Regional Administrator (RA)

The Staff requesting the waiver should write a brief memo to the approving party or parties, and leave space for approval sign-off at the bottom of the memo. The administrative approval of a waiver should be included in the project's underwriting file, with the other underwriting documents.

Waivers will not be allowed for:

- CRA/LA funding over $250,000 for capital equipment
- Funding for jobs that pay less than the Living Wage

X. INTAKE, UNDERWRITING AND REVIEW PROCESS

This section is a brief overview of the intake, underwriting and review process recommended for implementation of the program. In this section, the participating business is referred to as the "Participant."

A. PHASE I: Initial contact and preliminary assessment.

The CRA/LA typically receives proposals or requests for assistance in a number of ways: (1) through direct outreach to the business community, community stakeholders, business trade associations, or marketing efforts; and (2) referrals from the stakeholders listed in (1); or (3) from the Mayor's Office, Council Offices, Board members. Upon first contact with an interested business, staff should:

(1) Provide the program marketing materials
(2) Fill in the Business Assistance Intake System (BAIS) online form (once BAIS is launched)
(3) Request the Phase I underwriting materials:
   a. A brief letter of request stating the name of the company, what the company does, and the proposed use of funding
   b. A budget for the proposed expansion (sources and uses)
   c. Staffing plan for the proposed expansion, including number of full and/or part time jobs created or retained, wage levels and benefits, if any
(4) Prepare the preliminary review Sheets 1 & 2.
(5) Staff may decide that a site visit is appropriate but it is not necessary for the Phase I review.

Whether on a site visit or over the phone, be prepared to discuss the Preliminary Review Sheets, the goals of the IIP that would be met by their proposed project, and discuss possible CRA/LA financing available. After this initial review and discussion, staff should determine if the Participant and the proposed project merit financial participation from the Project Area, based on the IIP Eligibility requirements, CRA/LA's strategic plan goals, the Project Area's Five-Year Implementation Plan, and the available funding for the Project Area.

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If the Participant does not meet the Project Area's requirements and/or if funding is not available, staff should let the Participant know, in writing, and offer one or more of the following:

- To connect the Participant with another Project Area that may be a better fit;
- To offer general assistance in site location and technical assistance referrals;
- To connect the Participant with the Council Office and/or Mayor's Office to facilitate their expansion plans in the City of Los Angeles.

After the Preliminary Review, if staff determines that the Participant is eligible for IIP assistance:

- Submit the Initial Assessment Forms to the RA for approval;
- If the RA decides to continue the evaluation process, the Participant should move into the Phase II Underwriting process. Staff should advise the Participant in writing of the results of the initial assessment and provide the Underwriting checklist to the business;
- If the RA decides not to continue with the evaluation, follow the steps noted above.
- If the evaluation is moving forward, staff should use the Underwriting Checklist to document receipt of materials and keep the underwriting project file.

B. PHASE II: Underwriting

The Underwriting phase is an iterative interaction with the Participant to collect the information required to complete due diligence for the underwriting review of the proposal. At this stage, the regional staff should enter the Participant proposal into ERNIE[1] and secure an objective number in the CRA/LA's budget system.

The process is outlined below:

Stage	Tasks	Responsibility
Letter to developer that they passed preliminary assessment and providing underwriting checklist	• Send letter and underwriting checklist. • Enter project into Ernie, secure Objective number	Regional Staff (typically PM, APM or REDA)
Underwriting Review	• Staff uses the IIP Underwriting Guidelines to determine proposer's eligibility for funding and/or assistance • Additional data or clarifications may be sought • Check UCC filings • Work with Environmental Planning Unit to determine CEQA	Regional Staff (typically PM, APM or REDA), with assistance from the Economic Development Unit and/or IIP Underwriting Consultants, as necessary.

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	compliance • Staff may engage assistance of prequalified IIP underwriting consultants as needed and appropriate • Staff develops specific program requirements as appropriate, to be included in loan agreement and term sheet • Staff determines the appropriate level of funding and assistance • Complete underwriting summary report	
Capital equipment feasibility test	If proposer is requesting capital equipment, complete Section 33444.6 resolution.	Regional Staff (typically PM, APM or REDA), with assistance from the Economic Development Unit and/or IIP Underwriting Consultants, as necessary.
Develop Project Term Sheet	Staff to use standard IIP term sheet to develop the Project terms. If the Project includes Capital Equipment financing, enter the project into Agenda Forecast for the public hearing.	
RA Review	Regional Staff presents results of review and proposed assistance and terms to RA. If approved, RA signs off on Underwriting Summary Report.	Regional Staff (typically PM, APM or REDA)
Completion of underwriting	Participant/proposer is provided the proposed term sheet and a timeline for next steps. If CRA/LA chooses not to fund the Participant, provide a letter documenting,	Regional Staff (typically PM, APM or REDA)

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	the reasons why not, and make other recommendations for assistance.	
Complete Underwriting file	• Using IIP Project Checklist, ensure that all underwriting documents are filed, note deficiencies and what substitute documentation was provided. • Provide copy of underwriting file and/or rejection letter to Economic Development unit.	Regional Staff (typically PM, APM or REDA)
Move to Implementation Phase		

C. PHASE III: IIP Implementation

Once the participant proposal has been reviewed and Regional Staff has determined the appropriate level of assistance, the following steps are recommended for implementation.

Step	Task	Responsible party
Notify participant, in writing, of approval and amount of assistance.	Draft letter, include applicable list of feasibility assistance providers	Regional Staff (typically PM, APM or REDA)
Feasibility assistance coordination	• Assist participant in developing scope of work and identifying appropriate feasibility assistance providers from prequalified list • Notify DWP and Gas Company of project to identify any potential funding or rebates	Regional Staff (typically PM, APM or REDA)
Draft assistance agreement	• Use standard IIP grant agreement and modify to reflect approved term sheet • Draft appropriate security documents, using standard IIP forms	Regional Staff (typically PM, APM or REDA) and City Attorney

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	• Submit to City Attorney for review • Submit to Participant for review	
33444.6 resolution and public hearing (if capital equipment funding is being provided)	• If not completed earlier, enter public hearing into Agenda Review • Use standard 33444.6 resolution and standard IIP Board Memo	Regional Staff (typically PM, APM or REDA) with assistance from City Attorney
Finalize assistance agreement	Make changes as needed, finalize document.	Regional Staff (typically PM, APM or REDA) with assistance from City Attorney
33444.6 Public Hearing	Present findings to the Board of Commissioners	Regional Staff (typically PM, APM or REDA)
Document Execution	• Provide the completed IIP agreements and security documents to the participant for execution • Internal CRA execution of IIP agreement, notary and recording as needed	Regional Staff (typically PM, APM or REDA)
Files to asset management and/or Regional project files	• Executed Conditional Loan agreements and related security documents filed with Asset Management. • Executed Grant documents kept with Regional files. • Copies of all executed agreements provided to ED unit.	Regional Staff (typically PM, APM or REDA)
Provide funding payments	Payments provided pursuant to Section V.F.	Regional Staff (typically PM, APM or REDA)
Annual compliance review	Asset management will remind staff when annual compliance documents are due for Conditional Loans. Staff to secure documents from participant and review	Asset Management and Regional Staff (typically PM, APM or REDA)

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	for compliance.	
Noncompliant participants	If noncompliant, staff to meet with participant to determine remedies (if any). If the project is in default, follow guidelines in Section VI.E and engage City Attorney.	Asset Management, Regional Staff (typically PM, APM or REDA), City Attorney

D. Timing

One of the goals of the IIP is to offer a business-friendly program that responds to the realities of the business and real estate market. To that end, the program must be implementable on a relatively quick timeline. The proposed timeline, from initial intake to execution of loan agreements, should take not more than three (3) months, depending on the Participant's ability to provide the underwriting materials in a timely fashion. Further, the three-month timeline should apply to those Participants receiving capital equipment and thus requiring a public hearing. For those Participants receiving feasibility assistance, or energy audits, staff is encouraged to pursue a review and approval process of not more than two (2) months.

XI. OTHER PROGRAM DOCUMENTS

The complete IIP Documents consists of the following:

- Administrative Guidelines
- Underwriting Guidelines
- Underwriting materials
  - Preliminary Review Sheets
  - Underwriting Checklist (and associated documents)
  - Underwriting Spreadsheets
- IIP Term Sheet
- Sample Finding of Benefit resolution and Board Memo for 33444.6 public hearing
- Sample Loan Agreement
  - Promissory note
  - UCC-1 filing
  - Personal Guarantee (and spousal consent if applicable)
  - Annual reporting document
  - CRA/LA Policies packet
- Project file checklist

XII. PROGRAM ADMINISTRATION AND REVIEW

The IIP is housed with the CRA/LA Economic Development Unit (ED). ED is the point of contact for questions about the sample documents, relationships with DWP and the Gas Company, and maintenance of the Board pre-qualified list of feasibility assistance consultants. Throughout the implementation and approval process, staff is encouraged to contact ED with questions or for assistance in addressing implementation challenges. In addition, ED will provide training to staff on how to review the underwriting materials and make final eligibility decisions.

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In the interest of ensuring that the program builds capacity for CRA/LA to create, retain and support job creation and greening of industrial businesses within the City of Los Angeles, the CRA/LA ED will hold bi-annual meetings (or more frequent, if appropriate) with all staff that have used IIP, to determine changes to the program or program documents and to facilitate ease of use and address challenges with program implementation. Staff is encouraged to document challenges as they arise for future modification of the IIP.

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[i] ERNIE is the CRA/LA internal project management and tracking system.

APPENDIX B

IIP INITIAL ASSESSMENT FORM

Preliminary Review Sheet 1

PROJECT COST INFORMATION WORKSHEET

enter brief description of proposed project

Total Project Cost	$ -
Business contribution	
Amount of Financing Required	$ -
Use of Proceeds	
Acquisition of land and building	
Construction/renovation/tenant improvements	
Machinery and Equipment	
Leasehold Improvements	
Furniture and Fixtures	
Working Capital	
Other	
Feasibility Assistance	
Energy Audit	

Total Existing Jobs	
Wage levels	
Proposed new jobs	
# Living Wage jobs	
Proposed retained jobs	
# Living Wage jobs	

Project Budget: Sources and Uses
Preliminary Review Sheet 2

Uses of Funds		Sources of Funds									
		Debt						**Equity**			
Use	**Amount**	**Lender**	**Term (yrs**	**Est. Rate**	**Collateral**	**Amount**	**Annual Debt Service**	**Source**	**Amount**	**Terms**	**TOTAL**
Land							#NUM!				
Construction/Renovation/Tenant Improvements											
Machiney & Equipment											
Furniture & Fixtures											
Leasehold Improvements											
Contingencies											
Working Capital											
Other											
Other											
Other											
Total Project Cost	$ -	**Total Sources**				$ -	#NUM!		$ -		$ -

APPENDIX B

BALANCE SHEETS
Participant:
Today's Date:

Other Data to collect from participant:	
PAYROLL CYCLE (days)	
PAYMENT TERMS (days)	
INVENTORY CYCLE	

3 YEAR HISTORY

STATEMENT ENDING	YEAR	YEAR	YEAR
ASSETS			
Cash & Marketable Securities			
Accounts Receivable			
Inventory			
Prepaid Expenses			
Total Current Assets	$ -	$ -	$ -
Net Fixed Assets			
Notes Receivable			
Investment in subsidiaries			
Intangibles			
TOTAL ASSETS	$ -	$ -	$ -
LIABILITIES & NET WORTH			
Notes Payable - Bank			
Notes Payable - Other			
Accounts payable - Trade			
Accruals			
Income Taxes Payable			
Current Portion Long Term Debt (CLTD)			
Total Current Liabilities	$ -	$ -	$ -
Long-term Debt, non current portion			
Subordinated Officer Debt			
TOTAL LIABILITIES	$ -	$ -	$ -
Common Stock			
Capital Surplus & Paid-in capital			
Retained Earnings			
(Less) Treasury Stock			
TOTAL NET WORTH	$ -	$ -	$ -
TOTAL LIABILITIES + NET WORTH	**$ -**	**$ -**	**$ -**
BALANCE?	Y	Y	Y

3 YEAR PROJECTIONS

STATEMENT ENDING	YEAR 1	YEAR 2	YEAR 3
ASSETS			
Cash & Marketable Securities			
Accounts Receivable			
Inventory			
Prepaid Expenses			
Total Current Assets	$ -	$ -	$ -
Net Fixed Assets			
Notes Receivable			
Investment in subsidiaries			
Intangibles			
TOTAL ASSETS	$ -	$ -	$ -
LIABILITIES & NET WORTH			
Notes Payable - Bank			
Notes Payable - other			
Accounts payable - trade			
Accruals			
Income Taxes Payable			
Current Portion Long Term Debt (CLTD)			
Total Current Liabilities	$ -	$ -	$ -
Long-term Debt, non current portion			
Subordinated Officer Debt			
TOTAL LIABILITIES	$ -	$ -	$ -
Common Stock			
Capital Surplus & Paid-in capital			
Retained Earnings			
(Less) Treasury Stock			
TOTAL NET WORTH	$ -	$ -	$ -
TOTAL LIABILITIES + NET WORTH	**$ -**	**$ -**	**$ -**
BALANCE?	Y	Y	Y

PROFIT AND LOSS STATEMENT

Participant

3 YEAR HISTORY	YEAR	YEAR	YEAR
Sales			
Cost of Goods Sold			
Gross Profit	$ -	$ -	$ -
Selling, General & Admin			
Operating Profit	$ -	$ -	$ -
Owners Salary			
Depreciation & Amort Expense			
Interest Expense			
Rent			
Other Income (expense)			
Earnings Before Tax	$ -	$ -	$ -
Income Taxes			
Profit after Tax	$ -	$ -	$ -

3 YEAR PROJECTION	YEAR 1	YEAR 2	YEAR 3
Sales			
Cost of Goods Sold			
Gross Profit	$ -	$ -	$ -
Selling, General & Admin			
Operating Profit	$ -	$ -	$ -
Owners Salary			
Depreciation & Amort Expense			
Interest Expense			
Rent			
Other Income (expense)			
Earnings Before Tax	$ -	$ -	$ -
Income Taxes			
Profit after Tax	$ -	$ -	$ -

APPENDIX B

STATEMENT OF CASH FLOWS (SCF)

Participant:

Today's Date:

3 YEAR HISTORY

STATEMENT ENDING	YEAR	YEAR	YEAR
Operations			
Net Income			
Depreciation			
(Increase) in Accounts Receivable			
(Increase) in Inventories			
(Increase) in Prepayments			
Increase in Accounts Payable			
Increase in Other Current Liabilities			
CASH FLOW FROM OPERATIONS	$ -	$ -	$ -
Investing			
Acquisition of Property, Plant, & Equipment			
Other			
CASH FLOW FROM INVESTING	$ -	$ -	$ -
Financing			
Increase (Decrease) in Short-Term Borrrowing			
Increase in Long-Term Borrowing			
Increase in Common Stock			
Decrease in Long-Term Borrowing			
Acquisition of Common Stock			
Dividends			
Other			
CASH FLOW FROM FINANCING	$ -	$ -	$ -
Change in Cash	$ -	$ -	$ -
Cash, Beginning of the Year			
Cash, End of the Year	$ -	$ -	$ -

3 YEAR PROJECTION

STATEMENT ENDING	YEAR	YEAR	YEAR
Operations			
Net Income			
Depreciation			
(Increase) in Accounts Receivable			
(Increase) in Inventories			
(Increase) in Prepayments			
Increase in Accounts Payable			
Increase in Other Current Liabilities			
CASH FLOW FROM OPERATIONS	$ -	$ -	$ -
Investing			
Acquisition of Property, Plant, & Equipment			
Other			
CASH FLOW FROM INVESTING	$ -	$ -	$ -
Financing			
Increase (Decrease) in Short-Term Borrrowing			
Increase in Long-Term Borrowing			
Increase in Common Stock			
Decrease in Long-Term Borrowing			
Acquisition of Common Stock			
Dividends			
Other			
CASH FLOW FROM FINANCING	$ -	$ -	$ -
Change in Cash	$ -	$ -	$ -
Cash, Beginning of the Year			
Cash, End of the Year	$ -	$ -	$ -

APPENDIX B

To be collected from Owner

SCHEDULE OF EXISTING DEBTS	Amount	Int Rate	Term (mos)	Remaining Prin Balance	Monthly Payment	Included in Balance Sheet? (Y/N)
Loan 1 (enter name of lender)						
Loan 2 (enter name of lender)						
Loan 3 (enter name of lender)						
Loan 4 (enter name of lender)						
Loan 5 (enter name of lender)						
Proposed debt for expansion						
Loan 1 (enter name of lender)						
Loan 2 (enter name of lender)						
Loan 3 (enter name of lender)						
TOTAL MONTHLY PAYMENTS	$ -			$ -	$ -	

Annual Debt Service *NOT* Reflected in Balance Sheet $ -

CRITERIA ANALYSIS

1 **Ability to Achieve and Sustain Jobs**

3 YEAR HISTORY

a. **PERMANENT WORKING CAPITAL ANALYSIS**

PART 1			
OPERATING CYCLE	**YEAR**	**YEAR**	**YEAR**
Days Receivable			
Days Inventory			
Days Payable			
Days Accrual			
Operating Cycle	#VALUE!	#VALUE!	#VALUE!

PART II			
PERMANENT WORKING CAPITAL	**YEAR**	**YEAR**	**YEAR**
Accounts Receivable	$ -	$ -	$ -
Inventory	$ -	$ -	$ -
Accounts Payable	$ -	$ -	$ -
Accruals	$ -	$ -	$ -
Permanent Working Capital (PWC)	$ -	$ -	$ -

Change in PWC			
Gross Funds Flow			
Operating Cash Flow			

Do not enter data, these cells automatically populate and calculate based on the Balance Sheet and Profit and Loss Statement

Is inventory going up or down?
are they collecting receivables in a reasonable amount of time?

Is PWC at least "1"? If not, business is not investing enough in PWC.
For the projections, is PWC enough to cover capital expenses needed for the expansion?

Is GFF > than the change in PWC?
Is Operating Cash Flow positive?

3 YEAR PROJECTIONS

a. **PERMANENT WORKING CAPITAL ANALYSIS**

PART 1			
OPERATING CYCLE	**YEAR 1**	**YEAR 2**	**YEAR 3**
Days Receivable			
Days Inventory			
Days Payable			
Days Accrual			
Operating Cycle	#VALUE!	#VALUE!	#VALUE!

PART II			
PERMANENT WORKING CAPITAL	**YEAR 1**	**YEAR 2**	**YEAR 3**
Accounts Receivable	$ -	$ -	$ -
Inventory	$ -	$ -	$ -
Accounts Payable	$ -	$ -	$ -
Accruals	$ -	$ -	$ -
Permanent Working Capital (PWC)	$ -	$ -	$ -

Change in PWC			
Gross Funds Flow			
Operating Cash Flow			

b. **SALES GROWTH RATIO**

YEAR	
YEAR	
Projected Year 1	
Projected Year 2	
Projected Year 3	

are sales increasing or stable?
are sales projections realistic?
what support is there for sales projections?

c. **OTHER QUESTIONS (see Underwriting Guidelines)**
What contracts does the firm have in place?
What are the terms?
What contracts are in the works?
How does the firm find qualified employees?

(page break)

2 **Business' ability to complete proposed development/expansion plans**

Review project sources and uses
Review project budget
See questions in underwriting guidelines

3 **Business' Cash Contribution to the Development/Expansion**

a Owner's Equity contribution to the project $ -
Owner Equity as percent of Total Project Costs #DIV/0!

Is the owner making a reasonable investment the expansion project?

	YEAR	**YEAR**	**YEAR**
b **Retained Earnings**	$ -	$ -	$ -

Are retained earnings growing and stable?
Are retained earnings reinvested in the business?

	YEAR 1	**YEAR 2**	**YEAR 3**
Retained Earnings	$ -	$ -	$ -

c **CAPITAL EXPENDITURES**

		YEAR	**YEAR**
Ending Net Fixed Assets		$ -	$ -
Depreciation		$ -	$ -
Beginning Net Fixed Assets			
Net Capital Expenditures			

Are capital expenditures postive and/or growing?

CAPITAL EXPENDITURES

		YEAR 2	**YEAR 3**
Ending Net Fixed Assets		$ -	$ -
Depreciation		$ -	$ -
Beginning Net Fixed Assets			
Net Capital Expenditures			

4 **Business' leverage / ability to secure debt**

DEBT SERVICE	**YEAR**	**YEAR**	**YEAR**
CLTD	$ -	$ -	$ -
Interest Expense	$ -	$ -	$ -
Additional Debt Service (from debt schedule)	$ -	$ -	$ -
Total Debt Service	**$ -**	**$ -**	**$ -**

NET CASH FLOW		**YEAR**	**YEAR**
GFF			
Δ PWC			
Non-Operating Uses			
Net Cash Flow		#VALUE!	#VALUE!
SCF Change in Cash Flows	$ -	$ -	$ -
SCF Cash Flows from Operations	$ -	$ -	$ -

Actual Debt Service Coverage Ratio		**#VALUE!**	**#VALUE!**
Standard Debt Service Coverage Ratio*		1.25	1.25
SUPPORTABLE DEBT		#VALUE!	#VALUE!

DEBT TO EQUITY RATIO

	YEAR	**YEAR**	**YEAR**
Liabilities	$ -	$ -	$ -
Subordinated Officer Debt	$ -	$ -	$ -
Net Worth	$ -	$ -	$ -
Intangibles	$ -	$ -	$ -
Debt to Equity Ratio	**#DIV/0!**	**#DIV/0!**	**#DIV/0!**

Does the Net Cash Flow (based on BS and P&L sttements) equal the SCF Change in Cash Flows? Are the cash flows from Operations increasing?

Compare this to the amount of debt in the Project Sources and Uses.
Is there a gap?

Compare this ratio to industry standards, to determine if Participant likely to qualify for additional debt.
5:1 is the SBA norm.

DEBT SERVICE	**YEAR 1**	**YEAR 2**	**YEAR 3**
CLTD	$ -	$ -	$ -
Interest Expense	$ -	$ -	$ -
Additional Debt Service (from debt schedule)	$ -	$ -	$ -
Total Debt Service	**$ -**	**$ -**	**$ -**

CASH FLOW AVAILABLE FOR DEBT		**YEAR 2**	**YEAR 3**
GFF			
Δ PWC			
Non-Operating Uses			
Net Cash Flow		#VALUE!	#VALUE!
SCF Change in Cash Flows	$ -	$ -	$ -
SCF Cash Flows from Operations	$ -	$ -	$ -

Actual Debt Service Coverage Ratio		**#VALUE!**	**#VALUE!**
Debt Service Coverage Ratio*		1.25	1.25
SUPPORTABLE DEBT		#VALUE!	#VALUE!

DEBT TO EQUITY RATIO

	YEAR 1	**YEAR 2**	**YEAR 3**
Liabilities	$ -	$ -	$ -
Subordinated Officer Debt	$ -	$ -	$ -
Net Worth	$ -	$ -	$ -
Intangibles	$ -	$ -	$ -
Debt to Equity Ratio	**#DIV/0!**	**#DIV/0!**	**#DIV/0!**

*Note that the DSC requirement varies depending on the lender. 1.25 is inserted as a starting point but staff should consult with the Business, their current or proposed lender, and/or Capital Finance to verify.

APPENDIX B

INDUSTRIAL INCENTIVE PROGRAM
SUMMARY TERM SHEET
(Fictional business, for illustration purposes only)

Business	CMG Product Manufacturer	
Project Address	123 Alphabet Street, LA 90000	
Project Area	XYZ Project Area	
Brief project description	Providing $150,000 toward capital equipment purchase to facilitate business expansion, move & rehab larger facility. Equipment meets recommendatiosn of IIP-funded energy audit.	
Total Project Cost	$	1,000,000
Proposed IIP Funding		
Capital Equipment:	$	150,000
Feasibility Studies:	$	15,000
Energy Audit:	$	10,000
Total IIP Funding:	$	175,000
Term	3 years	
Collateral	UCC-1 for new capital equipment, valued at $300,000	
Project Benefits:	10 jobs created	
	Business attracted to XYZ Project Area	
	Vacant/underutilized buiding occupied and improved	
	Sustainable elements incorporated into business operations (projected 15% energy reduction)	
	Agree to use Worksource center for first source of hiring new employees	
Applicable CRA/LA Policies	List policies	