



CITY COUNCIL
Staff Report

Meeting Date: Apr. 27, 2021

To: Mayor and City Council

From: Scott Chadwick, City Manager

Staff Contact: David Graham, Chief Innovation Officer
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Subject: COVID-19: Economic Recovery and Revitalization Initiative Options

District: All

Recommended Action

Adopt a resolution modifying the COVID-19 Small Business Loan Program to extend the terms of both of its loan products and create a process for an additional deferment of the first loan payment beyond the existing automatic deferral period.

Receive a report and discuss additional options to address the economic impact of the COVID-19 pandemic and provide any desired direction based on the discussion.

Executive Summary

The City Council approved a \$5 million Economic Recovery and Revitalization Initiative as part of its comprehensive approach to providing ongoing economic relief that both allows and incentivizes businesses that are impacted by the pandemic to comply with the public health orders. The initiative includes a COVID-19 small business loan program that provides no-cost and low-cost loans to qualifying businesses.

The Ad Hoc City Council Economic Revitalization Committee is recommending the council approve modifications to the loan program, which are detailed below, to allow more businesses to access financial assistance when they need it most and to further support loan recipients who have ongoing impacts from state and county health orders.

This report also includes options for additional programs to aid in the COVID-19 economic response and recovery. This includes options in response to direction from the City Council to engage with business organizations on direct aid programs and return with options for consideration including microgrants and rental assistance programs.

Discussion

Background

On March 4, 2020, Governor Gavin Newsom declared a state of emergency following the first COVID-19 death in the state of California. On March 15, 2020, he directed all “non-essential” businesses to close in the state. That same day the city manager, in his role as the city’s director of emergency services, declared a local state of emergency in Carlsbad. The City Council

ratified the proclamation the following day. The impact to businesses and the economy was severe, with unemployment spiking to 13.8% in the city in April 2020.

Six months after the shutdown, the state unveiled its Blueprint for a Safer Economy, which the governor said outlined a stringent and slow plan for living with COVID-19 for the long haul. This tiered plan used health metrics to slot counties into tiers based upon the severity of community spread, allowing for more business activities where there was less spread and imposing greater restrictions where community transmission was more widespread. The County of San Diego was initially in the red or “substantial” tier, which had fewer restrictions than the purple or “widespread” tier. On December 5, 2020, the Governor announced the Regional Stay at Home Order, which put more stringent restrictions on business operations. This order was lifted on January 25, 2021. At that time, the County of San Diego was in the purple or “widespread” tier, before advancing to the red, and eventually orange tier.

Through all the mandates by the state and county to open, close, or modify public and private operations, the City of Carlsbad worked to encourage and enforce adherence to the public health orders. The city has collaborated with the county, other municipal agencies, its business organizations, businesses and residents to address the pandemic. Carlsbad has consistently had one of the lowest if not the lowest rates of infection for local cities with populations of 50,000 or more.

Economic Recovery and Revitalization Initiative

To support small businesses affected by the COVID-19 public health pandemic, the City Council approved a \$5 million Economic Recovery and Revitalization Initiative on April 21, 2020. The initiative has included, among other things, city lessee relief, a business promotion and tourism marketing campaign, a referral relationship with the National Conflict Resolution Center to provide free mediation services to landlords and tenants through the county community mediation program, an e-gift card program with bonuses funded by private fundraising with matching city funding, a microloan and small business loan program and temporary outdoor permitting for business operations.

Business outreach has included one-on-one support to businesses, webinars and a dedicated webpage that includes federal, state, county and city resources.

The City Council approved a resolution on Sept. 1, 2020, appropriating \$50,000 in funding to the Carlsbad Chamber of Commerce to sponsor the “Gift Carlsbad” Shop Local program, an e-gift card program with a bonus amount added to the purchase of an e-gift card from a participating Carlsbad business. The bonus amount was paid for by the Ready Carlsbad Business Alliance with a one-to-one match provided from the city. Eighty-three businesses signed up to participate in the e-gift card marketplace and more than 2,100 virtual gift cards have been purchased, which between the card purchase and bonus totals more than \$85,000.

The City Council approved a resolution on Aug. 18, 2020, approving further implementation of the Economic Recovery and Revitalization Initiative and modifications to the COVID-19 Small Business Loan Program. The program provides microloans of between \$5,000 to \$10,000 and small business loans of between \$10,000 to \$25,000 to Carlsbad businesses that meet certain criteria.

On January 19, the City Council approved program modifications to allow for business loans of up to \$50,000 and increased the revenue cap of businesses to \$5 million and allowed for businesses to apply for multiple loan products, with a total loan cap of \$60,000.

Based on an analysis of business license data approximately 150 to 175 businesses became eligible to apply for a loan with the updated criteria. Since implementing the changes on February 1, 22 new businesses have applied for a business loan and 15 have applied for loans above the original limits.

A total of 82 businesses have received \$1,660,000 in loans. Four applications are in process. Sixty-two loans are currently in repayment – meaning their automatic six-month deferment period is over – and two loans have been fully repaid. There have been no defaults.

The city has continuously assessed its economic response to the pandemic and made modifications as necessary based on changing conditions, feedback from businesses and business organizations and policy direction from the City Council. The Ad Hoc City Council Economic Revitalization Subcommittee has generally met every two weeks to stay updated on current economic and operating conditions and provide guidance regarding the city's response.

Options

The City Council directed staff to explore options for additional direct financial assistance to businesses in response to the COVID-19 pandemic. Staff have researched such efforts in other cities, engaged with business organizations, received input from businesses, developed options and presented them to the ad hoc subcommittee.

There have been some significant changes to the pandemic impact on businesses and economic relief including since the City Council's direction to engage with business organizations on additional direct aid programs, including:

- The \$1.9 trillion American Rescue Plan was approved. It provides \$7.25 billion for another round of additional forgivable loans for small businesses, \$29 billion in grants to restaurants, \$15 billion in grants for arts, cultural and entertainment operations, \$15 billion in economic disaster loans as well as other resources for economic relief.
- California's Regional at Stay Home Order ended Jan. 25, 2021. That lifted some of the greatest restrictions that had been imposed on business operations to combat the pandemic.
- San Diego County moved into the "moderate" or orange tier under the state's Blueprint for a Safer Economy. This has allowed for indoor operations with capacity limits for nearly all business types.
- San Diego County has now vaccinated more than 1.3 million people, 64% of the population, with at least one dose and at least 821,000 people, 41% of the population, have been fully vaccinated.
- The governor announced that the tiered reopening system is scheduled to be eliminated on June 15, 2021, if community spread, hospitalization and measure of intensive care unit capacity continue to remain stable and improve.

The introduction of additional economic assistance resources and the gradual relaxation of restrictions on business operations is likely to improve the health of Carlsbad businesses. However, for many businesses and business sectors, the impact remains severe.

Local businesses have told the city, through the city's direct outreach and an April survey of Carlsbad businesses, that they still have a significant need to access capital to fully recover. Of the 168 businesses that responded to the survey, 45% said they needed more than \$25,000 in additional capital over the next six months. While many operations are on track to normalize, many business owners report they are significantly behind where they should be financially. As we move from pandemic response to economic recovery and longer-term revitalization, a thoughtful approach to continued support for businesses is required.

City staff have worked with other cities and engaged with experts in inclusive economic growth to assess the city's economic response to the pandemic. Based on that assessment and the change in pandemic and economic conditions, staff are developing a strategic approach to economic recovery. The assessment and strategic analysis are scheduled to be presented to the City Council on May 11, 2020.

In the meantime, this report presents possible additional modifications to the city's business loan program and options for direct financial assistance for the City Council's consideration and, if desired, direction to staff. Each of the following options includes the results of the ad hoc subcommittee discussion.

Should the City Council wish for any of these options, it could provide direction regarding the size, scope and programmatic details and staff would then work with the City Attorney's Office on legal analysis and return with a detailed program and funding proposal for the council's consideration.

COVID-19 Small Business Loan Program modifications

City staff and the ad hoc subcommittee, in its role of making recommendations to guide the city's economic response to COVID-19, have consistently assessed the COVID-19 Small Business Loan Program and recommended modifications as appropriate to achieve its goals.

1. Extending the loan term

CDC Small Business Financing, the organization contracted to manage and service the loan program, suggested two areas of opportunity based upon their experience administering the loan program.

The first area of opportunity is that the city's loan program has a shorter loan term than most similar small business loan products, such as federal Small Business Administration loans. This means that loan recipients have a higher monthly loan repayment amount than they may with another product from another institution. Some businesses that are participating in the program have suggested that, because of the extended nature of the pandemic and impacts to businesses and corresponding health orders, if the city were to revise its loan term to have a longer payback period, it would aid in small business recovery.

CDC Small Business Financing also noted there have been a number of instances in which an eligible business has applied for the loan, but then, once approved, decided not to execute the loan agreement after reviewing all of the terms. Of the 142 loan applicants that have applied, 48 have cancelled or withdrawn their application. Though there are many factors that affect this rate of cancellation or withdrawal, including the changing nature of the public health order business restrictions, the short term of the loan compared to other similar products and the longer timeframe for recovery are factors. If the city were to revise

its loan term length to be more in line with other small business loan products the city would likely see more participation in the program, which would aid in economic recovery.

Ad Hoc City Council Economic Revitalization Subcommittee

Recommends:

- Changing the maximum micro-loan terms from 18 months to 30 months
- Changing the maximum small business loan term from 30 months to 60 months

The Carlsbad Chamber of Commerce, Carlsbad Village Association and Visit Carlsbad also recommend approval of this modification to the business loan program.

Pros

- Reduces the potential for default by providing a lower monthly payment and a longer repayment period
- Applicants that received approval but withdrew their application prior to entering into the loan due to the short repayment window and high-monthly payment could reconsider and are more likely to reapply for loans
- Modified terms would increase the number of businesses that receive financial assistance from the city using financial resources committed to that purpose by the City Council

Cons

- Modified loan terms will extend the period of time that the borrower has to repay the loan, which means it will take longer for the city to recoup funds that are loaned to small businesses

2. Allowing more time to defer the first loan repayment

The second area of opportunity relates to when a borrower must begin paying back a city loan. This is an issue that the City Council took up at the beginning of the program development and the council decided to include an automatic six-month deferral from the time the loan was issued until the time the first payment must be made. As the six-month deferral period has ended for some of the earlier borrowers, CDC Small Business Financing has received deferral requests from at least two business loan recipients. The program does not allow for deferrals beyond the automatic six-month deferral from the time the loan is granted. The businesses that have requested deferrals are still heavily impacted by the public health orders that restricted their operations. If the loan program is modified to allow for an additional deferral period in specific circumstances as recommended by CDC Small Business Financing, the likelihood of a missed payment and default will be reduced. To date the program has a 0% default rate.

Ad Hoc City Council Economic Revitalization Subcommittee

Recommends:

- Allowing for one extension of the repayment deferral for a period of time based on the professional determination by CDC Small Business Finance that such

deferral is warranted to meet the goals of the program, which includes reducing the risk of default

- CDC Small Business Financing's determination would be validated by city staff and, upon validation, would result in a re-amortization of the loan with a new repayment schedule not to exceed the original term of the loan

The Carlsbad Chamber of Commerce, Carlsbad Village Association and Visit Carlsbad also recommend approval of this modification to the business loan program.

Pros

- Reduces the likelihood of default in the rare case that a discretionary deferral is necessary

Cons

- None identified

Staff agrees with the business program loan modifications recommended by the city's business organizations and the ad hoc subcommittee.

New COVID-19 program options

The City Council directed staff to engage with business organizations on direct aid programs and return with options for the council's consideration. In response, staff evaluated several pandemic-related relief programs that the City of Carlsbad could administer. During the evaluation process, staff researched relief programs offered in nearby cities and in peer-metropolitan areas throughout the region and state. The evaluation included input gathered from previous and current surveys of Carlsbad businesses, stakeholder engagement forums, Carlsbad business organizations and third-party research from a contracted economic development consultant with experience working with other cities around the state and country. Based on that work, the following options were presented to the ad hoc subcommittee:

- Microgrants
 - Direct microgrant program
 - Matching grant program
- Rental assistance
- Revolving loan fund

General outlines of the programs have been developed based on research, business input and ad hoc subcommittee discussion. The council may wish to discuss and provide further direction regarding one or more of these program options and, based on that discussion, direct city staff to further develop program details and a funding plan to implement the program.

In addition to direct-aid programs, the Carlsbad Charitable Foundation has requested the support from the city for their grant program. The ad hoc subcommittee has discussed the importance of nonprofits on the economy and the fact that many of them have been significantly impacted during the pandemic. Staff offer an additional option of supporting the Carlsbad Charitable Foundation and its nonprofit relief efforts in this report.

Microgrants

One of the direct aid program ideas that council directed staff to research was a microgrant program. There are several options for developing such a program. The parameters generally revolve around eligibility, grant size and total program budget. These can be grants for a specific purpose or for general business expenses. Two options were developed for discussion by the ad hoc subcommittee, general microgrants and matching grants.

1. General microgrant program

An option for a general microgrant program could include the following provisions:

- Provide \$2,000 grants to Carlsbad small businesses with revenues or gross receipts of \$2 million or less
- Applying businesses must show a revenue impact of 50% or greater due to the pandemic
- Grant funds could be used for working capital
- Program would aid 50 businesses for every \$100,000 of city money invested

To have a larger impact, the amount of the grant per business or the total amount of the program could be scaled up. There are other criteria that could be used to target eligibility, such as business sector, census tract characteristics or type of business ownership.

Depending on its design, this program would be duplicative of existing programs from the county, state and federal governments, including the Paycheck Protection Program, the California Rebuilding Fund, the California Small Business COVID-19 Relief Grant and the County Small Business Stimulus Grant, all of which are able to offer larger grants or forgivable loans for businesses and have far larger pools of funding than Carlsbad has committed to pandemic economic relief at this time.

Ad Hoc City Council Economic Revitalization Subcommittee

The committee did not recommend this program. The committee found:

- The availability of existing programs from the county, state and federal government would make this program redundant
- The amount of funding necessary to have a significant impact and the size of the award would need to be significantly scaled up to have an impact and likely would not exceed the impact of other resources available to Carlsbad businesses
- A grant program would be a short-term solution rather than a sustainable program

The Chamber of Commerce, Carlsbad Village Association and Visit Carlsbad saw the value in such a program but did not rank it as a high priority.

Pros

- Provides direct financial aid to businesses impacted by the pandemic
- Use of the funds for working capital can have a positive impact on jobs and the economy

- Program can be tailored to achieve specific goals including supporting small and very small sized businesses

Cons

- The more rigorous the criteria the more staff time will be required for administration
- Depending on program design, it would likely be redundant to county, state, and federal programs
- Grant amount and total program funding would need to be significant to have a demonstrable impact on the economy
- Grants are a one-time infusion of financial resources and do not create a sustainable means for economic development

2. Matching grant program

This option is intended to support activities that would lead to longer-term economic growth. A matching grant program could target investment in façade and storefront improvements for consumer accessible businesses, capital and equipment improvements to expand business operations and other physical improvements to spur business growth. An option for a matching grant could include the following provisions:

- Require a one-to-one match from the business owner or landlord of up to \$5,000
- Funds could be used for public facing business façade improvements, capital equipment or other improvements that are capital and intended to promote business growth
- Program would aid 20 businesses per \$100,000 in city money invested with a total of \$200,000 impact per \$100,000 because of the required business match

To have a larger impact, the amount of the grant per business or the total amount of the program could be scaled up. If there were a sustainable funding source, this could be a part of a long-term economic development strategy.

Ad Hoc City Council Economic Revitalization Subcommittee

The committee did not recommend this program. The committee found:

- The availability of existing programs from the county, state and federal government would also render this program redundant
- The amount of funding necessary to have a significant impact and the size of the award would need to be significantly scaled up to have an impact and likely would not exceed the impact of other resources available to Carlsbad businesses
- A grant program would be a short-term solution rather than a sustainable program
- Current economic conditions and the availability of other grant and loan programs do not warrant a matching grant program to spur growth

The Chamber of Commerce, Carlsbad Village Association and Visit Carlsbad saw the value in such a program but did not rank it as a high priority.

Pros

- Provides direct financial aid to businesses impacted by the pandemic
- Use of the funds for working capital can have a positive impact on jobs and the economy
- Matching grant nature of the program would leverage city funds with business investment causing a greater economic impact
- Program can be tailored to achieve specific goals including supporting small and very small sized businesses

Cons

- The matching fund nature of the program may require more staff time for administration and monitoring
- Depending on program design it would likely be redundant to county, state, and federal programs
- Grant amount and total program funding would need to be significant to have a demonstrable impact on the economy
- While a matching grant program leverages city funds to spur business investment grants are a one-time infusion of financial resources rather than a sustainable means for economic development

Should the City Council provide direction to pursue one or more of these options, staff would work with the City Attorney's Office on legal analysis and return with a final proposal that would include program details and funding options.

Rental assistance grant program

The inability to pay rent during the pandemic has been a real concern for businesses. This concern has generally been addressed by local commercial eviction moratoriums, including one enacted in Carlsbad. Such moratoriums have been allowed by the state, most recently by Governor Newsom's Executive Order N-01-21, allows local jurisdictions to extend protections for commercial tenants through June 30, 2021. Additionally, county, state and federal grant and forgivable loan program resources can be used to pay rental expenses. It should be noted that the California legislature is considering laws that could supersede a program of this nature.

Like other grant programs, a rental assistance program would provide direct aid from the city to support core business expenses for companies that have experienced a significant economic impact due to COVID-19. There would be some differences from this program to the other direct-aid options to ensure that financial aid goes to rent and not to other operational costs. An option for a small business rental assistance grant program could include the following provisions:

- Provide up to \$3,000 in rental assistance to qualifying businesses

- Eligible businesses must show a pandemic related economic impact that led to their inability to pay rent
- Payments would be made directly to the landlord to ensure the funds were used to address unpaid rent or rent on a go-forward basis
- As a condition of program participation, the landlord and tenant would agree to enter into good-faith negotiations to address future rent for a specified period of time; staff recommends six months
- Program would aid 33 businesses for every \$100,000 in city money invested

Ad Hoc City Council Economic Revitalization Subcommittee

The committee made no recommendation about this program, leaving it for the council's consideration.

The Chamber of Commerce, Carlsbad Village Association and Visit Carlsbad saw the value in such a program but did not rank it as a high priority.

Pros

- Provides direct financial aid to businesses impacted by the pandemic
- Financial benefit to both the tenant and landlord potentially reducing the need for future evictions
- If significant resources are dedicated to this program it could affect commercial and industrial vacancy rates

Cons

- The direct payment to the landlord may require more staff time for administration and monitoring
- Depending on the program design it would likely be redundant to county, state, and federal programs that offer grants and forgivable loans for working capital including rent
- One-time infusion of financial resources rather than a sustainable economic development tool

Should the City Council provide direction to pursue one or more of these options, staff would work with the City Attorney's Office on legal analysis and return with a final proposal that would include program details and funding options.

Revolving loan fund program

A revolving loan fund (RLF) is a gap financing measure primarily used for development and expansion of small businesses. It is a self-replenishing pool of money, utilizing interest and payments on formerly issued loans to fund the issuance of new loans. It is a common public, non-profit and not-for profit economic development tool that is often used to bridge the final amount borrowers need in addition to what they can secure from private markets for business development and growth. An RLF can be issued at competitive market rates that enable it to generate enough interest to replenish the pool for future loan allocations. Typical loan terms vary from 3-5 years for smaller loans and up to 10 years for larger amounts.

RLFs are a powerful tool for the promotion of strategic and smart economic recovery and growth in cities. They offer a complementary way for small businesses to secure funding to stay afloat, especially during economic turmoil. For both businesses that are recovering from disaster and businesses looking to grow, it can be a valuable resource that leads to increased investment, increased employment and increased community revitalization.

There are at least 30 RLF programs operated by local governments and organizations in the State of California, including the Cities of San Diego and Chula Vista. Prior to the pandemic, the Economic Development Administration (EDA) provided funding and support for municipalities to establish funds. In many areas, like Monterey, Long Beach, Berkeley and San Joaquin Valley, RLFs were and are used as job generators by tying job creation to dollar amounts (e.g., one job created for every \$30,000 loaned). In San Diego, the RLF program has yielded one job added or retained per every \$10,000 loaned. They are commonly used to support disaster recovery, incentivize targeted growth and support under-banked businesses that are on stable financial footing. RLFs are quickly adaptable to changing economic conditions and economic development priorities. As an example, cities that had existing RLF programs were also able to repurpose them during the pandemic, injecting resources into the existing program to address emergency relief needs quickly.

An RLF would allow the City of Carlsbad to support small businesses' recovery and growth by providing needed access to capital that would help stabilize small businesses as they recover from the pandemic, while also gaining tangible long-term benefits. Coming out of the COVID-19 health emergency, this could help employers recover jobs faster and spur economic growth. If structured correctly, it could also continue to generate jobs if the fund remains active.

An option for a small business RLF could include the following provisions:

- The program could provide loans between \$25,000 and \$100,000 to Carlsbad businesses that may have barriers to accessing traditional debt-financing or that need additional capital beyond a traditional business loan
- Loan funds could be used for working capital that could be used to restart operations, provide stability during the pandemic recovery and pursue growth
- The city could consider program design elements that would support inclusive recovery and growth including supporting stable businesses that are under-banked or need leverage to secure additional resources to support their business
- The city could also set strategic economic development objectives for the program by targeting certain business sectors, business types, business ownership models or resourcing historically disadvantaged businesses
- Potential funding sources could include repayments to the COVID-19 Small Business Loan Fund and the conversion of any excess funds that were committed to that program as the city moves from the economic response phase of the pandemic to recovery

Ad Hoc City Council Economic Revitalization Subcommittee:

The committee made no recommendation about this program, leaving it for the council's consideration.

The Chamber of Commerce, Village Association and Visit Carlsbad saw the value in the program and ranked it as a priority.

Pros

- Builds upon the city's successful COVID-19 small business loan program that has supported 82 businesses to-date
- Provides a tool that can be used during the economic recovery and revitalization phase of the pandemic
- Creates an adaptable economic development tool to support small businesses during emergencies or non-emergency times
- Develops a sustainable resource to support small businesses rather than one-time financial assistance like a grant

Cons

- The program would require a financial investment by the city
- Participating business would be required to repay the principal and interest on the loan rather than a grant, which would require no repayment
- Not all businesses that apply for the loan would qualify, similar to the city's existing small business loan program
- There would ongoing costs associated with the program which would need to be addressed to ensure the sustainability of the fund

Should the City Council provide direction to pursue this option, staff would work with the City Attorney's Office on a legal analysis and return with a final proposal that would include program details and funding options.

Resolution in support of the Carlsbad Charitable Foundation

The Carlsbad Charitable Foundation is the local affiliate of the San Diego Foundation that serves as an effective funding source to support and strengthen nonprofits that serve Carlsbad. Its mission is celebrating and investing in Carlsbad. The organization meets emerging needs by encouraging responsible and effective philanthropy.

The foundation was formed nearly 15 years ago with a four-to-one matching grant from the City of Carlsbad. Among the many nonprofits that have received funding from the foundation are Showers of Blessings, Carlsbad Partners in Education, Carlsbad Education Foundation, New Village Arts, Boys & Girls Club and the Museum of Making Music. The organization has granted more than \$840,000 to charitable causes and created a long-term Carlsbad Community Endowment of nearly \$750,000. During its 2020-2021 funding cycle, the foundation awarded \$124,389 to seven organizations.

The organization has asked the city for a resolution of support it in its mission of assisting non-profit organizations. Just like businesses, non-profit organizations have felt the impact of the COVID-19 pandemic. Non-profit organizations are also an important part of the economy and the foundation has strived to support non-profits serving Carlsbad that have been impacted by the pandemic. If the city wished to consider supporting the organization, options could include:

- Approving a resolution of support for the organization and its mission
- An official partnership with the organization that would include promotional efforts

- Providing a matching grant to achieve near-term economic recovery and long-term economic revitalization goals

Ad Hoc City Council Economic Revitalization Subcommittee

The committee recommends the approval of a resolution of support for the Carlsbad Charitable Foundation and providing an appropriate partnership that is not exclusive of other organizations.

Should the City Council provide direction to pursue this option, staff would work with the City Attorney's Office on a legal analysis and return with a final proposal that would include program details and funding options for any associated costs.

Fiscal Analysis

The City Council has allocated \$5 million to the Economic Recovery and Revitalization Initiative and there remains adequate capacity in the COVID-19 Small Business Loan Program to continue providing loans consistent with the proposed modifications. Should the City Council provide direction to pursue one or more of the options presented, program details and a funding proposal will be developed.

Next Steps

Should the City Council approve modifications to the COVID-19 Small Business Loan Program, staff will amend the contract with CDC Small Business Finance and will begin actively promoting the revised loan program.

Should the City Council give direction to pursue any of the options listed above or other options, staff will return to the council with any additional program details and funding proposals that may be required.

Environmental Evaluation (CEQA)

This action is not a "project" as defined in California Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5) because it involves administrative activities of governments that will not result in direct or indirect physical changes in the environment.

The action being considered is a report that provides an overview of the various actions and programs that the city has implemented in response to the COVID pandemic and provides a description of possible future actions that could be considered, which on their own accord will not cause a significant environmental impact, so this activity is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Public Notification and Outreach

Public notice of this item was posted in accordance with the Ralph M. Brown Act and it was available for public viewing and review at least 72 hours prior to scheduled meeting date."

Exhibits

1. City Council resolution

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARLSBAD, CALIFORNIA, APPROVING MODIFICATIONS TO THE COVID-19 SMALL BUSINESS LOAN PROGRAM

WHEREAS, on February 14, 2020, the San Diego County Health Officer declared a Local Health Emergency as a result of the spread of COVID-19; and

WHEREAS, on March 4, 2020 Governor Newsom proclaimed a statewide state of emergency as a result of the spread of COVID-19; and

WHEREAS, on March 16, 2020, the Director of Emergency Services proclaimed a local state of emergency as a result of the COVID-19 pandemic, which the City Council subsequently ratified and extended; and

WHEREAS, on March 19, 2020, Governor Newsom issued Executive Order N-33-20 directing individuals living in California to comply with a State Public Health Officer order to stay at home except as needed to facilitate authorized, necessary activities or to maintain the continuity of operations at critical infrastructure sectors; and

WHEREAS, on May 4, 2020 Governor Newsom issued Executive Order N-60-20 allowing non-essential businesses to reopen in four stages in compliance with criteria set by the State Public Health Officer and based on certain public health criteria being met on a county-by-county basis; and

WHEREAS, on June 19, 2020, dine-in restaurants, alcohol-serving businesses offering dine-in meals, personal care services businesses and other businesses in the County of San Diego were permitted to reopen subject to compliance with state issued guidance; and

WHEREAS, on July 13, 2020 a statewide public health officer order was issued closing bars, pubs, brewpubs, and closing indoor operations of dine-in restaurants, wineries, tasting rooms, family entertainment centers, movie theaters, zoos, museums, and cardrooms; and

WHEREAS, the State of California has issued industry guidance for businesses that are allowed to reopen that require modification to business operations, which has a direct cost and may have an impact on the space in which businesses may operate thus impacting revenue; and

WHEREAS on December 6, 2020, the State of California enacted a Regional Stay at Home Order for Southern California mandating additional closures and modifications for businesses due to ICU capacity dropping below 15 percent in a region; and

WHEREAS, the effects of the Regional Stay at Home Order have continued to have an impact on Carlsbad businesses operations; and

WHEREAS, the City of Carlsbad unemployment rate spiked to 12.3 percent in April of 2020 and has not yet recovered to the 2019 average of 2.9 percent; and

WHEREAS, the City of Carlsbad conducted surveys of businesses impacted by COVID-19 in November 2020 and April 2021 and found that 46 percent of companies indicated the need for more than \$25,000 in additional financial relief to maintain operations over the next six months; and

WHEREAS, 66 percent of businesses surveyed indicated that they experienced a revenue decrease of more than 25 percent due to COVID-19; and

WHEREAS, the City of Carlsbad approved a resolution creating an Ad Hoc City Council Economic Revitalization Subcommittee on April 7, 2020; and

WHEREAS, the Ad Hoc City Council Economic Revitalization Subcommittee has met 33 times since it was created and provides input on the city's COVID-19 related economic relief efforts and recommendations to the City Council; and

WHEREAS, it is in the public interest to take steps to ensure local businesses remain economically viable during the COVID-19 pandemic state of emergency; and

WHEREAS, there is a public benefit to providing economic relief to local businesses impacted by the COVID-19 health emergency, so they may continue providing jobs and tax revenue to the City of Carlsbad which funds public services; and

WHEREAS, there is a public benefit to providing access to operating capital in the form of low-cost or no-cost loans to allow businesses to fund the cost of payroll, utilities, rent, mortgage interest, insurance, and business operation modifications or adaptations necessary to comply with the public health orders; and

WHEREAS, adopting this resolution is necessary and appropriate to mitigate the immediate threats to the public health, safety, and welfare of residents and local businesses from the significant economic impacts of the COVID-19 pandemic by providing economic relief and providing resources to remain open in compliance with the public health orders.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Carlsbad, California, as follows:

1. That the above recitations are true and correct.

2. That conducting a small business loan program to mitigate the impacts of COVID-19 serves a public purpose and provides a public benefit.
3. That the parameters for the small business loan program are modified as shown in Attachment A.

PASSED, APPROVED AND ADOPTED at a Regular Meeting of the City Council of the City of Carlsbad on the ___ day of _____, 2021, by the following vote, to wit:

AYES:

NAYS:

ABSENT:

MATT HALL, Mayor

BARBARA ENGLESON, City Clerk

(SEAL)

**CITY OF CARLSBAD
COVID-19 SMALL BUSINESS LOAN PROGRAM**

A. LOAN PARAMETERS

The following are the parameters for all loans issued under the City of Carlsbad's COVID-19 small business loan program. They are designed to ensure businesses that need resources during the pandemic receive support. Based upon consultation with CDC Small Business Finance, a survey of businesses, and specific information from business that have applied for loans, the following program structure provides for significant participation and deployment of resources while addressing the risk of significant defaults.

1. All applicants must have a valid City of Carlsbad business license or show proof that they have applied for a business license or business license renewal at the time of application. Businesses must have a valid business license before funding is approved.
2. All applicants must demonstrate they have been lawfully operating for at least six months.
3. All applicants shall comply with all laws, regulations, and orders applicable to it, including all public health orders.
4. All applicants must be in good standing with the city.
5. Nationally owned chain businesses or franchises are ineligible; however, chains or franchises that are located in Carlsbad and have a business owner that lives within San Diego County are eligible.
6. Loan funds may be used for operational expenses, such as rent, payroll, mortgage interest, utilities, insurance, the cost of complying with public health orders, and the cost of activating business operation areas. Construction-related work paid for with loan funds must comply with state prevailing wage laws.
7. The first loan repayment may be deferred up to 180 days from the date the loan is issued.
8. Applicants may apply for one extension of the repayment deferral period through CDC Small Business Finance (CDCSBF), subject to approval of the loan. Approval of the additional deferral will be based on the professional determination of CDCSBF that such deferral is warranted to meet the program goals, including reducing the risk of default, with validation by city staff. If an additional deferral is approved, the loan will be re-amortized with a new repayment schedule not to exceed the original term of the loan
9. The city offers small business microloans of \$5,000 to \$10,000 for businesses with gross receipts of \$2,000,000 or less, or 15 employees or less, and terms of 0% interest if paid back within six months, 1% if paid back within twelve months, and 2% if paid back within ~~eighteen months~~ 30 months.
10. The city offers small business recovery loans of \$10,000 to \$50,000 for businesses with gross receipts of \$5,000,000 or less and fewer than 50 employees and terms of 2% interest if paid back within twelve months and 3% if paid back within ~~thirty~~ 60 months.
11. Applicants may apply for and receive both the small business microloan and the small business recovery loan if all relevant qualifications are met however, applicants may not apply for and receive more than ~~one of the loan product type for a maximum of two loans~~ a combined total of \$60,000 across all loan products.

B. LOAN APPLICATION EVALUATION AND DISPOSITION

~~CDC Small Business Finance~~ (CDCSBF) will review loan applications based upon the goal of deploying resources to businesses that are affected by COVID-19 while considering factors that present a high risk of default. These factors include:

1. Minimum 640 FICO score but will engage with applicants that have a lower score to understand mitigating factors that may affect the risk of default
2. Bankruptcy must be at least three years old but will engage with applicants with more recent bankruptcy to understand mitigating factors that may affect the risk of default
3. No open liens, judgments, or lawsuits that may present a high risk of default
4. Business owner will be required to sign a personal guarantee, or if there are multiple business owners, the majority business owner will be required to sign the personal guarantee.

CDCSBF will provide a list of reviewed applications to the city for validation. Upon validation CDCSBF, will generate the loan documents and route them for signature by the borrower and deputy city manager, administrative services. CDCSBF will service the loan portfolio and will provide monthly reports and invoices to the city for their services.